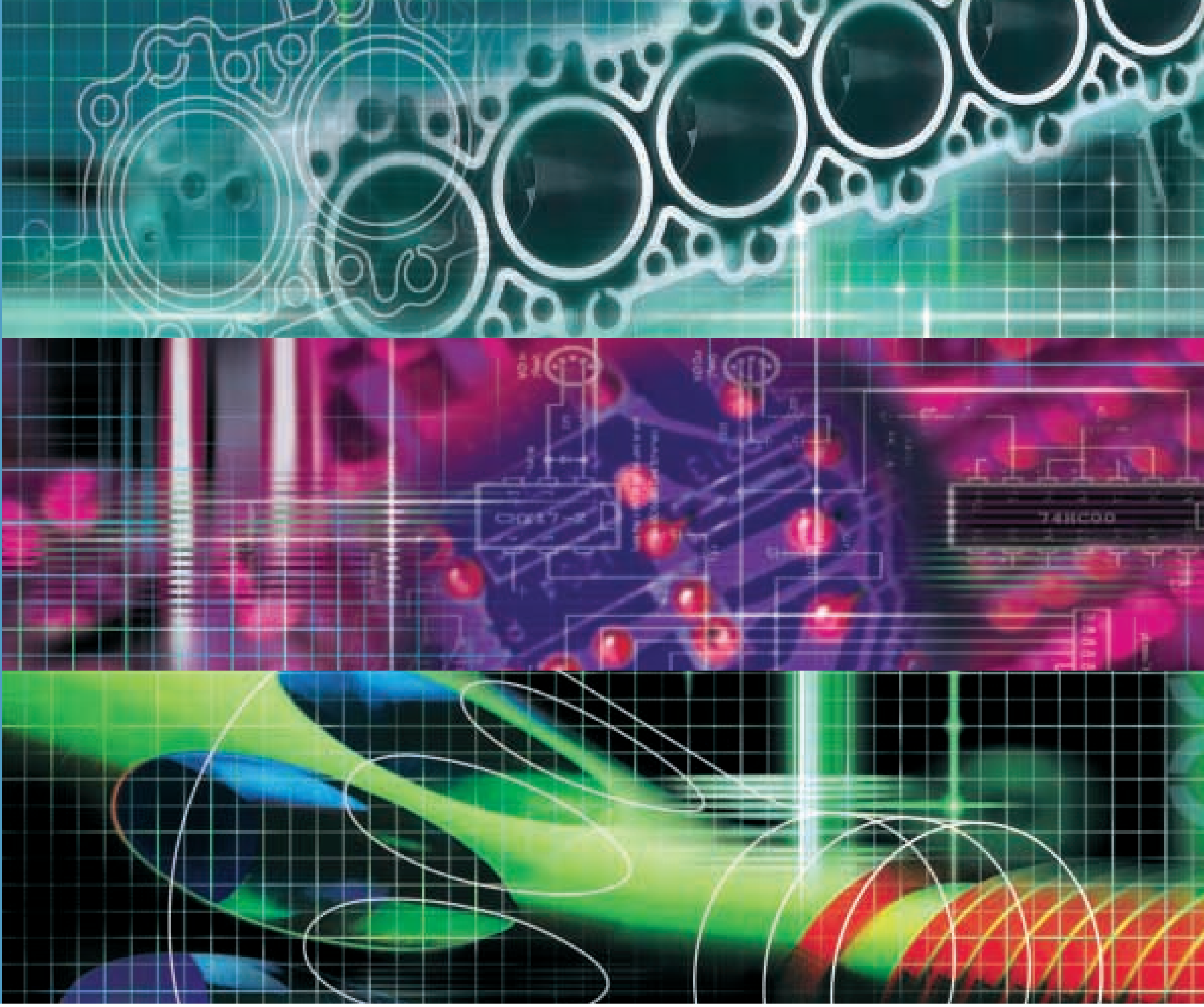


Annual Report 2002

Rheinmetall AG

RHEINMETALL

Rheinmetall in figures

Rheinmetall Group		**1998**	**1999**	**2000**	**2001**	**2002**
		HGB*	HGB*	IAS	IAS	IAS
Net sales	EUR million	4,129	4,514	4,570	4,603	4,571
Order intake	EUR million	4,004	4,740	4,563	5,033	4,840
Order backlog (Dec. 31)	EUR million	3,233	4,147	3,732	4,113	4,165
EBITDA	EUR million	376	296	374	468	701
EBIT	EUR million	177	66	103	195	392
EBT	EUR million	147	30	2	84	290
Net income/(loss)	EUR million	140	(6)	(43)	38	274
Cash flow	EUR million	363	254	239	315	587
Capital expenditures	EUR million	217	293	265	284	248
Amortization/depreciation/write-down[1]	EUR million	198	224	251	247	268
Accounting equity	EUR million	618	553	691	717	869
Total assets	EUR million	2,730	3,474	4,477	4,218	4,087
EBIT margin	%	4.3	1.5	2.3	4.2	8.6
ROCE	%	13.9	6.2	4.3	8.8	20.1
Earnings per share (EpS) (DVFA/SG)	EUR	0.63	(0.25)	--	--	--
Earnings per common share (IAS)	EUR	--	--	(1.33)	0.56	6.81
Earnings per preferred share (IAS)	EUR	--	--	(1.27)	0.62	6.87
Total dividend distributed	EUR million	17	17	24	17	24
Dividend per common share	EUR	0.46	0.44	0.64[2]	0.44	0.64[2]
Dividend per preferred share	EUR	0.51	0.50	0.70[2]	0.50	0.70[2]
Employees (Dec. 31)		30,241	33,050	29,876	27,828	25,949

*German Commercial Code

[1]Excl. goodwill amortization

[2]Incl. bonus dividend of EUR 0.20

Contents

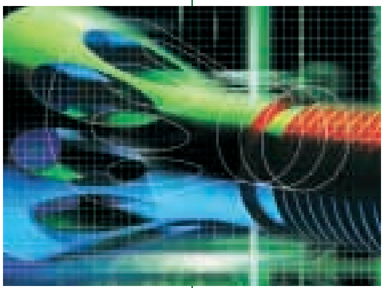
The Rheinmetall Group at a glance

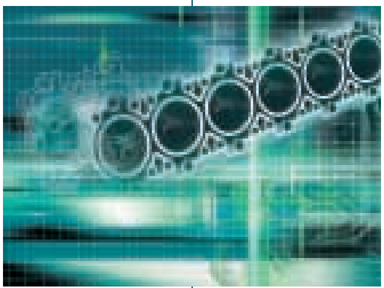
Rheinmetall AG (listed)

Sales: EUR 4.6 billion
Employees: 26,000

Rheinmetall AG

Automotive Kolbenschmidt Pierburg AG	*Electronics* Aditron AG	*Defence* Rheinmetall DeTec AG
Systems and modules for every aspect of the engine	Automotive and industrial electronics	Leading European supplier of systems for the land forces
Sales: EUR 1.9 billion	Sales: EUR 0.8 billion	Sales: EUR 1.7 billion
Employees: 11,500	Employees: 4,300	Employees: 8,800





As of April 2003

Rheinmetall on target

Despite hostile economic conditions, the Rheinmetall Group closed fiscal 2002 with an outstanding result. The three years of restructuring are over and in the course of the Clear Directions strategy all of the set targets have been achieved.

- Organic sales growth of 6 percent
- EBIT leap from EUR 195 million to EUR 392 million
- Results of operations up by over 10 percent
- Net financial debts more than halved
- Cash flow raised to EUR 587 million

Rheinmetall is launching into the future with a much improved performance.

Report of the Supervisory Board

The Supervisory Board regularly monitored the Executive Board's work and provided advice on material issues.

Klaus Greinert
Supervisory Board Chairman

The Supervisory Board met seven times with the Executive Board to review the Company's business policy, corporate plans (including financial, investment and human resources planning), general business trends, and major individual transactions, in particular the acquisition and divestment of shareholdings. The Executive Board also briefed in detail the Supervisory Board on plans at the sector parents, viz. Rheinmetall DeTec AG, Aditron AG, Kolbenschmidt Pierburg AG, and at the financial investees Jagenberg AG and EMG EuroMarine Electronics GmbH, as well as on the ongoing structural changes in the corporate sectors, and business developments in the Rheinmetall Group. The Supervisory Board was additionally kept regularly informed by the Executive Board about business developments and the position of the Group through monthly written reports. This Board performed the tasks incumbent on it under law and the bylaws and, moreover, provided advice on material individual issues.

Inter alia, the Supervisory Board dealt with the sale and transfer to the London, UK, based Smiths Group plc. of Heimann Systems GmbH and the disposal of Rheinmetall Informationssysteme GmbH to IBM Deutschland GmbH. In addition, the Executive Board informed the Supervisory Board about the sale of Jagenberg AG's sheeter unit to bielomatik Leuze GmbH + Co. and the management buyout at EMG EuroMarine Electronics GmbH's SRH Group, apart from reporting on further portfolio management deals, such as the divestment of Bachofen + Meier AG, Jagenberg Diana GmbH, Woschnik + Partner Maschinenbau GmbH, and Intergas B.V.

The Supervisory Board's Finance Committee met twice in 2002 to focus on the 2001 separate and consolidated financial statements, as well as on the syndicated loan and the commercial paper (CP) program.

The Personnel Committee members met four times in 2002.

With effect as of January 14, 2002, Werner Engelhardt stepped down from the Supervisory Board, both as member and chairman. Following his appointment as Supervisory Board member by the Local Court of Düsseldorf on January 22, 2002, the Supervisory Board elected Klaus Greinert its Chairman at the extraordinary meeting of February 4, 2002. Furthermore, Hans-Dieter Behrens, Dr. Joachim von Harbou, Prof. Dr. Gösta B. Ihde, Georg Krupp, and Dr. Rudolf Luz resigned as Supervisory Board members at the close of the annual stockholders' meeting on June 10, 2002. Lawyer Dr. Martin Hirsch had already stepped down as of January 14, 2002. The Düsseldorf Local Court ordered on January 22, 2002, that Johannes Frhr. von Salmuth be appointed as stockholder representative on the Supervisory Board. In the wake of the divestment of major companies of Jagenberg AG's Paper Technology division, Karl Fuchs had left this Board as of October 31, 2001. By order of January 14, 2002, the Local Court of Düsseldorf newly appointed Felix Bader as employee representative on the Supervisory Board, who was then newly elected by the workforce on April 16, 2002. Another new Supervisory Board member elected by the annual stockholders' meeting of June 10, 2002, is Dr. Andreas Georgi. By order of the Düsseldorf Local Court dated November 14, 2002, Heinrich Kmett succeeded Felix Bader as employee representative who had stepped down from the Supervisory Board at October 31, 2002.

In accordance with Art. 317 German Commercial Code ("HGB") and Art. 313 German Stock Corporation Act ("AktG") and as resolved by the annual stockholders' meeting, the Supervisory Board engaged Düsseldorf-based PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft as the statutory auditors to examine the Company's separate and consolidated financial statements and the Executive Board's dependency report for the fiscal year 2002.

The separate financial statements as of December 31, 2002, were prepared unchanged in accordance with HGB regulations. These separate financial statements and the management report for fiscal 2002 (including the accounting) were all examined by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, which issued its unqualified opinion thereon. The Supervisory Board concurs with the audit results. Moreover, the separate financial statements, the management report and proposed profit appropriation have been examined by the Supervisory Board. At the April 3, 2003 meeting of the Supervisory Board's Finance Committee, the separate and consolidated financial statements of Rheinmetall AG as of December 31, 2002, were discussed on the basis of the audit reports and findings. No objections were raised. At its meeting of April 7, 2003, the Supervisory Board approved Rheinmetall AG's separate financial statements for the fiscal year 2002 as submitted by the Executive Board, which are thus adopted.

The Supervisory Board agrees with the Executive Board's proposal for the appropriation of net earnings.

The IAS-based consolidated financial statements and Group management report of Rheinmetall AG for fiscal 2002 were also audited by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Düsseldorf, as statutory auditors that issued their unqualified opinion thereon, too. The Supervisory Board concurs with the audit results. In addition, it reviewed the consolidated financial statements and Group management report. No objections were raised.

The Executive Board submitted to the Supervisory Board the report concerning affiliations for fiscal 2002 according to Art. 312 AktG and the pertinent report of the statutory auditors. The Supervisory Board examined the report of the Executive Board and concurs with it, as with the results of the examination by the auditors, who issued the following opinion on the dependency report of the Executive Board concerning affiliations:

"Based on our examination, which we performed with due professional care, and on our evaluation we certify that

(1) the facts stated in the report are valid;

(2) the Company's consideration for the legal transactions referred to in the report was not unreasonably high."

After reviewing the final results of its own examination, the Supervisory Board found no reasons for objections to the Executive Board's concluding statement in the report on affiliations for fiscal 2002.

Düsseldorf, April 7, 2003

The Supervisory Board
Klaus Greinert
Chairman

Questions to Klaus Eberhardt

Klaus Eberhardt
Chairman of Rheinmetall AG's Executive Board

"What does the Rheinmetall Group stand for, Mr. Eberhardt?"

Today, Rheinmetall stands for a group with substance which has demonstrated and will continue to demonstrate its talent to create and enhance shareholder value. In the past three years, as part of our Clear Directions strategy, we have worked intensively on streamlining our Group portfolio and tailoring Rheinmetall to the three areas of competence in which we now operate, namely, Automotive, Electronics, and Defence. We plan to consistently continue this active portfolio management in future. This boils down to an assessment of each of our activities according to whether it will take us into the top three in the relevant markets, whether it is capable of above-average growth using its indigenous resources and, of course, according to its contribution to shareholder value and profits within the Group. Rheinmetall is therefore making good headway, never marking time, synthesizing substance with dynamism and experience with innovation.

"Against this background, how happy are you with fiscal 2002?"

We are very pleased with what has been achieved. Despite the often adverse economic climate, we made solid progress toward our strategic goals. The Rheinmetall Group again recorded a six-percent organic growth in 2002. We improved our EBIT margin to 8.6 percent. Our Group portfolio was optimized and streamlined through several divestments, which helped to shave our debts during the past year by EUR 240 million while much improving our balance sheet structure. In addition, we were successful with our working capital program: capital employed was lowered by 17 percent. The cash flow rose to a good EUR 590 million. All this enabled us to boost our scope for strategic management greatly.

"How do you explain these gains in spite of the anemic environment?"

A decisive factor was that we had begun orchestrating our improvement program, the Clear Directions strategy, as early as the start of 2000. This somewhat anticyclical behavior is now paying off. Within three years we shed some EUR 1.1 billion of our sales volume. Nevertheless, our aggregate business volume, far from contracting, has actually risen slightly over this period largely thanks to vigorous organic growth. On average, our productivity per capita has advanced by 8 percent annually. Other key factors have been and remain the overhaul programs which in all three sectors taken together deliver annual savings of EUR 100 million. Many of these schemes were already bearing fruit in 2002.

"What are the Rheinmetall Executive Board's objectives for the years ahead?"

Our streamlining measures have taken us to a secure, profitable basis. That was very important in increasing our latitude for strategic decisions. However, we are making such decisions not in haste but always against the background of the related shareholder value enhancement for Rheinmetall. Moreover, we predict, if the economic trend worldwide does not thwart our plans, that sales and earnings will improve further in 2003 and subsequent years. With our current corporate structure we intend to boost sales by some 20 percent by the end of 2005, thus strengthening our position on international markets. The return on total capital employed, ROCE, is set to be improved to about 15 percent. These are ambitious targets to which every individual in the Rheinmetall Group is committed and for which every individual must strive.

"What measures are planned to help achieve these goals?"

Our potential lies above all in growth by our own efforts and the winning of additional market slices. This is what spurs us on. We are seeking to exploit this potential to the full. On top of this, the restructuring rewards from enacting the Clear Directions strategy are helping us from the cost angle increasingly. Strict cost management together with simplification of structures and processes remain on the agenda—and we have decided to further increase our momentum in these very areas. Moreover, the reduced debt already mentioned will lead to significantly lower erosion of the net financial result. We are also counting on further income from the disclosure of hidden reserves

"On average, our productivity per capita has advanced by 8 percent annually."

“Strict cost management together with the simplification of structures and processes remain on the agenda.”

in the realty sector. With regard to our working capital management, we feel encouraged by the successes of the past year. In other words, we are planning to downscale the working capital ratio to sales by a further 4 percentage points from the current level of 20 percent.

“In which areas will your corporate sectors be looking for opportunities? The situation for car component makers, for example, is not especially rosy at present.”

The Automotive sector, it is safe to say, does face challenging conditions worldwide in view of the slowdown in the car industry. Our subsidiary Kolbenschmidt Pierburg has nonetheless succeeded in evading the general downturn in this industry to a large degree. At the same time, we have been helped by such market trends as the rising proportion of diesel engines, efforts to reduce fuel consumption and emissions and the trend toward lightweight components, all of which we are well placed to pursue with our products. We are therefore confident that we will continue to achieve annual sales growth of more than 5 percent in the years ahead.

“What are the prospects for the Electronics sector?”

We regard the outlook as good because the proliferation of electronics in automobiles, for instance, is set to rise from a good 20 percent to 35 by 2010, according to expert forecasts. We will benefit from this trend through such products as our integrated antenna systems and higher demand for safety and luxury features in cars, as provided by our Hirschmann subsidiary. The same applies to the sophisticated demands placed on the operating and control systems produced by our Preh subsidiary. Increased use of the Ethernet data transmission technology for secure data communications in the industrial sector also augurs well for the future. All in all, we are anticipating annual organic growth of over 7 percent for Electronics on average.

“How are you battling the consequences of defence budget cuts for your Defence sector?”

Our defence technology subsidiary Rheinmetall DeTec has two key responses. Firstly, we plan to expand our export share from 52 percent to over 65 percent, for which we already have many of the required orders on our books. The modernization programs to be carried out by the new NATO states offer additional opportunities as well. Secondly, our great advantage is our specialization in small- and medium-scale land forces technology systems, meaning the mobile vehicles and weapon systems that are becoming more and more important to various countries owing to the increasing number of international missions. Our air-transportable armored vehicles, such as the *Wiesel*, are therefore proving popular. We are also very active in the military growth segments of reconnaissance and in the field of close-range air defence, where we command a foremost position worldwide. We therefore expect our Defence sector to record substantial sales growth. Moreover, it is our aim especially with our high-quality world-leading components to further strengthen transatlantic partnerships.

“Against this strategic background which you have described, how do you see your stock price performing?”

Rheinmetall's stock price has outperformed the DAX since early 2000 by the factor of 2.5. This already shows that the market is rewarding our efforts for the clear directions being pursued by Rheinmetall. The dividend yield of about 6.2 percent is also quite impressive. With the clear commitment to the German Corporate Governance Code and with our profit and stock performance incentive schemes for management, we are clearly demonstrating our capital market orientation. The market is always right, as the stock market truism goes, and therefore I never set a price target for our shares. It is our job to lay the operational foundations which will justify stock price gains. This is our task and given the targeted earnings growth announced we are also confident with regard to future price movements.

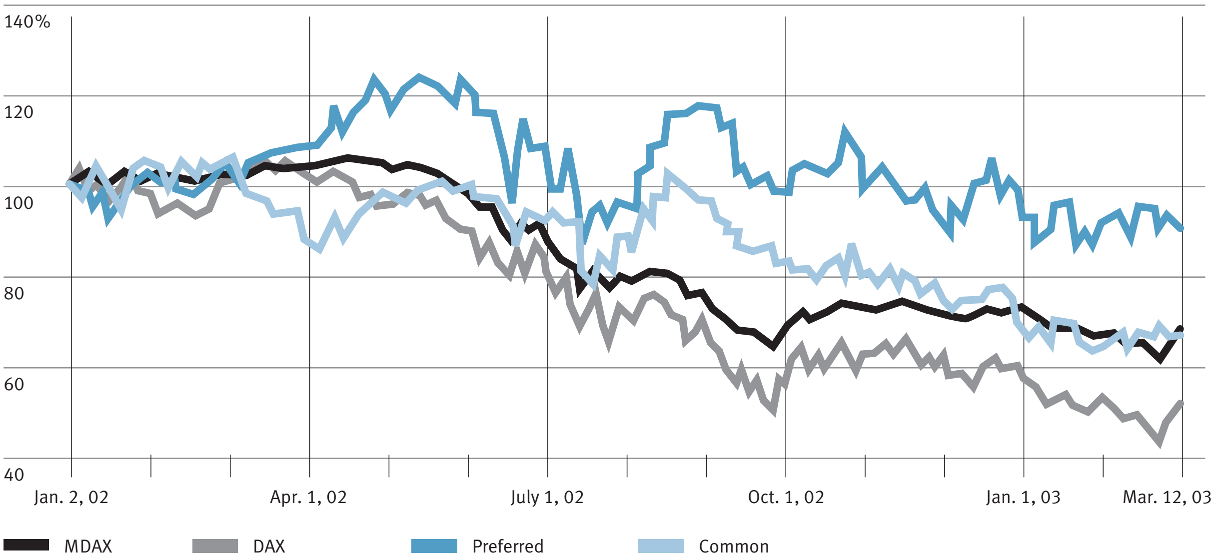
“With our current corporate structure we intend to boost sales by some 20 percent by the end of 2005.”

Rheinmetall stock

A punishing period for stock markets

Fiscal 2002 was a year that saw a continuation of the downtrend observable on the German stock markets in the preceding period. The DAX collapsed from 5,167 to 2,892 points, the MDAX, in which Rheinmetall preferred stock belongs, slumped from 4,318 to 3,204 points. Whereas both indexes had been pointing upward in the first half of the period, starting from the early summer prices began to plunge, the trend turning into a sideways movement by October/November.

Rheinmetall stock price trend compared to MDAX and DAX
January 2002 to March 2003



Rheinmetall stock steady

Pursued since the start of 2000, the Clear Directions strategy has helped improve both earnings and leverage while allowing the Rheinmetall Group much wider latitude in enacting its business strategies. This was also reflected in share prices which showed a good recovery from their November 20, 2000 nadir of EUR 6.80 (preferred) and EUR 7.50 (common) and have since headed upward.

Rheinmetall preferred stock prices traveled a sideway direction in 2002, along a bandwidth from EUR 9.70 (July 25, 2002) to EUR 13.80 (May 21, 2002), the common stock ranging between EUR 13.90 (Dec. 19, 2002) and EUR 19.70 (Jan 2, 2002). The common stock price showed a downturn partly due to the fact that in 2001 it had risen sharply on account of the temporary investment in Rheinmetall by an American investor. In contrast, Rheinmetall preferred stock stood up well, more so than the MDAX which lost 30 percent in the course of 2002.

Deutsche Börse AG, the German Stock Exchange Corporation, has decided to resegment its indexes, one outcome being that the MDAX has shrunk from 70 to 50 equities but still includes Rheinmetall preferred stock.

Investor relations stepped up

Rheinmetall's investor relations measures were further expanded during fiscal 2002. This included the publication of quarterly reports which greatly increased the Rheinmetall Group's transparency and were well received by both the financial community and private investors. In addition, directly after the release of the quarterly reports Rheinmetall organizes a teleconference for analysts.

Contacts with institutional investors were again stepped up during the period through such events as road shows held in Frankfurt/Main, Munich, London, Edinburgh, Milan, New York, Boston, and Chicago. Altogether, talks were held with some 90 analysts and fund managers, more than half of whom came from Great Britain and the USA.

During the course of the year, analysts from the following banks published studies and comments on Rheinmetall stock: HSBC Trinkaus & Burkhardt, M.M.Warburg, WestLB Panmure, Nols, Bankhaus Lampe, Bankhaus Reuschel, Sparkasse Bremen, Deutsche Apotheker- und Ärztebank, Crédit Lyonnais Securities, and Crédit Agricole Indosuez Cheuvreux. Of these ten research institutes, eight gave a "buy" recommendation. Also worthy of mention is the coverage by the credit research departments of the following banks: Commerzbank Securities and Dresdner Kleinwort Wasserstein.

Ownership structure

As a continuation of earlier stockholder studies, Rheinmetall carried out a poll among the most important depository banks in the spring of 2002. The majority stockholder, Röchling Industrie Verwaltung (RIV), holds a 42.1-percent stake in Rheinmetall AG's capital stock, viz. 73.7 percent of the common, and 10.5 percent of the preferred, stock.

In addition, German residents hold 39 percent and nonresidents 18 percent of all stock in their securities accounts; one percent was not recorded statistically. The holdings of German investors have increased slightly in recent years, these owning some 80 percent of preferred stock and about 82 percent of common stock. Of the around 14.4 million preferred shares in domestic ownership, private individuals hold the vast majority with almost 10 million shares, institutional and corporate investors, and organizations accounting for the remaining 4.4 million.

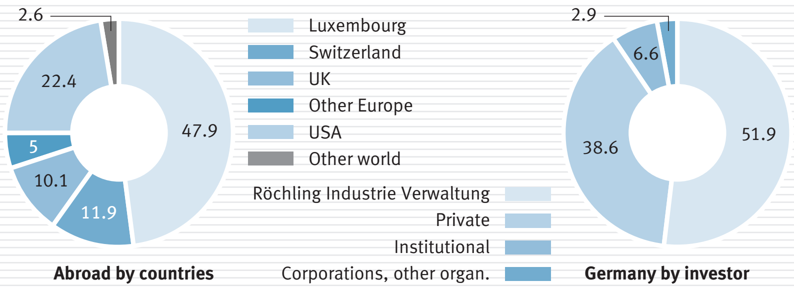
The foreign proportion is largely held by institutional investors from Great Britain, Luxembourg, Switzerland, and the USA.

Rheinmetall AG's preferred stock is held in 23,300 securities accounts and common stock in 4,900, resulting in a maximum number of 28,200 stockholders. Since it may be assumed that some portfolios comprise both preferred and common shares and that some stockholders keep several securities accounts, the actual number of Rheinmetall stockholders may well be lower. These securities portfolios are chiefly German accounts. Foreign stockholders have altogether just under 700 securities accounts with Rheinmetall stock.

Ownership structure 2002
Common and preferred stock
in %

Outside of Germany by country:
6.5 mill. common and preferred shares

In Germany by investor:
29.2 mill. common and preferred shares



Rheinmetall stock

Shareholder value a prime subject

In fiscal 2002, too, Rheinmetall's activities centered on adding shareholder value. The shareholder value indicators showed a clear improvement from the prior-year level, not least thanks to the cash inflow from the divestment of Heimann Systems GmbH.

The cash flow per share rose to EUR 9.47 (up from EUR 8.71), earnings per share (EpS) before goodwill amortization climbing, too, from EUR 6.86 to EUR 7.89 (common stock) and EUR 7.95 (preferred stock).

The return on capital employed (ROCE) soared from 8.8 percent the year before to 20.1 in 2002.

Shareholder value key figures		2001	2002
Cash flow per share from operating activities[1]	EUR	8.71	9.47
Earnings per common share (before goodwill amortization)	EUR	1.03	7.89
Earnings per common share (after goodwill amortization)	EUR	0.56	6.81
Earnings per preferred share (before goodwill amortization)	EUR	1.09	7.95
Earnings per preferred share (after goodwill amortization)	EUR	0.62	6.87
ROCE	%	8.8	20.1

[1] according to cash flow statement in the Notes

Dividend continuity

A cash dividend of EUR 0.64 per common share and EUR 0.70 per preferred share (including in either case a bonus of EUR 0.20) will be proposed at the annual stockholders' meeting. Related to the 2002 closing prices, these dividends would produce an above-average dividend yield of 4.4 and 6.2 percent for common and preferred stock, respectively.

Dividend trend		1998	1999	2000	2001	2002
Total distribution	EUR million	17	17	24	17	24
Common stock						
cash dividend per share	EUR	0.46	0.44	0.44	0.44	0.44
bonus dividend per share	EUR	--	--	0.20	--	0.20
Preferred stock						
cash dividend per share	EUR	0.51	0.50	0.50	0.50	0.50
bonus dividend per share	EUR	--	--	0.20	--	0.20

Rheinmetall on the debt market

Diversified finance

Against the backdrop of the financial markets flashing many signals of uncertainty, Rheinmetall started a number of years ago to consistently diversify its sources of debt capital over and above the scope of traditional bank loans. In an initial move, a syndicated 5-year credit facility of DM 700 million had been obtained in 1997, which was followed in 1998 by an asset-backed securities (ABS) program that meantime covers EUR 127 million. Fiscal 2001 saw the flotation of a 5-year corporate bond issue of a total volume of EUR 350 million.

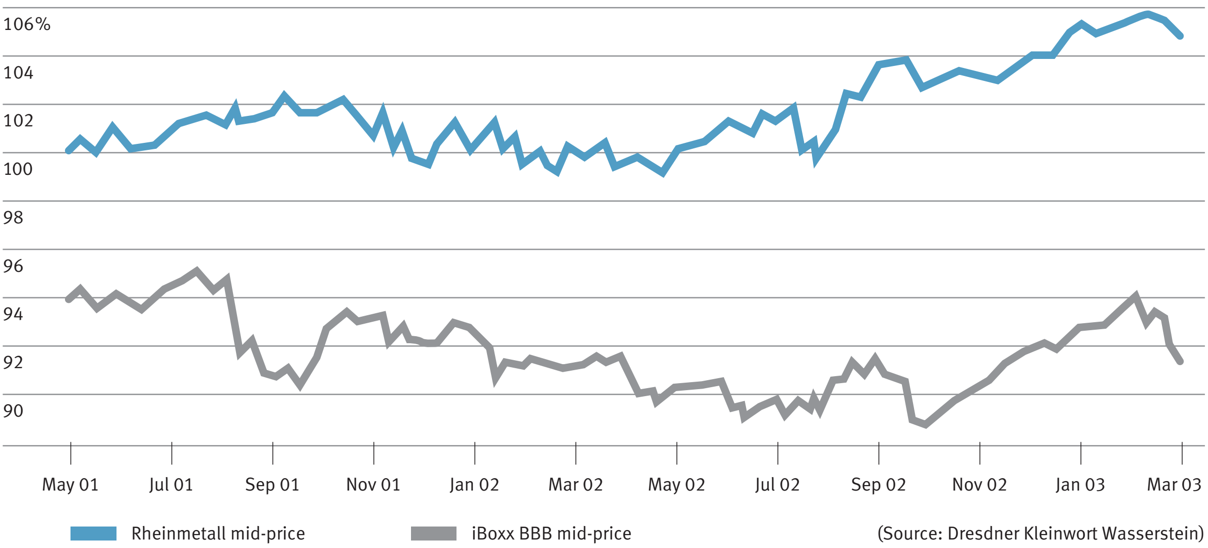
In 2002, a fresh syndicated 5-year credit was approved, partly to replace the 1997 facility, partly to provide corporate finance and have a back-up line in connection with the commercial paper (CP) program successfully launched in 2002 for a total EUR 500 million. Quick funds can now be raised additionally from the credit or the CP markets.

The Rheinmetall Group has thus broadened its investor base by increasing its independence of individual investor groupings while ensuring the best possible maturity range for debt capital and securing long-term financial resources.

Trend of the Rheinmetall bond on the secondary market

Despite the doom-and-gloom mood observed in bond markets, the EUR 350 million 6.125-percent corporate bond issued in May 2001 upheld successfully in 2002. By mid-year, general volatility and market reluctance prevailed in the markets for euro-denominated corporate bonds but then, the atmosphere was polluted by spectacular global-scale financial failures and scandals, as well as by the somber macroeconomic prospects. The credit spread in bond markets, especially the BBB segment, presented a trend toward dramatic dilation, with the risk premium on Rheinmetall bonds showing a moderate rise. The bond price trend contrasted to the iBoxx BBB segment index for similar investments illustrates the favorable development of the Rheinmetall issue.

Rheinmetall bond compared to iBoxx BBB
from May 2001 to March 2003



(Source: Dresdner Kleinwort Wasserstein)

As of December 31, 2002, the bond was quoted at 104.0 percent; it is traded at the Luxembourg Bourse under ISIN DE 000 677 682 6.

Corporate governance

Below follows the corporate governance report of Rheinmetall AG's Executive and Supervisory Boards in accordance with Clause 3.10 German Corporate Governance Code:

For Rheinmetall AG, sound and responsible corporate governance is an integral element in achieving corporate targets. Even prior to the publication of the German Corporate Governance Code (the "Code"), national and international standards of contemporary corporate governance had been observed.

On December 20, 2002, the Executive and Supervisory Boards issued their first declaration of conformity pursuant to Art. 161 AktG, which reads:

"The Executive and Supervisory Boards of Rheinmetall AG declare that the Company complies with the recommendations of the German Corporate Governance Code Government Commission as published in the electronic Federal Gazette version, subject to the following exceptions:

(1) Supervisory Board members have to date not been compensated for any chairmanship or membership in committees (Clause 5.4.5, subclause 3 of the Code). Such compensation will be decided on at a later date.
(2) At its next meeting, the Supervisory Board will approve rules to report and record conflicts of interests (Clauses 5.5.2 and 5.5.3 of the Code).
(3) The Company plans to observe the recommended publication deadlines for the consolidated financial statements and interim reports (Clause 7.1.2, subclause 2 of the Code)."

Stockholders and their meeting

The common and preferred stockholders of Rheinmetall AG exercise their rights at their general meeting. They may exercise their voting rights at the stockholders' meetings either personally, by a proxy appointed at their discretion, or by a voting proxy of the Company who is bound by specific instructions.

The statutory reports and documents (including the annual report) submittable at the annual stockholders' meeting will be provided to stockholders on request and are also available on the Internet at Rheinmetall AG's home page, together with the agenda.

Interaction of Executive and Supervisory Board members

The two boards closely collaborate in a spirit of mutual trust and in the Company's best interests. The Executive Board consults the Supervisory Board in matters regarding the Company's strategic orientation and discusses the progress of strategy implementation with the Supervisory Board at regular intervals.

The Executive Board informs the Supervisory Board periodically, timely and comprehensively about all planning, business development, risk position and risk management issues of relevance to Rheinmetall. Moreover, the Executive Board discusses and substantiates any variances of actual business data from budget, plan or benchmark figures.

The Company has taken out a D&O policy (Directors' & Officers' liability insurance) with a reasonable deductible for their Executive and Supervisory Board members.

Executive Board

The Executive Board conducts and manages the Company on its own responsibility but in the Company's best interests and with the increase in shareholder value in mind. Including its chairman, the Executive Board consists of four members; rules of procedure govern the assignment of responsibilities of Executive Board members and their interaction.

The Executive Board members' remuneration covers both fixed and variable components which are fixed by the Supervisory Board at a reasonable level and on the basis of a personal performance assessment, with due regard to any other compensation paid by the Group. Assessment criteria for defining a reasonable remuneration of Executive Board members mainly include each member's responsibilities and personal performance, as well as the economic situation, success and future prospects of the Company on industry comparison.

In the notes to the consolidated financial statements herein, the remuneration of Executive Board members is broken down into fixed, performance-related and long-term incentive portions.

Any additional or sideline activities performed by Executive Board members (in particular, any nongroup supervisory board membership) require the Supervisory Board's prior approval.

Supervisory Board

The Supervisory Board regularly counsels and oversees the conduct of the Company's business by the Executive Board, and is involved in fundamental decisions affecting the Company. Rules of procedure govern Supervisory Board activity.

The Supervisory Board appoints and removes Executive Board members, whose age is limited to 65 years.

The Supervisory Board has formed a Finance Committee and a Personnel Committee. The Finance Committee also performs the functions of an audit committee as specified in Clause 5.3.2 of the Code. Both Committees are chaired by the Supervisory Board Chairman.

No former Executive Board members are on Rheinmetall AG's Supervisory Board.

The fees payable to Supervisory Board members are stipulated in the articles of association (bylaws) and include not only a fixed but also a success-related component. The fees take account of the responsibility and work of Supervisory Board members, as well as of the Company's business situation and bottom line. The compensation for Supervisory Board (vice-)chairmanship and committee chairmanship and membership will be decided at a later date.

An inquiry among the Supervisory Board members indicated that there were no conflicts of interests under the terms of Clauses 5.5.2 and 5.5.3 of the Code.

In the year under review, no loans or advances were granted to Executive or Supervisory Board members.

Transparency

Rheinmetall practices a policy of timely and complete communication of information to its stockholders, high priority being attached to having the same information communicated at the same time to all target groups.

Private investors, too, are promptly informed on the Rheinmetall website in English or German about the Company's latest developments and important dates, including through ad hoc notifications, press releases, and annual or interim reports, as well as the bylaws.

Since July 1, 2002, upon enactment of the amended Art. 15a German Securities Trading Act ("WpHG"), the Executive and Supervisory Board members of Rheinmetall AG have been obligated to disclose their purchase or sale of any Rheinmetall stock. Upon inquiry, the Company did not receive any such notice of purchase or sale, nor did any reportable shareholdings exist under the terms of Clause 6.6 of the Code (1-percent stake or more held individually or in the aggregate by board members).

Accounting and statutory audit

Stockholders and third parties are kept abreast through the consolidated financial statements at year-end and interim reports during the year. All such reports are prepared in conformity with internationally accepted accounting principles.

Rheinmetall AG endeavors to publish its consolidated financial statements and interim reports within 90 and 45 days after the period-closing date, respectively. The financial reporting routines within the multitier Rheinmetall Group are undergoing revision for improved efficiency.

The Supervisory Board has agreed with the statutory auditors, viz. PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, that it will be promptly informed of any reasons for disqualification, bias or lack of independence which may surface during the audit, as well as of any findings, conclusions and circumstances which were established during the audit and may be of relevance to the Supervisory Board's duties. The statutory auditors have further agreed to notify the Supervisory Board and/or disclose in the audit report that they have found certain facts substantiating that the declaration of conformity issued by the Executive and Supervisory Board pursuant to Art. 161 AktG is incorrect.

The German Corporate Governance Code came into force and effect when published on August 30, 2002, in the electronic version of the Federal Gazette and thus subsequent to Rheinmetall AG's annual stockholders' meeting. The Supervisory Board Chairman therefore requested the statutory auditor, on the occasion of the annual audit of the separate and consolidated financial statements as of December 31, 2002, to voluntarily issue a declaration of independence pursuant to Clause 7.2.1 of the Code. This declaration by the auditor also stated which other services were in fiscal 2001 and 2002 rendered or contractually agreed on for Rheinmetall in addition to the statutory annual audit.

Communication and marketing

Transparency and presence

In times of networked markets and an increasingly globalized information flow, communication plays an ever more important role in corporate success. Stockholders, customers and the media rightly expect to be thoroughly informed about a company's strategies, business performance, and products. Moreover, transparency creates acceptance among market participants and the public.

During fiscal 2002, the Rheinmetall Group met these varying information needs through a range of measures including 230 press releases aimed at the business and trade press, 17 interviews at top management level, and 18 press events.

Rheinmetall AG's annual accounts press conference again provided the central platform for the exchange of views between management and media. The predominantly favorable media response was reflected in the headlines: "Fitness program at Rheinmetall shows success" *(Süddeutsche Zeitung),* "Rheinmetall gears core businesses to profitability" *(Frankfurter Allgemeine Zeitung),* and "Rheinmetall's health program is working" *(Handelsblatt)*.

The Automotive sector held a trade colloquium on the latest developments in exhaust gas technology at its subsidiary Carbureibar S.A. in Spain's Basque region to which some 20 journalists from the trade press and daily newspapers were invited. In the Electronics sector, apart from the successful sale of Heimann Systems to the Smiths Group, above all the new products launched by Hirschmann and Preh in the automotive industry's premium segment helped generate a strong media response. Media coverage of the Hirschmann antenna system and the Preh control and operating system for the new Maybach luxury automobile had an especially favorable impact on image. With the Berlin Talks range of events staged in 2002 for the first time, the Defence sector succeeded in establishing a new forum for the international trade press activities of Rheinmetall's defence technology arm.

The companies of the Rheinmetall sectors presented their products and services during fiscal 2002 at altogether 90 trade fairs and symposia. In the Automotive sector, the Automechanika (Frankfurt/Main) and SAE (Detroit) fairs were of special importance. Key exhibitions for Electronics included CeBIT (Hannover), Hannover Messe Industrie, Electronica (Munich), and SPS/IPC/DRIVES (Nürnberg). Defence's fair activities focused on the major European events, Eurosatory (Paris), Defendory (Athens) and MSPO (Kielce, Poland), as well as the key US trade fair, AUSA, held in Washington, DC.

Nothing is as constant as change: as part of the redevelopment of its former production site, Rheinmetall AG's parent premises in Düsseldorf-Derendorf are being put to a new, fashionable use, for example by textile firms.

General conditions

2002: disappointing economic trends

The confidence still being expressed at the start of 2002 with regard to a speedy and extensive recovery of the world economy increasingly gave way to disenchantment and disappointment as the year progressed. Important mood indicators showed a sharp downturn by year-end. Political unrest, financial scandals and regional structural problems made for rising spending reluctance worldwide.

Gross world product increased by a mere 1.5 percent over the whole year. An upswing in the US economy managed to pep up the world economic motor only for a few months. Continued high private consumption levels contrasted with dampened capital expenditure propensity in North America, where annual growth, at 2.4 percent, was well below original forecasts. In Euroland, this downtrend was even more apparent with gross domestic product edging up by as little as 0.8 percent. Germany's 0.2-percent growth almost constituted a complete standstill, far behind the 1.5-percent average of the 1990s.

Southeast Asia alone performed encouragingly with its above-average 4-percent expansion, China most notably recording over 7 percent. Japan's recession continued on the other hand (minus 0.7 percent), as did Latin America's. Eastern Europe managed to stand out favorably from the industrial countries of the West. With growth of 4 percent, it was a good year for Russia's economy as a whole.

Automotive industry quiet worldwide

Muted world economic activity also impacted on the automotive, defence technology and electrical engineering/electronics sectors of relevance to Rheinmetall.

The market conditions for the Automotive sector are shaped by the trend in the international car industry, which was mixed during fiscal 2002. According to the estimates available to date, some 57 million passenger cars and light commercial vehicles (LCV) were produced worldwide, almost 4 percent above the prior-year figure but well below the 2001 forecasts.

Following an over 10-percent reduction in automobile and LCV production in the USA during 2001 owing to slackening demand and piled-up stocks, production volume climbed 7 percent in 2002 to some 12 million units not least thanks to the increased capacities of foreign manufacturers.

In Western Europe, on the other hand, after years of constantly rising figures, production of passenger cars and LCVs fell by 2 percent to 16.9 million units. Whereas France and the UK raised their production, Germany saw a 4-percent fall to 5.3 million units, Italy and Spain also recording declining levels.

In the volume markets of Japan and South Korea, passenger car production climbed 3 percent to 8.4 million and 4.6 percent to 2.6 million units, respectively. China posted the largest growth, albeit from a lower basis, production soaring 47 percent to 1.1 million vehicles.

The Automotive sector with its systems and modules expertise for every aspect of the engine managed to buck the generally subdued level of business activity in the car industry and regional downswings. Particularly helpful factors were the overall market trend toward more diesel engines together with endeavors to reduce fuel consumption and emissions, the very segments served by Automotive's products. In addition, the sector benefited from increased demand for aluminum engine blocks as well as involvement in new car models with buoyant production and sales figures.

Auto electronics on the advance

The Electronics sector benefited in fiscal 2002 from ongoing strong demand for security technologies as available from Heimann Systems GmbH, consolidated until the end of November 2002.

With its extensive auto electronic components, this sector's business is also largely influenced by the state of the car industry. The trend to added electronics in automobiles has meant that the generally weak auto climate did not fully impact on this sector's business. In all, experts expect the share of electronics in cars to rise valuewise from today's 22 to 35 percent by 2010. In fact, this trend was already manifest in 2002 and helped to additionally stabilize business for the Electronics sector.

In contrast, pronounced reluctance on the part of industry to invest had adverse repercussions on certain areas of industrial electronics business while the lingering recession in the construction sector took a heavy toll on order intake for construction machinery electronics.

Global upswing for defence technology

The general economic parameters for the Defence sector are largely shaped by defence spending in Germany and in the European NATO member states. The global decline in military procurements, which has been evident now for a number of years, has meanwhile come to an end and several European countries, such as France, have started to top up their budgets.

According to present plans, Germany's defence budget, which continues to be of paramount importance for this sector, is unchanged at EUR 24.4 billion, of which in 2002 matériel spending and R&D accounted for EUR 4.4 billion.

With the successful acquisition of national projects as well as increased efforts outside of Germany this sector has sown the seeds for further growth. In 2002, non-German sales rose from 44 to 52 percent of the total and with the Central and Eastern European nations joining NATO, further markets are opened.

Against the rewritten global security scenario combined with a growing number of internationally coordinated rapid reaction missions, the Defence sector is well poised with its current product ranges. The growing demand for air-transportable and highly mobile armored vehicles and air defense systems impacted positively in fiscal 2002. Additionally, the sector capitalized on the gaining significance of military reconnaissance as such and defence system electronics.

Business trend

Rheinmetall Group indicators	2001 EUR million	2002 EUR million	EUR million	Change %
Net sales	4,603	4,571	−32	−1
Order intake	5,033	4,840	−193	−4
Order backlog (Dec. 31)	4,113	4,165	+52	+1
Headcount (Dec. 31)	27,828	25,949	−1,879	−7
EBIT	195	392	+197	+101
EBT	84	290	+206	+245
EBIT margin (in %)	4.2	8.6	--	--
ROCE (in %)	8.8	20.1	--	--

Major events

With active portfolio management Rheinmetall is pursuing the goal of enhancing shareholder value on a sustained basis. In order to optimize the Group portfolio, the concentration on the core fields of Automotive, Electronics and Defence was taken further forward in fiscal 2002.

The changed international security situation since the events of September 11, 2001, and the resulting market growth made global cooperation necessary in the field of airport security technology. It had also become clear that a broad technology base with heavy expenditure was needed to hold on to existing market positions. Given these considerations, Electronics sold the Wiesbaden-based Heimann Systems GmbH to the Smiths Group plc, London, as of November 30, 2002. For the period from January 1 to November 30, 2002, Heimann Systems is still consolidated as a member of the Electronics sector.

As part of the strategy of concentrating on its core business of land forces technology, the Defence sector sold Intergas B.V., Coevorden, Netherlands, which operates in the field of heating and condensing boilers.

Steady progress was made with the withdrawal from mechanical engineering and machinery operations in 2002. Through the sale of Jagenberg Querschneider GmbH, Neuss, and Jagenberg Converting Inc., Enfield, USA, as of June 30, 2002, Jagenberg AG disposed of its sheeter business. With effect as of December 31, 2002, Bachofen + Meier AG, Bülach, Switzerland, was also sold.

Meerbusch-based Rheinmetall Informationssysteme GmbH was sold to IBM, from whom these services will be sourced, and deconsolidated as of December 31, 2002.

In addition, Rheinmetall AG's 65-percent stake in Aditron AG was topped up to 97 percent. During the past fiscal year, Rheinmetall DeTec AG increased its stake in Oerlikon Contraves AG from 60 to 80 percent, a holding which has now been increased to 100 percent (see the subsequent events report).

Ideal connecting flight: Heimann Systems, a specialist in x-ray scanning systems for inspecting mail, air luggage and freight as well as in biometric systems was sold to the Smiths Group plc, an international leader in airport security technology.

MOSKAU
DETROIT
LJUBLJANA
KHARTOUM-KAIRO
BUDAPEST
PARIS CH. DE GAULLE
NEW YORK
WARSCHAU
HELSINKI
CHICAGO
ATLANTA
DETROIT-CHICAGO
PERM-N. NOVGOROD
DUBLIN
WARSCHAU
LONDON-HEATHROW
AMSTERDAM
MANCHESTER
LONDON-STANSTED
Terminal 1 ABC
Terminal 2 DE
Abflug Departures
Terminal 1 ABC
Terminal 2 DE

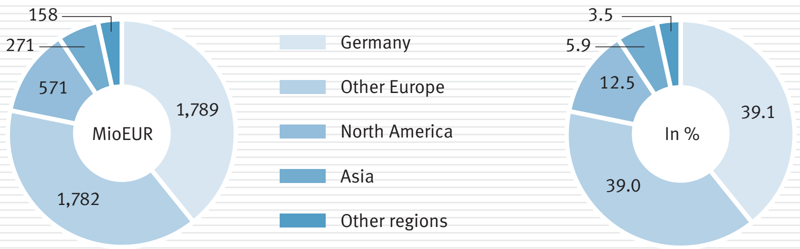
Business trend

Sales

Despite the relatively weak economic activity worldwide, the Rheinmetall Group managed to almost match the previous year's favorable sales trend. At EUR 4,571 million, sales in 2002 were only slightly down on the prior year. Adjusted for changes in the consolidation group, however, Group sales climbed a full 6 percent. Whereas sales at Jagenberg fell sharply, owing to the divestments implemented in 2001, the three sectors recorded sales gains. Adjusted for consolidation group changes, the Electronics sector achieved an impressive 12-percent growth, with automobile electronics and security systems in particular performing well. Automotive saw sales rise by 5+ percent through organic growth to EUR 1,883 million, thanks especially to the Air Supply & Pumps unit. Defence's sales surpassed the comparable year-earlier level by 4 percent, higher sales in the Air Defence Systems and Weapon & Ammunition divisions more than compensating for declining business at Land Systems and Defence Electronics.

The international share of total business rose significantly from 58 percent in 2001 to 61 percent, the Defence sector in particular raising its sales with foreign customers. European countries outside of Germany remain the Rheinmetall Group's chief sales territory.

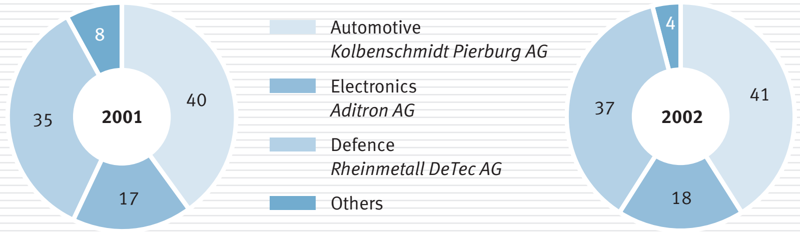
Sales 2002 by region



Total net sales by the Rheinmetall Group:
EUR 4,571 million

As in previous years, the Automotive and Defence sectors accounted for the lion's share of Group sales. The other sectors' declining proportion of sales volume was attributable to a number of divestments.

Sales by corporate sector
in %



Total net sales by the Rheinmetall Group:
EUR 4,571 million

Order situation

In 2002, the order situation within the Rheinmetall Group continued to make progress, order intake falling only slightly short of the previous year's record high. Taking into account changes in the consolidation group, incoming orders actually inched up by 1 percent over the preceding year. At EUR 269 million above sales, the influx of orders will further nurture organic growth. Orders on hand reached a new record. As of December 31, 2002, order backlog amounted to EUR 4,165 million, surpassing the prior year's despite the no longer consolidated backlog of Heimann Systems. This was chiefly attributable to the very high level of orders on hand in the Defence sector.

Sales and orders within the Rheinmetall Group in EUR million, percentage change (+/–) over prior year	1998 HGB	1999 HGB	2000 IAS	**2001** IAS	**2002** IAS
Net sales	4,129 +23.1	4,514 +9.3	4,570 +1.2	4,603 +0.7	4,571 – 0.7
Order intake	4,004 +9.1	4,740 +18.4	4,563 –3.7	5,033 +10.3	4,840 –3.8
Order backlog	3,233 –3.6	4,147 +28.3	3,732 –10.0	4,113 +10.2	4,165 +1.3

Earnings in 2002

The Rheinmetall Group's successful performance in fiscal 2002 is reflected in its results of operations. EBIT was raised from EUR 195 million to 392 million, portfolio realignment proving a key factor. The sale of Heimann Systems yielded a gain of EUR 246 million. In the Electronics sector, the gain from this deconsolidation came to EUR 319 million. The disposal of the Heimann goodwill recorded at Rheinmetall Group level is shown as a EUR 73 million loss under "Others." Further nonrecurrent gains at Group level were generated from the divestment of Rheinmetall Informationssysteme GmbH. In the Electronics sector, part of the gain from the deconsolidation of Heimann Systems was used to reposition three divisions strategically. In the Automotive sector, restructuring measures in US business in particular constituted one-off profit-eroding factors. The Jagenberg Group's EBIT came to a negative EUR 15 million. All in all, after adjustment for special factors, the Rheinmetall Group's results of operations came to EUR 213 million, which exceeded the comparable prior-year EUR 192 million. For details, see Note (30).

EBIT by sectors in EUR million	**2001**	**2002**
Automotive	91	97
Electronics	40	327
Defence	61	72
Others	3	(104)
Rheinmetall Group	195	392

Business trend

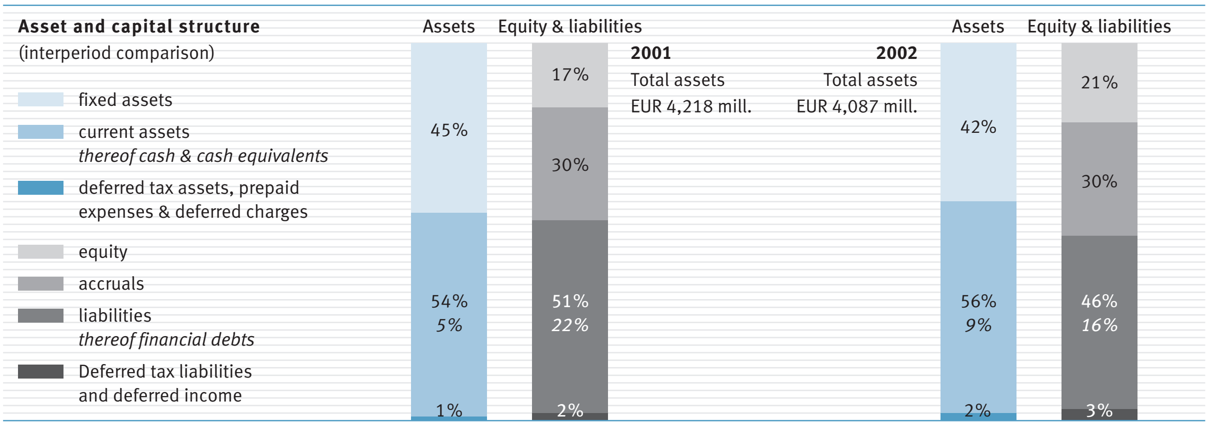
Asset and capital structure

In fiscal 2002, the Rheinmetall Group's total assets fell by 3.1 percent to EUR 4,087 million. Apart from divestments, lower capital outlays particularly caused fixed assets to shrink by EUR 153 million to EUR 1,732 million. In the wake of the working capital program, inventories showed a sharp drop from EUR 1,019 million to EUR 862 million. At EUR 2,274 million, total current assets were at the year-earlier level not least owing to the higher balance of cash & cash equivalents.

Total equity came to EUR 869 million, surpassing the year earlier's by EUR 152 million. The equity ratio improved from 17 to 21 percent, financial debts decreasing from EUR 908 million to EUR 668 million. After deducting cash & cash equivalents, net financial debts totaled EUR 301 million (down from EUR 685 million).

During the past fiscal year, there was special emphasis on slashing working capital, which fell by 17 percent on average to EUR 903 million. Working capital in relation to sales was lowered from 24 percent to 20 percent.

The improved Group earnings as well as the pared capital employed owing to lower fixed assets and reduced working capital led to a higher return on capital employed. ROCE, a key benchmark for the Rheinmetall Group, improved from 8.8 to 20.1 percent.



Capital expenditures

Additions to tangible assets including intangible assets but excluding goodwill as well as the write-up of essential properties contained in the additions to fixed assets amounted to EUR 248 million in 2002, down 13 percent. Amortization and depreciation (excluding goodwill) came to EUR 268 million and exceeded capital expenditures by EUR 20 million. Reduced spending by the Automotive sector is partly due to the fact that the tooling grants/allowances received in fiscal 2002 are for the first time not shown as deferred income but instead offset against fixed-asset additions. It proved possible to stay below the comparable prior-year EUR 152 million thanks to the successful implementation of an ROCE-improving program.

Capital expenditures by corporate sector in EUR million	**2001**	**2002**
Automotive	175	144
Electronics	41	41
Defence	50	48
Others	18	15
Rheinmetall Group	284	248

In the **Automotive sector**, EUR 144 million was allocated chiefly to capacity expansion and new start-ups. Air Supply & Pumps made preparations leading to the series start-up of two intake manifold projects for six- and eight-cylinder engines while also focusing on new diesel piston projects. The Plain Bearings division invested in plant and equipment for the manufacture of input stock whereas Aluminum Technology's capital spending concentrated on expanding low-pressure castings production. In 2002, the sector's domestic production plants accounted for some 60 percent of total outlay. North American facilities were the focus of capital spending abroad. Depreciation came to EUR 134 million in 2002, falling EUR 12 million short of the prior-year level because of the lower expenditure volume.

The **Electronics sector**'s capital expenditures amounted to EUR 41 million as in the previous year. At 37 percent, the share effected abroad was slightly down on the year before. Major items included the installation of assembly lines at Hirschmann for antenna boosters intended for BMW and DaimlerChrysler. Focal points at Preh were the construction of production lines for the air-conditioning control panel of the new BMW 5-series, the moisture condensation sensors for BMW and the automated air-conditioning systems destined for Opel. In addition, a factory building used by Preh-Werke including the underlying land was acquired at the Willich site. Depreciation amounted to an unchanged EUR 27 million.

The **Defence sector**'s capital outlay added up to EUR 48 million. Capital expenditure at Air Defence Systems concentrated on replacement and rationalization, including equipment for circuit board assembly and a new planning and control system in production. Capital spending on replacement and rationalization was also the chief focus in the Weapon & Ammunition division. In order to manufacture a new type of subcaliber ammunition, Oerlikon Contraves Pyrotec AG commissioned a new automatic turning machine, which both reduces the working cycles and delivers the parts automatically, as well as a new injection-molding machine. Nitrochemie Wimmis AG largely completed the modernization of its production facilities by installing a unit for manufacturing preconcentrated powder. In Land Systems, expenditures centered on the introduction of an interplant product data management system, which forms the basis for optimizing design and development services. At Defence Electronics, the changeover to SAP R/3 standard software was successfully completed in the year under review. At EUR 58 million, depreciation exceeded the year-earlier level by EUR 5 million.

Research and development

In fiscal 2002, Rheinmetall spent EUR 207 million (up from EUR 197 million) in order to secure and extend its technological leadership on all major markets. Altogether, 3,300 people (down from 3,390) were employed at year-end 2002 in R&D.

R&D expenditures 2002 by corporate sector	EUR million	% of sales
Automotive	86	4.5
Electronics	48	6.0
Defence	66	3.9
Others	7	3.0
Rheinmetall Group	207	4.5


SPORT
DAF
ADAC
BB-ZZ-95

Automotive sector

Once again, development work at Air Supply & Pumps concentrated on products for emission control, performance enhancement, and weight reduction. A large share of projects involved demand-controlled, i.e. electric or motorized, products for pumps. Projects for magnesium intake manifolds for reduced weight were also implemented. For Pistons, too, increasing power density, reducing fuel consumption and further cutting exhaust gas emissions were the driving factors behind R&D activities. The emphasis in passenger car pistons was on coolant passage developments. R&D activities at Plain Bearings in 2002 focused on material developments. Lead-free eco-friendlier bronze materials were developed. In product and process development, among the focal points were connecting-rod bearings for direct-injection engines. Development activities at Aluminum Technology centered on achieving constant and reproducible casting and machining processes, material developments including technologies for local material strengthening and the extension of the scope of machining. Apart from the parallel start-ups of complex projects in the low-pressure casting sector, product and process development was intensified.

Truck stop: if roads are to be kept safe not only must truck drivers observe the necessary rest periods, the trucks themselves must abide by the law. For many years now, PAT's axle load weighers have been used by the police and other organizations for detecting wrongly distributed or overloads.

Electronics sector

The Hirschmann division contracted projects for developing antenna systems for specific car models to cater for radio and T.V. reception, mobile telephony and navigation (GPS), and other communication and telematic services. Complex and hitherto unique antenna systems were developed for the Maybach and new Audi A8. Other R&D projects included network diagnosis software for convenient management of industrial data networks, a free-to-air stereo satellite receiver as well as antenna designs and prototypes for optimum indoor reception. At Preh efforts focused on innovative mechatronic solutions for the controls on the mobile infotainment center of the new Lancia Thesis as well as control units for the DVD command system on the Mercedes-Benz E-class and the infotainment system on the Maybach. In the field of construction machinery electronics, PAT's R&D work revolved around extended retrofit kits as well as crane selection and deployment software while the traffic telematics unit applied its efforts to traffic measuring components and software for automatic car toll registration plus a sensor for recording multilane traffic data.

The Defence sector

Air Defence Systems concentrated on further developing and making available the Skyguard III prototype, a combat upgraded version of the Skyguard air defence system, and a battle management demonstrator which builds on the networking of hitherto autonomously deployed air defence systems for improved air space monitoring and weapon deployment coordination. The development work which got underway in the preceding year on the highly sensitive 3D X-Tar radar and the new, mobile cannon air defence system Spaag was continued. Weapon & Ammunition's development activities centered on the 155-mm HE and 120-mm HE rounds. Research into using intelligent SMArt submunition in alternative propulsion systems continued as did the development work on a nonrecoiling automatic cannon and caseless ammunition. Completed during the year under review was the development of a launcher and ammunition for the MASS naval decoy system. Land Systems finalized the development of a lightweight reconnaissance and combat vehicle for the German armed forces. Together with the latter, technologies were further developed for identifying biological warfare agents at greater distances. In addition, a biological retrofit kit for integration into NBC vehicles including system software was developed for the purpose of swift analysis of biological warfare agents on the battlefield. Naval R&D activities in the Defence Electronics division focused on enhancing integrated command and weapon deployment systems for surface vessels (COSYS) and submarines (SUS). The export version of the heavy-weight Seahake torpedo and the digital torpedo sonar marked the completion of major product developments. In Land & Air systems, development work on the Future Infrared Search and Track System (FIRST) continued on schedule.

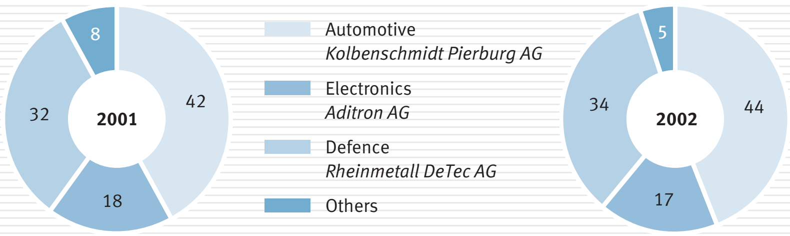
Business trend

Employees

With a workforce of 25,949 at the end of fiscal 2002, the Rheinmetall Group employed worldwide 1,879 people fewer than in the prior year. The reduction is chiefly due to divestments.

Adjusted for changes in the consolidation group, the decline was around 2 percent. Once again, the number of people employed outside of Germany was 38 percent.

Employees by corporate sector
in %



Total 2001: 27,828
Total 2002: 25,949

Training for tomorrow
Skilled and talented employees are essential to the success of a business. This is why Rheinmetall is preparing for its future need for well trained employees by offering youngsters attractive apprenticeships. In 2002, the domestic enterprises employed altogether 800 apprentices, equivalent to an unchanged 5 percent of the workforce.

MBO encouraging involvement in corporate target achievement
The management by objectives (MBO) tool actively involves employees and executives in the achievement of the Group's operational goals. The jointly concluded agreement on targets forms the basis for activities in the fiscal year. This motivates employees and executives to enhance their performance while ensuring that resources are used more efficiently. In conjunction with the agreed targets the personal development of employees is also examined. Based on a skills-upgrading agreement individual capabilities are further developed in a well-targeted manner. Rheinmetall decided in fiscal 2002 to apply this managerial tool to all executives groupwide and no later than from 2005 to all nonexempt employees. A groupwide agreement forms the basis for the introduction of MBO in all domestic companies.

Scouting for management talent—groupwide analysis tool
Executives and executive trainees are crucially important to corporate development. Systematic efforts to spot, further, and make the most of, the potential offered by this category of persons therefore are a key contribution to enhancing shareholder value. To this end, a groupwide analysis tool was worked out based on a common potential concept together with those in charge of human resources from the Rheinmetall Group's various companies during the fiscal year. A complete survey of all potential is to be conducted in 2003 for the first time which will then form the basis of targeted potential development and staff planning. This measure will be regularly repeated at two-year intervals in future.

TOP20 program sets course for increased internationalization
The Rheinmetall Group's TOP20 program is designed to groom high-potential individuals for challenging management positions. During fiscal 2002, training courses were conducted focusing on strategic and managerial skills as well as on selected specialty topics, the course being set for increased internationalization. A workshop on the strategic positioning of major group companies saw intensive information sharing between the members of the TOP20 group and Rheinmetall's Executive Board in fiscal 2002.

Shareholder value, the key criterion for modern remuneration policies
All Rheinmetall's executives must appreciate the need to contribute to the enhancement of shareholder value. The achievement of agreed targets and corporate success, in terms of EBIT and ROCE, are therefore an integral part of the Rheinmetall Group's variable compensation system. This system creates an incentive to surpass set goals as much as possible, besides allowing executives to share in the risks and rewards of their business.

Pension plans partly pegged to shareholder value increases
As part of a groupwide reorganization of the employee pension scheme, the previous different arrangements were replaced by a uniform solution applicable throughout the Group. A model was agreed upon with the Group works council which in the Group's interests keeps the costs within reasonable parameters while, if successful, improving the level of retirement income for everyone. The system comprises three separate components: an employer-funded basic, an intermediate, and an employee-funded supplementary plan. The basic level of benefit underlines the Rheinmetall Group's social responsibility toward its employees, representing reliable retirement income for the future. This basic benefit is supplemented whenever precisely defined performance goals are reached or

exceeded. Corporate success is therefore defined as an increase in shareholder value. Gearing pensions to value actually added is an essential requirement in safeguarding the Rheinmetall Group's employee pension scheme in the long term. The third, employee-funded, module enables employees to choose depending on their individual needs from three different options: deferred compensation, direct insurance and a partly employee-/partly state-funded pension (Riester) in order to provide for additional financial security in old age.

Skills-upgrading: proof of corporate vision

The skills and capabilities of our executives provide important leverage in achieving strategic goals. Altogether 515 specialist and managerial employees from the Rheinmetall companies attended courses in 2002 organized by the Rheinmetall Academy, the Group's own management school. The curriculum is tailored to addressing two central questions: what business challenges face the Rheinmetall Group and its companies in the foreseeable future? What knowledge and skills will management need in order to cope with future requirements? Management further training in 2002 was based on corporate strategy and planning and related to the subject areas of strategy, leadership, globalization and project expertise as well as methodology and specialty skills. The courses focused clearly on participants' needs. Careful selection of trainers and activities based around the participants' own business situations in small seminar groups guaranteed the quality and benefits of the training offered.

Corporate suggestion scheme

The Rheinmetall Group's corporate suggestion scheme serves as an efficient tool in promoting workforce commitment. Sound ideas submitted by the employees once again helped to advance products and workflows in 2002. Out of the over 6,200 proposals, 80 percent were rewarded.

Personnel expenses per capita in EUR 1,000	2001	2002
	51.4	52.2

Personnel expenses per capita inched up to EUR 52,200. This approximately 2-percent rise is mainly attributable to collectively negotiated pay rises.

Sales per capita in EUR 1,000	2001	2002
	156.6	164.8

With almost unchanged sales over 2002, sales per capita showed a clear 5-percent increase, which is ascribable to the Group's greatly boosted productivity.

Our thanks to our employees and their representatives

The success of the Group in fiscal 2002 is primarily due to the knowledge and skills, the dedication and creativity of our employees. We thank them all for their contribution. The Executive Board also thanks the works councils and the members of the managerial staff committees for their constructive cooperation throughout the sectors.

Business trend

Environmental management

Interlinking of economic and environmental activities

Meeting the needs of today's generation without jeopardizing the necessities of life for future generations, this is a philosophy to which the Rheinmetall Group is committed in its operations. All business activities are characterized by a sense of complete responsibility for humankind and the environment. In accord with the concept of sustainable development, the greatest possible conservation of limited resources—air, water and soil—is of utmost importance throughout the Group.

This aspiration is expressed inter alia in the progressive implementation of ambitious environmental management systems. Certification in accordance with the internationally recognized environmental standard ISO 14001 has gained extensive acceptance within the Group. This standard establishes environmental protection as a permanent corporate goal, ensuring that active environmental management to a high standard exists at all levels of the Group.

Another forward-pointing approach is the integration of environmental management in existing quality control systems. For instance, the companies that work for international car manufacturers, Hirschmann Austria, Preh-Werke with its sites in Bad Neustadt and Trofa, Portugal, and Pierburg GmbH at its German plants, hold the ISO/TS 16949 certificate. This standard attests to the fact that the quality management systems in place at certified companies meet the especially strict requirements on the automotive components industry. In line with the specific market requirements—apart from ISO 14001 certification at Oerlikon Contraves and Nitrochemie Wimmis AG—all the major production plants belonging to Rheinmetall DeTec have been awarded the internationally recognized quality management standard ISO 9001.

Many examples at Rheinmetall show that economic and environmental issues are by no means mutually exclusive. In fiscal 2002, for instance, a heat recovery unit worth EUR 71,000 was installed at Preh for the efficient utilization of cooling water waste heat, enabling annual energy savings of over EUR 40,000 in future. Nitrochemie Wimmis AG provides further proof of the sensible interlinking of economic and environmental activities. The construction of a plant for the production of propellant charge powder costing EUR 37 million will not only reduce solvent emissions by some 70 percent but also yield solvent savings worth some EUR 400,000 annually.

Taking the leap: training of young people—from apprentices to interns—enjoys high priority at Rheinmetall. In addition, every year more than 500 specialist and managerial employees attend courses organized by the Rheinmetall Academy, the Group's own management school, acquiring skills that will enable them to master future business challenges.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Rheinmetall AG

Rheinmetall AG

Rheinmetall AG's role is that of a strategic holding company subsuming the corporate departments Legal Affairs, Controlling, Finance, Human Resources, and Communications. As of December 31, 2002, its staff totaled 78 (down from 79).

Through intermediate holding companies, Rheinmetall AG is affiliated with the subgroup parents of Automotive, Electronics and Defence, as well as with the financial investee Jagenberg.

Unlike the consolidated financial statements, Rheinmetall AG's separate financial statements continue to be prepared in accordance with HGB regulations.

In the fiscal year 2002, Rheinmetall AG collected investment income of EUR 10.5 million and income of EUR 57.5 million from P&L transfer agreements with intermediate holding companies and service companies. In contrast, the EUR 24.6 million expenses from the waiver or remission of receivables and the EUR 50.4 million write-down of financial assets burdened the bottom line. This write-down was required by the impairment of investments in the Jagenberg Group whose overall economic situation was unsatisfactory. On balance, net investment income totaled a red EUR 7 million (down from a black EUR 17.1 million). Net interest expense zoomed from EUR 10.6 million to EUR 19.0 million.

The rise in both other operating income (EUR 72.4 million) and other operating expenses (EUR 24.1 million), pared personnel expenses (EUR 12.6 million) and slimmed amortization/depreciation (EUR 1.8 million) combined to produce an EBT of EUR 7.9 million, up by EUR 6.1 million from EUR 1.8 million. The other operating income mainly includes the book gain from the disposal of a service company, as well as rental income from properties leased to Rheinmetall DeTec AG, plus income from intercompany allocations. Together with income tax expenses of EUR 2.4 million (up from EUR 1.8 million), this yielded a net income of EUR 5.5 million (up from approx. EUR 22,000). After transferring EUR 18.6 million from the reserves retained from earnings, Rheinmetall AG's net earnings came to EUR 24.1 million.

Rheinmetall AG's results of operations are directly related to the business trend of its corporate sectors and its service companies.

Raising the curtain for creative minds: scheduled to be opened in 2003 under the name Living Office, Rheinmetall's erstwhile Düsseldorf facilities are evolving into a place for people to work and live in, its stylish architecture acting as a stimulus for those inside.

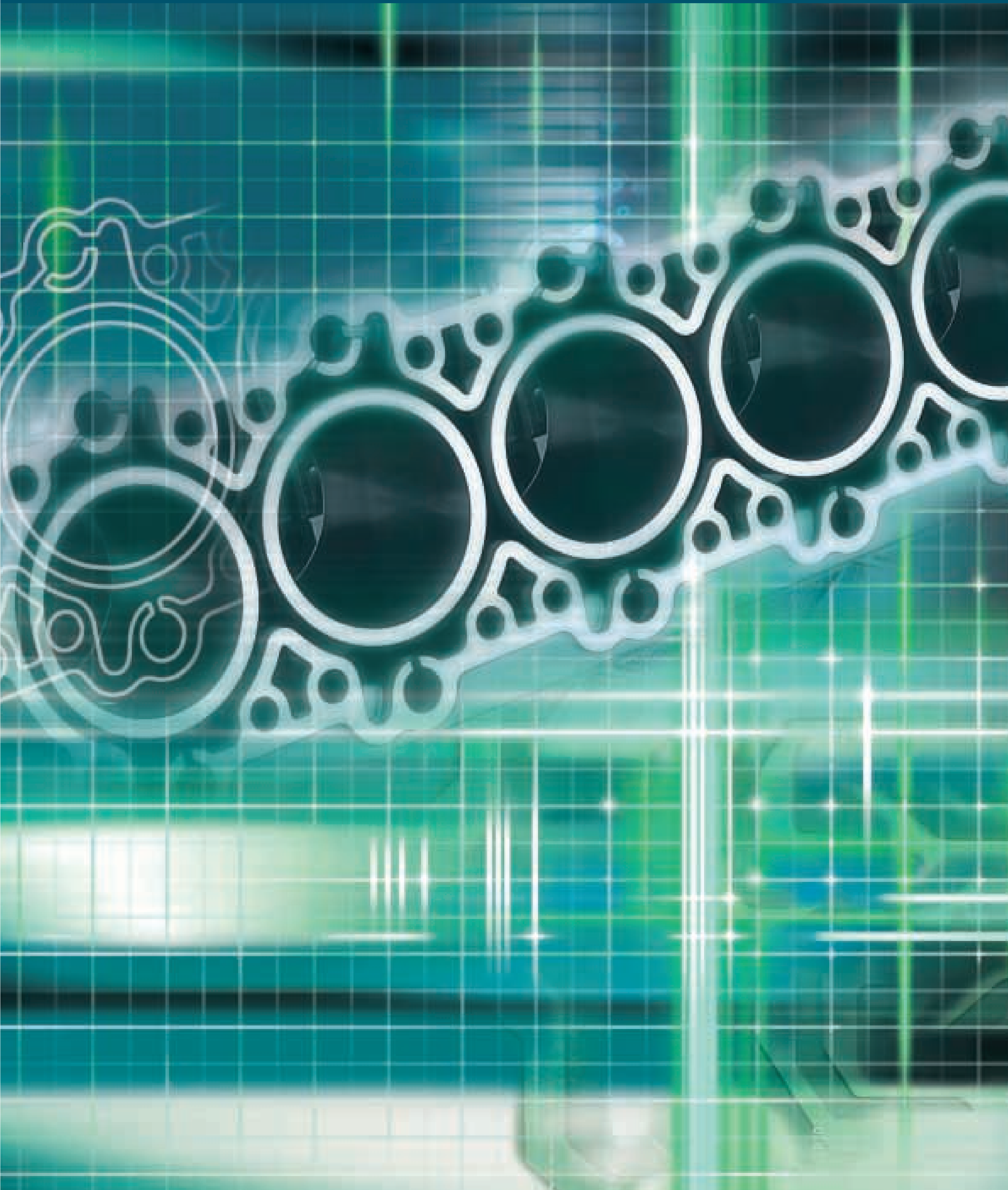
The corporate sectors: Automotive

Automotive indicators ***Kolbenschmidt Pierburg AG***	**2001** EUR million	**2002** EUR million	**Change** EUR million	%
Net sales	1,826	1,883	+57	+3
Order intake	1,843	1,917	+74	+4
Order backlog at Dec. 31	305	339	+34	+11
EBIT	91	97	+6	+7
EBT	50	60	+10	+20
Headcount at Dec. 31	11,662	11,535	–127	–1
EBIT margin (%)	5.0	5.2	--	--
ROCE (%)	10.1	11.8	--	--

Despite the clouded economic scenario and compared with the previous year, the Kolbenschmidt Pierburg Group raised its sales by 3.1 percent to EUR 1,883 million. Adjusted for MotorEngineering, deconsolidated at the end of 2001, the organic gain is over 5 percent. Growth generators were Air Supply & Pumps, Pistons, and Aluminum Technology. The growth regions of the year 2002 were North America and Germany. Just as one year earlier, the portion of Group sales to customers outside of Germany was around 66 percent, with Europe at 44 percent making up the largest share. At 17 percent (up from 16) North America was the biggest overseas market. EBIT in 2002 totaled EUR 97 million (up by EUR 6 million). Effective as of October 1, 2002, Pierburg GmbH sold its 24-percent interest in Preh GmbH & Co. KG to Aditron AG. Adjusted for the gain from this disposal, restructuring burdens and the gain from the transfer of MotorEngineering the previous period, EBIT at EUR 102 million was EUR 11 million higher than in 2001. ROCE in 2002 rose to 11.8 percent, mainly due to both an improved EBIT and, especially, a reduction in capital employed, attributable to a cutback in working capital and the capital expenditure volume.

With sales of EUR 884 million, Air Supply & Pumps showed a sharp increase of EUR 64 million thanks to the air supply unit which benefited from high call-offs for existing projects and the start-up of new products. Compared with the previous period, EBIT advanced by EUR 40 million to EUR 65 million. Even allowing for the gains from the transfer of the interest held in Preh in 2002 and the disposal of the majority stake in MotorEngineering in 2001, the prior-year EBIT was still surpassed by EUR 30 million. This return to the profit level of previous years was attributable to a repeated clear rise in sales, the successful restructuring at the German plants, ongoing very healthy profitability at the Spanish subsidiary, and the successful turnaround orchestrated by the US subsidiary.

Kolbenschmidt Pierburg AG
Sales: EUR 1,883 million
Headcount: 11,535



Automotive

Following its market-related sales losses the year before, the Pistons division reverted to its erstwhile practice of boosting sales, this time by EUR 24 million to EUR 596 million. At EUR 28 million, EBIT was down by EUR 12 million, one factor being the one-off expenses for restructuring US operations. Earnings at the German and French companies were down from the 2001 level, mainly on account of shrinking sales. Apart from this, the division's earnings were fueled by the good performance again shown by the Brazilian subsidiary, better operating results and favorable currency effects being the contributors.

Plain Bearings business suffered from a number of start-up postponements at the German company and the phase-out of individual products at the US subsidiary. Hence, its sales dropped by EUR 7 million to EUR 146 million. The EUR 10 million EBIT of fiscal 2002 remained well below the EUR 18 million of 2001, this decline chiefly being due to slumping sales by the German subsidiary with, at the same time, rising costs. The first results of the restructuring efforts were evident at the US company, but on balance, the structural reorganization still clipped the year's bottom line.

New product start-ups raised Aluminum Technology sales by EUR 13 million to EUR 149 million. The past fiscal period closed with a red EUR 13 million EBIT, following a black EUR 1 million the year before. Taking a heavy toll on earnings were the parallel start-ups of a number of low-pressure casting projects with a high number of rejects. Pressure casting and squeeze casting products again delivered a profit.

Due to partially weak demand in its aftermarkets, at EUR 146 million, Motor Service did not quite achieve the previous year's revenue volume, the decline amounting to EUR 5 million. With an EBIT of EUR 16 million and despite contracting sales revenues, Motor Service managed to almost maintain the previous year's performance due to cost-paring measures.

Safe, clean, comfortable—yet with no performance compromise: so that tomorrow's cars will continue to address the needs of their owners and satisfy legislators, Kolbenschmidt Pierburg develops and manufactures lightweight emission control systems, intake manifolds, pistons, and engine blocks, plus components for safe braking and assisting the vehicle's servo systems.

The corporate sectors: Electronics

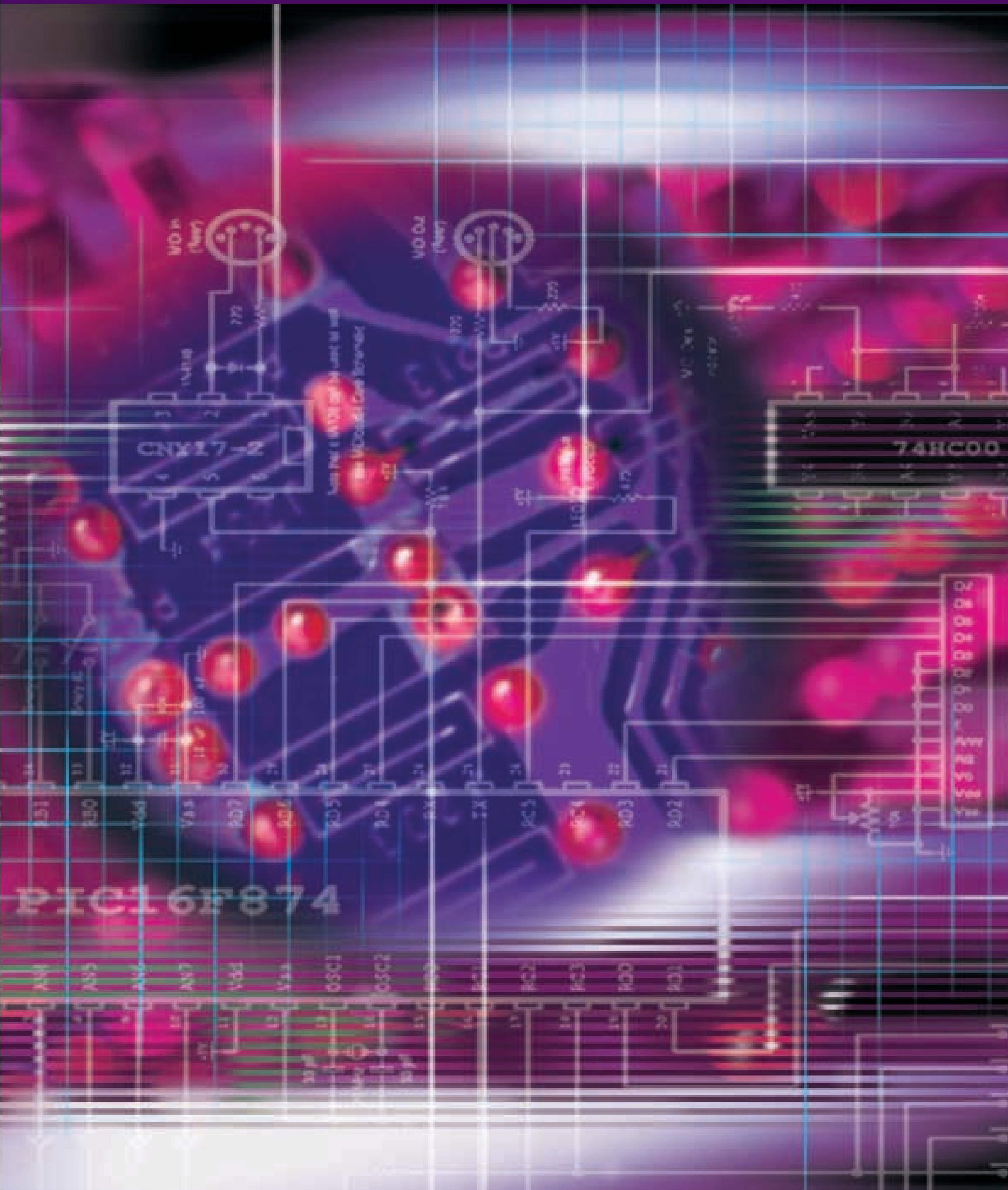
Electronics indicators ***Aditron AG***	**2001** EUR million	**2002** EUR million	EUR million	**Change** %
Net sales	771	802	+31	+4
Order intake	806	835	+29	+4
Order backlog at Dec. 31	287	144	−143	−50
EBIT	40	327	+287	+718
EBT	27	318	+291	+1,078
Headcount at Dec. 31	4,985	4,310	−675	−14
EBIT margin (%)	5.2	40.8	--	--
ROCE (%)	13.5	151.6	--	--

A milestone event in fiscal 2002 for the Aditron Group was the sale of Heimann Systems GmbH as of November 30, 2002. Moreover, portfolio restructuring resulted in the disposal of Preh's static process control unit. In order to improve strategic positioning, the Hirschmann division acquired Hirschmann Czech s.r.o, which specializes in the production of cable harness modules. In addition, the 9.1-percent stake still held by the Hirschmann family in Hirschmann Electronics GmbH & Co. KG as well as Pierburg GmbH's 24-percent interest in Preh-Werke GmbH & Co. KG were taken over. Consequently, Aditron AG's Hirschmann investment amounts to 100 percent and Preh's to 75 percent.

In a difficult economic climate, the Aditron Group's sales reached EUR 802 million (up from EUR 771 million), representing a 4.0-percent rise on the previous year especially thanks to the Heimann Systems division's solid performance. Adjusted for changes in the consolidation group, sales revenues actually climbed 11.9 percent. The foreign share, slightly up to 60.9 percent (from 59.8 percent), reflects the increasing internationalization of business. Due to Heimann Systems' great success in the US market, the second most important sales region following the European Union, the North American share of the Aditron Group's total sales moved up from 13.3 percent to 14.9 percent. Aditron's earnings performance improved further: EBIT was raised from the previous year's EUR 40 million to EUR 327 million largely due to the sale of Heimann Systems, this transaction delivering a net cash inflow of EUR 319 million, part of which was used for the strategic realignment of three divisions. Adjusted for nonrecurrent factors, the Aditron Group's EBIT was increased by EUR 4 million from EUR 48 million to EUR 52 million. ROCE rocketed to 151.6 percent.

In 2002, the Hirschmann division's sales edged up 1.8 percent to EUR 306 million—adjusted for the sales by the multimedia communication network unit sold in 2001—chief contributors being the mobile communications unit, thanks to series production start-ups of the new DaimlerChrysler E-class and the BMW compact class, as well as deliveries for vehicle models with a high market share. Sales of automated and network systems as well as automotive connectors also rose compared

Aditron AG
Sales: EUR 802 million
Headcount: 4,310



Electronics

with the previous year. Weak consumer demand, on the other hand, caused sales of multimedia communication equipment to sink by 11.5 percent. The division's EBIT reached EUR 19 million (up from EUR 6 million). Adjusted for the impact of restructuring as well as Aditron AG's waiver of receivables, EBIT came to EUR 12 million.

At EUR 219 million, the Preh division's sales were slightly below the preceding year's. Whereas the automobile electronics and industrial equipment units generated increased sales, industrial electronics saw its sales cave in. This was attributable, firstly, to muted consumer demand and the related reluctance to invest on the part of the retail trade and, secondly, to the effects of consistent product portfolio streamlining. In the largest unit, automotive electronics, the series production start-up of the new BMW 7-series and Volkswagen's PQ24 platform as well as higher demand for models in the current range helped to boost sales considerably. During the past fiscal year, the Preh division generated an EBIT of EUR 9 million (down from EUR 13 million). Adjusted for the one-off effects of restructuring, EBIT amounted to EUR 13 million, matching the comparable prior-year level.

Until the date of its disposal at the end of November, Heimann Systems had propelled its sales by 43.2 percent to the new record level of EUR 239 million. Above all, the conventional x-ray systems unit benefited from the very favorable conditions in the security technology market. At Heimann Systems, this success in the marketplace boosted EBIT from EUR 22 million in fiscal 2001 to EUR 35 million.

The PAT division performed less satisfactorily, its sales declining by 23 percent to EUR 46 million. The consequences of weak business activity in the USA, sharply declining demand from the construction machinery sector worldwide and the process of consolidation which has been evident in this segment for the past two years hurt the construction machinery electronics unit. Moreover, the tight budgetary situation faced by municipalities caused sales at the traffic telematics unit to fall. EBIT at PAT dropped by EUR 6 million to a negative EUR 5 million. Adjusted for the one-off effects of restructuring as well as Aditron AG's waiver of receivables during the fiscal year, the PAT division's EBIT came to a red EUR 4 million.

Making the net work: the product range of Hirschmann Electronics' Automation and Network Solutions unit extends from network components for Ethernet, Fast Ethernet and Gigabit Ethernet to field bus systems and electromechanical connectors for actuator and sensor equipment.

The corporate sectors: Defence

Defence indicators *Rheinmetall DeTec AG*	2001 EUR million	2002 EUR million	Change EUR million	Change %
Net sales	1,614	1,677	+63	+4
Order intake	1,999	1,861	–138	–7
Order backlog at Dec. 31	3,462	3,649	+187	+5
EBIT	61	72	+11	+18
EBT	36	50	+14	+39
Headcount at Dec. 31	9,019	8,828	–191	–2
EBIT margin (%)	3.8	4.3	--	--
ROCE (%)	9.7	12.3	--	--

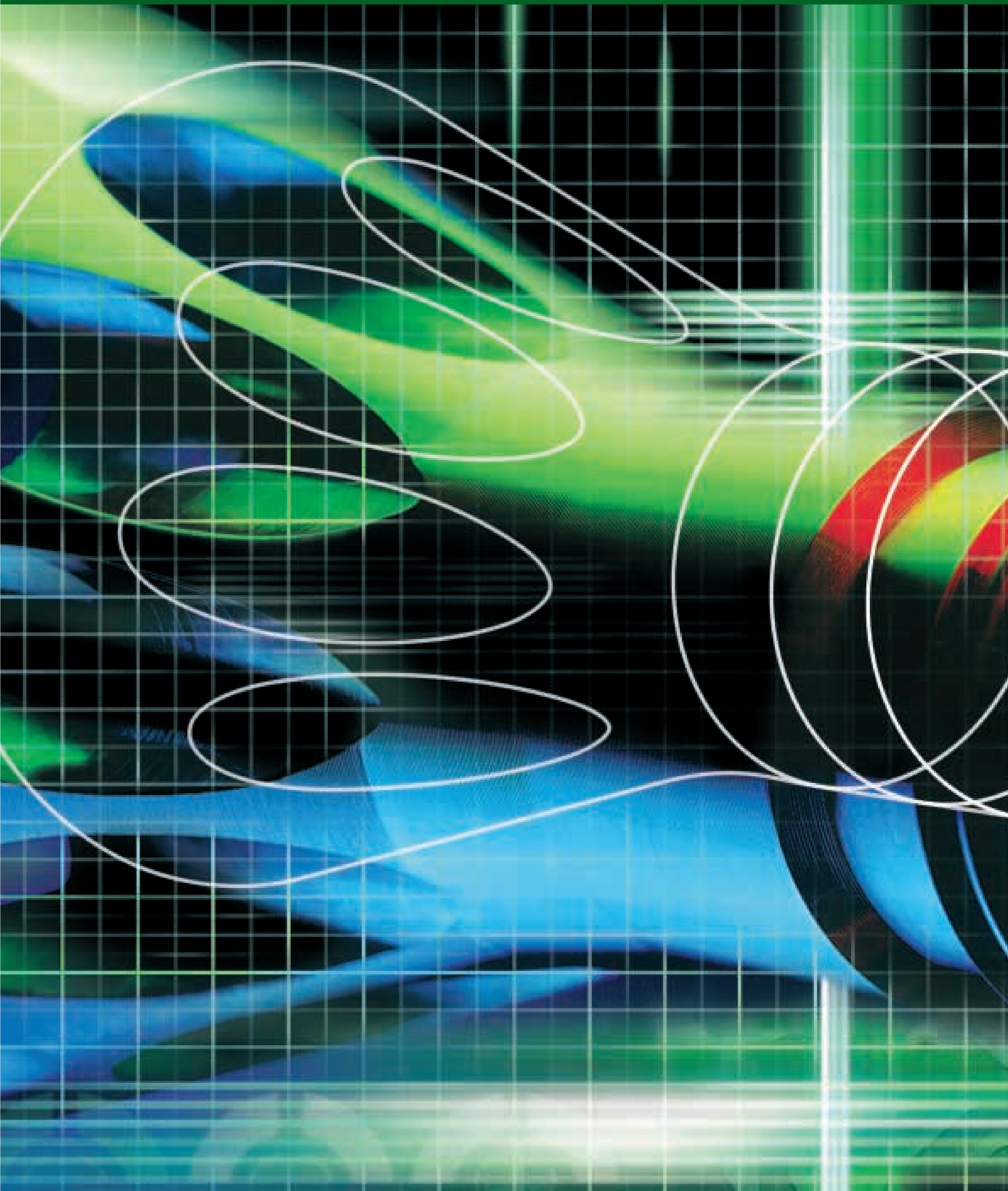
As of January 1, 2002, the activities of the Defence sector were reorganized into four strategic divisions, as profit centers responsible for their own respective market segments: Land Systems, Air Defence Systems, Weapon & Ammunition, Defence Electronics. A consequence of this was the merger of the existing large- and medium-caliber operations under the Weapon & Ammunition division. In addition the Air Defence division assumed responsibility for the guided light weapon systems used in air defence and formerly belonging to STN ATLAS Elektronik whose other activities are now clustered under Defence Electronics. As part of the focus on core competencies and due to poor capacity utilization and the rewritten political scenario, the decision was made to close down Weapon & Ammunition's defence operations at Eurometaal Holding N.V. The measures required to bring this about were launched in the summer of 2002 and are due to be completed by mid-2003. A manufacturer of nonmilitary products, Intergas B.V. was sold.

In fiscal 2002, the Defence sector performed encouragingly all in all, taking the political and economic environment into account, sales rising by 3.9 percent to EUR 1,677 million. At 34 percent, it was the Defence Electronics division that accounted for the largest slice of sales. Non-German sales rose from 44 to 52 percent. At EUR 1,861 million, order intake by Defence was around 11 percent over sales and hence an assurance for ongoing organic growth. EBIT at EUR 72 million was well above the year-earlier EUR 61 million. The 2002 figure contains both the heavy burden entailed in the steps to close down Eurometaal N.V. and the book gain from the disposal of Intergas B.V. Exceptionally high profits were contributed by both Weapon & Ammunition and Defence Electronics. ROCE gained by 2.6 percentage points to reach 12.3 percent.

The Air Defence division raised its sales in fiscal 2002 by EUR 53 million to EUR 332 million, chiefly due to business in Skyguard and Skyshield systems as well as combat enhancement programs. Orders booked advanced by EUR 46 million to EUR 390 million, mostly for upgrades of air defence systems already introduced by customers and a Skyshield contract for protecting airforce bases at a NATO member. EBIT at Air Defence Systems reached EUR 21 million, the year-earlier magnitude.

In the period under review, Weapon & Ammunition generated sales of EUR 551 million, compared with EUR 498 million the year before. Deliveries of LKE II tank ammunition, SMArt sensor-fuse ammunition and DM 662 artillery ammunition constituted the bulk of sales during the year. Shipments of weapon systems for the *Leopard 2* main battle tank and for the tank howitzer 2000 as well as the BK 27 board cannon also made a sizable

Rheinmetall DeTec AG
Sales: EUR 1,677 million
Headcount: 8,828



contribution to sales. Incoming orders inched down by EUR 27 million from the prior-year's figure. Weapon & Ammunition's EBIT of EUR 34 million in 2002 was up by EUR 13 million, this commendable improvement being mainly due to the turnaround at the meanwhile successfully restructured Buck Neue Technologien, which the year before had been deep in the red.

Land Systems generated sales of EUR 248 million in fiscal 2002, the 12-percent decline being chiefly due to the scheduled phaseout of a major contract on behalf of the German armed forces for the tank howitzer 2000 chassis. Other prime sources of sales were the combat upgrade program for the *Leopard 2* battle tank, the *Büffel 3* armored recovery vehicle for the Swedish army, and the shipment of further *Wiesel 2* carrier vehicles for the German armed forces' LeFlaSys light air defence system. Incoming orders in Land Systems soared versus 2001 by 64 percent to EUR 480 million. Together with a Swiss associate, a development contract was secured for a new sapper tank, based on the chassis of the *Leopard 2*, for the Swiss army. The Netherlands placed an order for the PzH 2000, the world's leading tank howitzer. The successfully completed development of an improved mine protection system for the *Marder* infantry fighting vehicle on behalf of the German armed forces led in fiscal 2002 to a series production order for the retrofitting of the armored infantry's existing main weapon systems. The German government also placed an order for developing a new modular and air-transportable infantry tank. Contract handlers are the Land Systems division teaming up with Krauss-Maffei Wegmann through a joint venture PSM Projekt System & Management GmbH in which each holds a 50-percent stake. The program of restructuring and integration rolled out in 2000 was rigorously continued during the year under review, reconfirming the turnaround achieved in the preceding year. At EUR 6 million, EBIT matched the year-earlier magnitude despite shrinking sales.

Defence Electronics closed the year with sales of EUR 573 million, hence slightly down from the previous period. The mainstay of sales by Naval Systems was the Integrated Sensor Underwater Systems (ISUS) for the Greek navy, and for the German and Italian navies, some highly sensitive sonar systems for detecting submarines, surface vessels, mines, and torpedoes. For the Land & Air Systems unit, three major projects were the prime source of sales, including the delivery of further light air defence systems to the German armed forces, the shipment of the first of 219 combat systems for the Spanish version of the *Leopard 2* battle tank, plus the invoicing of contracts for the series production of unmanned KZO drones for target detection for the German armed forces. Sales of simulation systems were dominated by the ongoing national development contract for extensive simulation-supported training facilities for crews on the new *Tiger* combat helicopter. At EUR 521 million, incoming orders during the period under review at Defence Electronics were, as expected, below the very high prior-year volume of EUR 852 million which had included the project-related award of megacontracts. The Naval Systems unit succeeded in winning a development order from the German government for a new mine-hunting drone system for detecting conventional underwater mines and mines washed into the sea bed. The Finnish armed forces placed a large order with the Land & Air Systems unit for the ASRAD short-range air defence system. During the period under review, the Simulation Technology unit's order intake chiefly consisted of follow-up projects and ongoing programs. In fiscal 2002, Defence Electronics registered an encouraging improvement in earnings, EBIT rising by EUR 4 million to EUR 32 million.

Security in the event of crisis and conflict: Rheinmetall DeTec's Air Defence Systems division and its Oerlikon Contraves subsidiary build cannon and guided missile systems or combinations of the two, high-performance radar and training systems plus simulators.

Financial investees and service companies

Jagenberg Group

During fiscal 2002, the mechanical engineering sector in Germany saw a slight rise in order intake only for non-German business, albeit at a low level, order influx remaining weak at home. The moderately encouraging signs did not continue into the fourth quarter of 2002, with Germany's mechanical engineering sector registering a 2-percent fall in business from abroad and a 3-percent dip in domestic orders during the final quarter of 2002.

Following the sale of large sections of its Paper Technology division in 2001, the sheeter unit comprising the companies Jagenberg Querschneider GmbH, Neuss, and Jagenberg Converting Inc., Enfield, USA, with a total of 133 employees, was sold and deconsolidated as of June 30, 2002. Furthermore, the Hamburg-based Maschinenfabrik Max Kroenert GmbH & Co. acquired Bachofen + Meier AG with its 135-strong workforce, based in Switzerland, from Jagenberg AG. The company was deconsolidated at year-end 2002. In addition, Renova Plastik-Maschinen GmbH belonging to the Lemo Group, shut down its operations as of October 31, 2002. Sales companies in France, Brazil, and Indonesia were also closed down. With effect as of January 31, 2003, the business operations of Jagenberg DIANA GmbH and Woschnik + Partner Maschinenbau GmbH, as part of an asset deal, and all of the shares in Jagenberg Slovensko spol. s r.o., as part of a share deal, were sold to Heidelberg Erwerbs- und Verwaltungs GmbH, a subsidiary of Heidelberger Druckmaschinen AG.

In fiscal 2002, the Jagenberg Group's sales amounted to EUR 212 million, after the prior year's EUR 404 million. Order intake reached EUR 230 million (down from EUR 382 million) with order backlog declining from the prior-year EUR 73 million to EUR 48 million. The Jagenberg Group's EBIT was again negative, this time totaling EUR 15 million, down from an equally red EUR 12 million. This included the write-down of impaired assets intended for sale as well as income from the waiver by Rheinmetall AG of receivables of EUR 25 million and from real estate.

EuroMarine Group

With economic effect as of January 1, 2002, the SAIT Radio Holland Group (SRH), was disposed of. STN ATLAS Marine Electronics GmbH (SAM), Hamburg, including its subsidiaries, plus EuroCom Industries A/S, Ålborg, Denmark, still remain with EuroMarine Electronics GmbH (EMG).

Compared with the high volumes of previous years, the world market for newly built ships slumped in 2002 even though there are now signs of a revival. EMG performed very encouragingly in 2002 nonetheless, generating sales of EUR 285 million in the fiscal period with its 1,239-strong workforce.

Adjusted for the disposal of the SRH Group, this was slightly higher than in the previous year. Whereas the SAM Group, at EUR 244 million, managed to maintain the adjusted prior-year sales volume despite the difficult economic environment, the EuroCom Industries Group's sales reached EUR 46 million in 2002, some 12 percent above the preceding year's.

The restructuring program started in 2001 is virtually completed, the turnaround achieved. With an EBIT of EUR 14 million, EMG achieved a substantial 12-percent improvement. These boosted earnings resulting from restructuring are sustainable.

Rheinmetall Service GmbH

Rheinmetall Service GmbH (RSG) is the central service provider in the Rheinmetall Group. In addition to property management, its duties include such corporate functions as advice and assistance in patent and industrial property right matters, the organization of training programs, and travel and accommodation reservations. On October 1, 2002, the central employee pension scheme was added to these responsibilities, including above all the maintenance and updating of qualification periods, benefit reviews, the computation of pensions and pension accounting. RSG also handles payroll accounting for several major German companies within the Rheinmetall Group. Up to May 31, 2002, supervision of Rheinmetall's own health insurance fund had also been one of RSG's duties. As of June 1, 2002, the Rheinmetall Group's health insurance fund was merged with BKKChemie-Partner.

All central services are provided by Rheinmetall Service GmbH on the basis of a service agreement concluded with the sector parents and financial investees. Additionally, RSG is the shareholder of Rheinmetall Versicherungsdienst GmbH, which renders insurance brokerage services to the Rheinmetall Group companies and other outside companies, too. Rheinmetall AG has concluded P&L transfer agreements with RSG and Rheinmetall Versicherungsdienst GmbH.

As to real property, the main functions of Rheinmetall Service GmbH are realty and project development of the former production site in Düsseldorf-Derendorf, which is owned by Rheinmetall Immobilien GmbH (RIG). Of the original approximately 180,000 square meters, several plots have already been sold. By securing in advance the necessary planning and construction rights for these projects, it has been possible to achieve a substantial increase in property value.

Risk management system

As an international player, the Rheinmetall Group is exposed to manifold risks which, at the same time, provide opportunities for entrepreneurial action.

In order to identify early on and to adequately counteract such risks and exposures, risk management is an integral component of any decision and business processes within the Rheinmetall Group. Rheinmetall AG's early-warning system for material and potentially ruinous risks applies to Rheinmetall AG as well as to the sector parents and service companies and consequently to all the Group's subsidiaries. The risk management system is a logical enhancement of the inherited budgeting, management and control instruments and hence firmly anchored within the Group's architecture on the basis of clearly defined accountabilities.

The basis for the risk management system are the **monthly risk reports** submitted by the parent and service companies as well as Rheinmetall AG's corporate departments. These reports assess the potential loss and probability of occurrence, and detail the counteraction taken. Rheinmetall AG's Executive Board is then briefed about any risks, to which the Rheinmetall Group is exposed, in accordance with the rules of Rheinmetall AG's Risk Management Handbook and depending on loss level and risk probability. Risks whose repercussions are weighty are **flash-reported** as and when they occur.

A **risk inventory** updated as part of the annual planning process systematically detects and evaluates potential risks including an estimate of the possible loss and probability of occurrence as well as defines early-warning indicators and countermeasures.

Rheinmetall AG's **Internal Auditing** department monitors the Rheinmetall Group's internal control and risk management systems.

Derivative financial instruments are used to hedge against **financial risks**. Such instruments are exclusively used to cover underlying transactions or hedge against interest and/or exchange rate risks. No speculative open positions exist. The growing globalization of procurement, production and financing activities is successively abating the influence of exchange rate fluctuations, especially with respect to the US dollar versus the euro. The financial transactions are contracted solely with banks of prime standing and within predetermined limits. Sufficient accruals provide for losses on long-term contracts or from supply and purchase contracts or agreements. The Group's business does not hinge on any specific customers and/or (crisis-prone) regions whose adverse repercussions might jeopardize the survival of the Rheinmetall Group. Other risks (defaulting debtors, bad debts, warranties) are adequately provided for in the financial statements.

Environmental risks are limited since the use of hazardous substances is confined. Environmental protection officers ensure that local production facilities comply with local regulations.

The **risk diversification policy** of the Group with its largely independent core sectors of Automotive, Electronics, and Defence, helps to balance out transitory weaknesses in individual industries by peaks enjoyed by other sectors.

The newest security technologies and firewall systems plus virus scanners safeguard the Group's **IT systems** from attack. The server and storage systems for group-critical applications feature high availability and are configured to prevent failures. Security regulations govern not only the technical configurations of the hardware and software but also include functional security structures and organizational precautions and provisions for minimizing any risks relating to availability, confidentiality, and integrity.

Sufficient and adequate **insurance** cover exists for risks arising from damage by natural forces and the ensuing business interruption, as well as for product liability, warranty, indemnity and recall risks. The extent of such cover is regularly reviewed and, where necessary, updated. At the same time, ongoing process reliability and robustness projects as well as extensive quality assurance measures ensure that the mentioned risks do not materialize. Moreover, accruals recognized at sufficient amounts provide for any risks which occur despite these measures and are not or not fully covered by insurance policies (deductible).

Helping out where needed: the German armed forces are increasingly involved in rapid reaction missions. As Europe's leading land forces systems supplier, Rheinmetall DeTec commands a vast repertoire of expertise that has made the company a dependable partner of the German army and NATO.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Risk management system

Automotive sector

Business in the **Automotive sector** hinges directly on the global automotive industry which despite the fears at the start of the year due to the terrorist attacks of September 11, 2001, made good progress in 2002. As to 2003, expectations with respect to worldwide production figures at the start of the period are if anything dampened. Analysts and institutes assume stagnation at best. Major influencing factors are, in addition to the repercussions of any escalation of the Iraq conflict, further rising crude oil prices. In Germany, there are **market risks** from an additional uncertainty regarding the tax situation, and in particular company car taxation, as well as the impact of a strong euro on exports by German automakers. The impact of individual markets on the economic situation at Kolbenschmidt Pierburg is abated by the Group's measured globalization from an economic point of view. Additionally, the diversified customer structure leads to a balancing of production fluctuations among individual carmakers.

With respect to **performance and operational risks**, Kolbenschmidt Pierburg intends to continue to outpace the international automotive industry by generating better-than-average growth rates. The organic growth budgeted in the sales plans for fiscal 2003 calls for a large number of complex and technologically advanced new-product start-ups which because of their number, extent and in some cases the limited availability of skilled labor, inherently involve risks. A comprehensive project management scheme is being applied throughout all the phases, from conceptualization, invitation to bid through to series start-up and mass production to ensure that these products translate into profitable growth. In the 2002 financial statements, the accrual for impending losses on individual onerous product start-ups adequately provides for any losses. The auto assemblers will continue to download value-adding and engineering development functions to the industry vendors. For the latter, this in turn spells new challenges with respect to R&D, production as well as quality standards and along with this, a growing reliance on the financial resources required to fund input and the necessary additions to tangible assets. Any investment resources deployed by the Kolbenschmidt Pierburg Group's divisions are therefore subject to a particularly strict scrutiny in terms of efficiency both during the budgeting and PIA (preinvestment analysis) approval stages in order thus to relieve cash flows. Further possibilities for reducing expenditures have been identified and are being exploited.

A certain **tax risk** still emanates from unexercised option rights under the warrant bond issue floated by Kolbenschmidt AG. However, Kolbenschmidt Pierburg AG assumes, supported by the prevailing view of tax law pundits and in jurisprudence publications, that bond redemption is unlikely to entail any tax burden; however, the final judgment in a comparable case has still not yet been passed.

Moreover, certain **legal risks** exist from proceedings pending before the court of competent jurisdiction which have been instituted by ten stockholders for review of the share exchange ratio under the merger of Kolbenschmidt Pierburg (Rheinmetall shareholdings), as well as for additional cash compensation. Kolbenschmidt Pierburg continues to believe in the underlying share exchange ratio fairly reflecting corporate value relations and that therefore the proceedings still underway represent only a slight risk. An adequate provision covers the fees and charges associated with such court proceedings.

Electronics sector

Risk exposure for the Electronics sector comprises a number of factors: the general **market risks** caused by economic swings, the rapid pace of technological change, shorter investment cycles and keener competition coupled with worsening economic parameters, and in particular, the specific **industry and sector risks** impacting on the automobile sector supplier units of Hirschmann and Preh which in turn are dependent on the global car climate and especially on shipments by their own major customers DaimlerChrysler, BMW, and Audi. Construction machinery electronics sales at Preh are also suffering from a generally weak market. Strict cost management, product innovations, quality assurance and access into new customer segments as well as accelerated globalization—these are the ingredients to help cement the market positions of the Aditron Group companies.

As to **performance and operational risks**, a wide repertoire of instruments is being deployed in order to contain existing risks. Intense key account management, long-term contracts, and rigorous A/R management help to counteract marketing and payment default risks. In order to make sure that the various companies are adequately supplied on time, in the right quantities and quality, close attention is paid to the procurement markets, especially for electronic componentry. Also, alternative sources are sought while ongoing appraisals, quality and reliability checks carried out on the premises of the various vendors play a considerable role in maintaining reliable supplies. The Aditron Group's products are continuously being further developed and patented. Process approvals and certifications according to international standards reflect the high standards accompanied throughout the production processes by preventive maintenance, ongoing checks, modernization and capital expenditures. Risks related to employee fluctuation are abated by attractive payment systems, in-house and external advancement courses and modern pension systems.

Legal and litigation risks are permanently under scrutiny by the Aditron Group's own legal experts and, where necessary, outside parties. At present, Aditron is not involved in any litigation likely to impact severely on its earnings.

Regarding the proceedings pending as to the underlying share exchange ratio under the merger of KIH AG into Aditron AG, the Aditron Executive Board continues to believe in the action brought against the company in connection with the reasonableness of the ratio to be unjustified and hence rates the risk of any subsequent compensation as being slight.

Defence sector

The Defence sector companies are heavily dependent on the defence budgets of various countries. **Market risks** of future developments are mainly related to the limited defence budgets, in turn governed by the general economic situation. Accounting for 48 percent of sales in 2002, domestic business is especially difficult, with shrinking budgets for matériel and R&D/tryout. Also, the political situation plays a major role in any expansion of exports. As to market shares, growing competition from across the Atlantic brings with it specific **industry and sector risks** which cannot entirely be circumvented. Ongoing cost-pruning and product innovation programs are designed to entrench and strengthen existing market positions.

As to **performance and operational risks**, the financial statements provide for risks from potentially onerous contracts, while product risks are contained throughout the Rheinmetall DeTec Group by a large number of quality assurance measures which also apply to major suppliers of the Group. All the important locations have been certified to DIN ISO 9001. Approval procedures, depending on the amounts involved, and perpetual investment controlling are procedures designed to abate any risks relating to expenditure projects.

Legal and litigation risks emanating from tax, fair trade, patent, antitrust or contract regulations and legislation are downscaled to a minimum exposure wherever possible through ongoing monitoring and in the scope of management discretion. At present, the Rheinmetall DeTec Group is not involved in any legal disputes whose outcome is expected to materially impact on its earnings.

Rheinmetall Group

In all, it may be stated that neither for Rheinmetall AG as parent company of the Rheinmetall Group nor for the Rheinmetall Group in its entirety have any risks been identified that in themselves or in interaction with others might have a jeopardizing effect on the continued existence as a going concern, nor do there exist—from today's vantage point—any risks with material impact on the net assets, financial position, or results of operations.

Prospects

Subsequent events report

As of January 31, 2003, the companies engaged in folding-carton manufacture, viz., Jagenberg DIANA GmbH, Neuss, and Woschnik + Partner Maschinenbau GmbH, Mönchengladbach, sold their business operations as part of an asset deal and transferred their shares in Jagenberg Slovensko spol. s r.o., Nové Mesto nad Váhom. Pierburg GmbH sold its electric fuel pump unit to TI Automotive as of January 1, 2003. Rheinmetall DeTec AG increased its stake in Oerlikon Contraves AG, Zurich, by 19.5 percent to 100 percent on January 2, 2003. In February 2003, KS Kolbenschmidt GmbH acquired the piston business of Microtechno Corp., Japan.

As of January 1, 2003, Rheinmetall AG purchased the 50 percent held by its joint venturer Zenitel S.A., Brussels, in EMG EuroMarine Electronics GmbH, Hamburg. Subject to the approval of the relevant cartel authorities, Rheinmetall will be sole shareholder of EMG EuroMarine Electronics GmbH, which will continue to be statused as a financial investee.

STN ATLAS Elektronik GmbH's two owners, viz. Rheinmetall DeTec AG and BAE Systems plc., UK, have decided to realign the company's structures in such a way that they conform with their respective strategic interests. It was agreed to split up entrepreneurial responsibility, under which Land & Air Systems as well as Simulation Systems will be managed by Rheinmetall DeTec AG and Naval by BAE Systems plc. A memorandum of understanding to that effect was signed in March 2003.

The Rheinmetall Group made a successful start into 2003. At EUR 603 million, sales in the first two months of the current fiscal year were some 2 percent above the year-earlier figure after taking into account changes in the consolidation group. Order intake exceeded the comparable prior-year figure by 14 percent, with order backlog also recording gains.

The latest indicators of the Rheinmetall Group in EUR million	January and February **2002**	January and February **2003**
Net sales	610	603
Order intake	601	639
Order backlog at Feb. 28	4,122	4,407
Headcount at Feb. 28	27,971	26,850

Innovation thrives on inventive thinkers: with components, modules and systems for every aspect of the engine, Kolbenschmidt Pierburg offers new and intelligent solutions matching the wide-ranging requirements of tomorrow's automobiles.

Prospects

Outlook

The start into fiscal 2003 is marked by difficult conditions in general. Apart from expectations of growth only on a small scale, political risks are contributing to uncertainty. On the markets of importance to Rheinmetall the following developments are anticipated:

At the start of fiscal 2003, call-offs by the **Automotive sector**'s customers are at a steady level. Hence and from today's vantage point sales and satisfactory earnings at the year-earlier level are expected for the first quarter of 2003. The targets for all of fiscal 2003 are:
- substantially improve earnings through the restructuring of US operations;
- successfully handle the product start-ups of innovative engine blocks by Aluminum Technology and thus achieve a significant enhancement of this division's earnings situation;
- return to the sound profitability of the previous years by Plain Bearings on the basis of the meanwhile realized start-ups and;
- stabilize the working capital program on the sound level attained and optimize the deployment of expenditures aimed at again reducing financial debts.

The achievement of the sales and earnings targeted for the **Electronics sector** in 2003 largely depends on increased economic activity in Europe and the USA. The future development of the European and US automotive markets will be especially important because the bulk of sales at both Hirschmann and Preh are with Germany's export-led automotive industry. Markets, products, structures and workflows are subject to change at increasingly short intervals. Business segments, core competencies, products and brands have been reassessed, reprioritized and repositioned. The Electronics sector is relying on a multipronged strategy: growing by its own efforts, exploiting Germany's potential as a business location and developing highly innovative products that are tailored to various customer groups. Internationalization is being gradually advanced—in those areas where a presence makes strategic sense. Apart from cost-cutting measures and methodical control of internal change processes, which ensure through improved structural and process efficiency the ability to innovate and adapt to structural changes in the economy, the established companies Hirschmann, Preh and PAT benefit from leading positions in their principal markets of automotive electronics, industrial electronics and communications equipment. In future, Electronics plans to focus on developing the attractive future-oriented and growth areas of automotive electronics and industrial electronics.

The German government's defence bill in 2003 specifies a ceiling of EUR 24.4 billion in the financial budget, which is to be increased by EUR 614 million thanks to efficiency gains and disposals. The defence capital expenditure budget amounts to EUR 6.0 billion, of which matériel spending will account for EUR 4.0 billion, some EUR 0.5 billion more than a year earlier. A total of EUR 1.0 billion has been budgeted for research, development and tryout. The scope offered by the development and procurement budgets is small, with the air force accounting for over 70 percent of procurements in the years ahead. The EU, NATO, the global security situation and potential export markets are supplying international momentum, which is impacting on the prevailing economic conditions. The numerous overseas missions being undertaken by various nations and international organizations and the resulting increased demand for mobile self-defence measures are being taken into account through the focus on the relevant land forces technologies. Based on the planned expansion of international business, the **Defence sector** expects a generally encouraging business trend and sales gains. This planned sales growth will be accompanied by further measures aimed at internal process and product streamlining as well as programs for improving the efficiency of capital employed. In addition, the restructuring drives started in previous years will be completed in 2003.

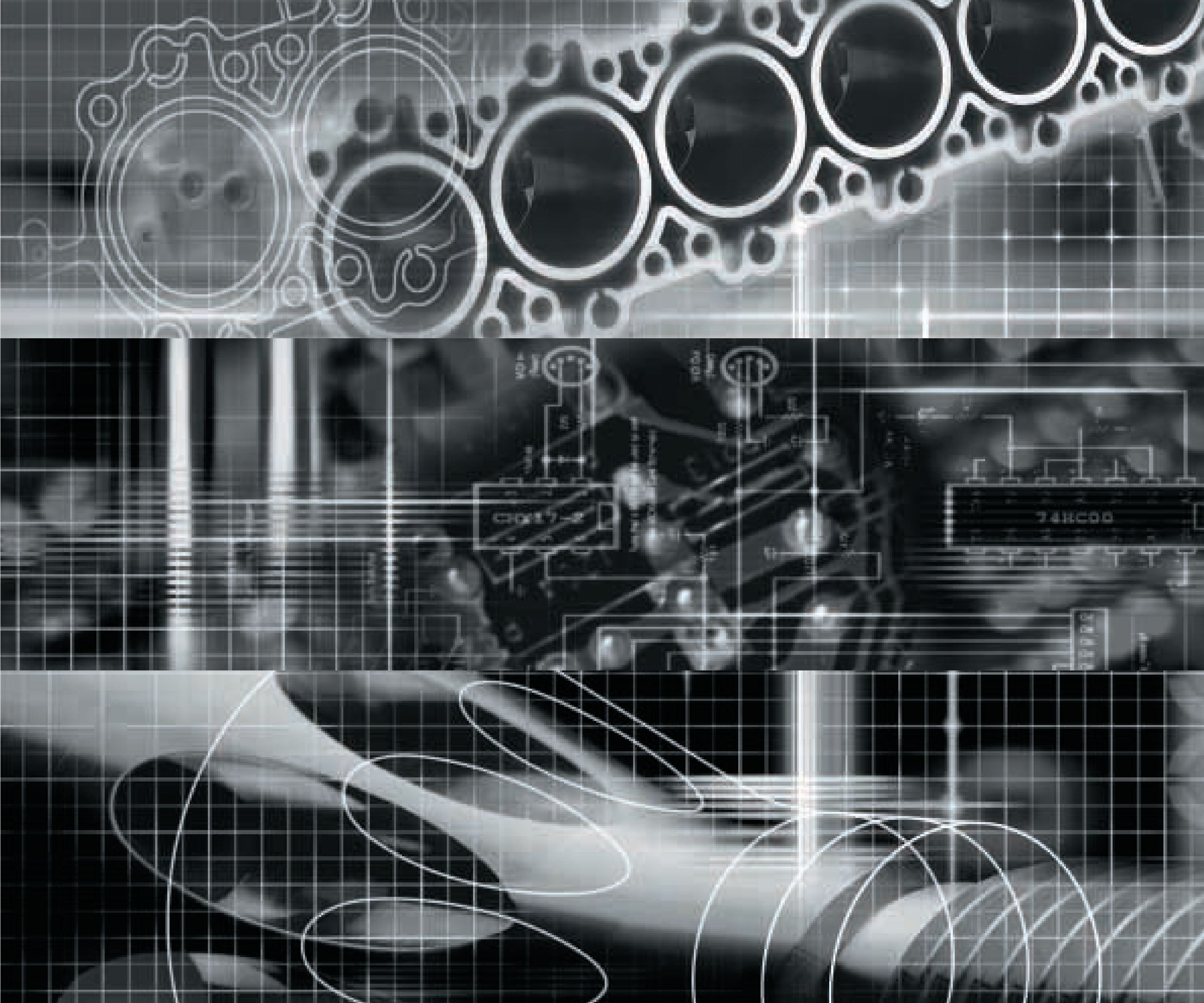
For the **Rheinmetall Group** as such, further organic sales growth and improved results of operations are planned for fiscal 2003, albeit the outcome will hinge on a stable political and macroeconomic environment. Strict cost management as well as the simplification of structures and processes will continue to enjoy utmost priority.

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

Düsseldorf, April 3, 2003

Rheinmetall AG
The Executive Board

Eberhardt	Dr. Kleinert
Dr. Krämer	Dr. Müller



Separate and consolidated financial statements 2002

Rheinmetall AG

RHEINMETALL

Balance sheet of Rheinmetall AG as of December 31, 2002 (according to HGB)

EUR million	12/31/2001	12/31/2002
Assets		
Fixed assets		
Intangible assets	0.065	0
Tangible assets	35.808	34.047
Financial assets	352.689	423.210
	388.562	**457.257**
Current assets		
Receivables and sundry assets		
Due from Group companies	500.264	520.015
Sundry assets	6.037	15.164
Cash on hand and in bank	95.641	235.923
	601.942	**771.102**
Prepaid expenses & deferred charges	**1.632**	**1.117**
	992.136	**1,229.476**
Equity & liabilities		
Capital stock	92.160	92.160
Additional paid-in capital	208.262	208.262
Reserves retained from earnings	18.696	0.079
Net earnings	16.920	24.120
Stockholders' equity	**336.038**	**324.621**
Untaxed/special reserves	**3.749**	**3.653**
Accruals		
Accruals for pensions and similar obligations	16.535	17.184
All other accruals	20.076	21.476
	36.611	**38.660**
Liabilities		
Bonds	350.000	350.000
Due to banks	60.000	0
Trade payables	0.410	0.234
Due to Group companies	169.249	498.568
Sundry liabilities	36.064	13.740
	615.723	**862.542**
Deferred income	**0.015**	**0**
	992.136	**1,229.476**

Income statement of Rheinmetall AG for the year ended December 31, 2002 (according to HGB)

EUR million	2001	2002
Income from investments	17.064	7.018
Net interest expense	(10.609)	(19.039)
Net financial result	**6.455**	**26.057**
Other operating income	30.653	72.447
Personnel expenses	(14.166)	(12.633)
Amortization/depreciation/write-down	(1.950)	(1.800)
Other operating expenses	(19.170)	(24.054)
Earnings before taxes (EBT)	**1.822**	**7.903**
Income taxes	(1.800)	(2.400)
Net income	**0.022**	**5.503**
Transfer from reserves retained from earnings	16.898	18.617
Net earnings	**16.920**	**24.120**

Consolidated balance sheet as of December 31, 2002

EUR million	Note	12/31/2001	12/31/2002
Assets			
Fixed assets			
Intangible assets	(6)	328	345
Tangible assets	(7)	1,501	1,332
Financial assets [1])	(8)	56	55
		1,885	**1,732**
Current assets			
Inventories	(9)	1,058	902
less prepayments received		(39)	(40)
		1,019	862
Trade receivables	(10)	723	662
All other receivables and sundry assets	(10)	308	383
Cash & cash equivalents	(11)	223	367
		2,273	**2,274**
Income tax assets	(12)	**50**	**73**
Prepaid expenses & deferred charges		**10**	**8**
		4,218	**4,087**
Equity & liabilities			
Total equity	(13)		
Stockholders' equity (Rheinmetall AG)			
Capital stock		92	92
Additional paid-in capital		208	208
Other reserves		129	113
Group earnings (after minority interests)		21	246
		450	**659**
Minority interests		267	210
		717	**869**
Accruals			
Accruals for pensions and similar obligations	(14)	673	660
Other accruals	(14)	576	581
		1,249	**1,241**
Liabilities			
Financial debts [2])	(15)	908	668
Trade payables	(15)	456	411
All other liabilities	(15)	775	808
		2,139	**1,887**
Income tax liabilities	(16)	**36**	**53**
Deferred income	(17)	**53**	**60**
		4,477	**4,218**

[1]) thereof carried at equity: EUR 42 million (down from EUR 44 million)
[2]) thereof long-term: EUR 581 million (down from EUR 719 million)

Consolidated income statement for fiscal 2002

EUR million	Note	2001	2002
Net sales	(18)	**4,603**	**4,571**
Net inventory changes, other work and material capitalized	(19)	63	(64)
Total operating performance		**4,666**	**4,507**
Other operating income	(20)	210	517
Cost of materials	(21)	(2,230)	(2,077)
Personnel expenses	(22)	(1,511)	(1,447)
Amortization/depreciation/write-down	(23)	(273)	(309)
Other operating expenses	(24)	(668)	(797)
Operating result		**194**	**394**
Net interest expense*	(25)	(111)	(102)
Net investment income and other financial results* [1])	(26)	1	(2)
Net financial result		**(110)**	**(104)**
Earnings before taxes (EBT) [2])		**84**	**290**
Income taxes	(27)	(46)	(16)
Group net income		**38**	**274**
Minority interests	(28)	(17)	(28)
Group earnings (after minority interests)		**21**	**246**

[1]) thereof profit from financial assets carried at equity: EUR 8 million (up from a red EUR 1 million)
[2]) thereof EBT from discontinued operations: EUR 303 million (up from a red EUR 2 million); cf. Note (33)

EpS, common stock (after goodwill amortization)	(29)	EUR 0.56	EUR 6.81
EpS, preferred stock (after goodwill amortization)	(29)	EUR 0.62	EUR 6.87
EpS, common stock (before goodwill amortization)	(29)	EUR 1.03	EUR 7.89
EpS, preferred stock (before goodwill amortization)	(29)	EUR 1.09	EUR 7.95
EBIT*		195	392
EBITDA*		468	701

*prior-year amount adjusted

Consolidated statement of cash flows for fiscal 2002

EUR million	2001	2002
Cash & cash equivalents at Jan. 1 (BoP)	**242**	**223**
Group net income	38	274
Amortization/depreciation/write-down/write-up of intangibles and tangibles	273	309
Change in pension accruals	4	4
Cash flow	**315**	**587**
Net result from fixed-asset disposal	(36)	(333)
Change in other accruals	(23)	55
Change in inventories	(18)	66
Change in receivables, liabilities (excl. financial debts) and prepaid & deferred items	65	(5)
Other noncash expenses and income, net	11	(29)
Net cash provided by operating activities	**314**	**341**
Cash outflow for additions to tangible and intangible assets	(284)	(248)
Cash inflow from the disposal of tangible and intangible assets	62	31
Cash outflow for additions to consolidated subsidiaries and financial assets	(113)	(178)
Cash inflow from the disposal of consolidated subsidiaries and financial assets	65	427
Net cash provided by/(used in) investing activities	**(270)**	**32**
Capital paid in	3	--
Dividend paid out by Rheinmetall AG	(24)	(17)
Other profit distribution	(15)	(9)
Financial debts raised	366	8
Financial debts redeemed	(394)	(210)
Net cash used in financing activities	**(64)**	**(228)**
Cash-based change in cash & cash equivalents	**(20)**	**145**
Parity-related change in cash & cash equivalents	1	(1)
Total net change in cash & cash equivalents	**(19)**	**144**
Cash & cash equivalents at Dec. 31 (EoP)	**223**	**367**

For comments on the cash flow statement, see Note (31).

Statement of changes in equity Rheinmetall Group

EUR million	Capital stock	Additional paid-in capital	*Reserves retained from earnings*	*Currency trans-lation differ-ences*	*Reserves from fair and other valuation*	All other reserves	Group earnings after minority interests	**Stock-holders' equity (Rhein-metall AG)**	Minority interests	**Total equity**
Balance at Dec. 31, 2000	**92**	**208**	*142*	*(4)*	*72*	**210**	**(47)**	**463**	**228**	**691**
First-time application of IAS 39 (1/1/2001)	**--**	**--**	*(1)*	--	*(1)*	**(2)**	**--**	**(2)**	**--**	**(2)**
Balance at January 1, 2001	**92**	**208**	*141*	*(4)*	*71*	**208**	**(47)**	**461**	**228**	**689**
Capital contributions	--	--	--	--	--	--	--	--	3	3
Dividend payments	--	--	*(24)*	--	--	(24)	--	(24)	(15)	(39)
Currency translation differences	--	--	--	(2)	--	(2)	--	(2)	--	(2)
Changes in consolidation group	--	--	--	--	--	--	--	--	39	39
Transfer to/from reserves	--	--	*(47)*	--	--	(47)	47	--	--	--
Other comprehensive income	--	--	*(4)*	--	*(2)*	(6)	--	(6)	(5)	(11)
Group net income	--	--	--	--	--	--	21	21	17	38
Balance at December 31, 2001	**92**	**208**	*66*	*(6)*	*69*	**129**	**21**	**450**	**267**	**717**
Capital contributions	--	--	--	--	--	--	--	--	--	--
Dividend payments	--	--	*(17)*	--	--	(17)	--	(17)	(9)	(26)
Currency translation differences	--	--	--	*(24)*	--	(24)	--	(24)	(1)	(25)
Changes in consolidation group	--	--	*12*	--	--	12	--	12	(68)	(56)
Transfer to/from reserves	--	--	*21*	--	--	21	(21)	--	--	--
Other comprehensive income	--	--	*(4)*	--	*(4)*	(8)	--	(8)	(7)	(15)
Group net income	--	--	--	--	--	--	246	246	28	274
Balance at December 31, 2002	**92**	**208**	*78*	*(30)*	*65*	**113**	**246**	**659**	**210**	**869**

For comments on equity, see Note (13).

Notes (Group)
Segment report by corporate sectors (primary segments)

Segments		Automotive		Electronics		Defence		Others / Consolidation		**Group**	
Sector parents		Kolbenschmidt Pierburg AG		Aditron AG		Rheinmetall DeTec AG					
EUR million		2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Balance sheet (Dec. 31)											
Segment assets		1,277	1,163	452	312	1,669	1,742	547	431	3,945	3,648
thereof investments at equity		*28*	*28*	*1*	*2*	*2*	*2*	*13*	*10*	*44*	*42*
Segment liabilities		686	684	262	203	1,380	1,428	212	176	2,540	2,491
Total equity	(1)	345	333	128	409	429	436	(185)	(309)	717	869
Pension accruals	(2)	288	273	65	60	251	265	69	62	673	660
Net financial debts	(3)	256	166	60	(291)	(112)	(100)	481	526	685	301
Capital employed (CE)	(1) + (2) + (3)	889	771	254	178	569	601	363	280	2,075	1,830
Average CE	(4)	897	827	296	216	629	585	402	325	2,224	1,953
Income statement											
Net external sales		1,826	1,883	737	775	1,613	1,675	427	238	4,603	4,571
Intersegment transfers		--	--	34	27	1	2	(35)	(29)	--	--
Total segment sales		1,826	1,883	771	802	1,614	1,677	392	209	4,603	4,571
thereof Germany (%)		*33.7*	*33.5*	*40.2*	*39.1*	*56.4*	*48.3*	--	--	*42.0*	*39.1*
thereof abroad (%)		*66.3*	*66.5*	*59.8*	*60.9*	*43.6*	*51.7*	--	--	*58.0*	*60.9*
EBITDA		238	234	68	359	128	150	34	(42)	468	701
thereof P/L of investments at equity		*1*	*2*	--	--	*(3)*	--	*1*	*6*	*(1)*	*8*
thereof income from write-up		*3*	--	--	--	--	--	--	--	*3*	--
Amortization/depreciation/write-down		(147)	(137)	(28)	(32)	(67)	(78)	(31)	(62)	(273)	(309)
thereof write-down		*(1)*	--	*(1)*	*(5)*	--	*(14)*	*(3)*	*(34)*	*(5)*	*(53)*
Segment EBIT	(5)	91	97	40	327	61	72	3	(104)	195	392
Net interest expense		(41)	(37)	(13)	(9)	(25)	(22)	(32)	(34)	(111)	(102)
EBT		50	60	27	318	36	50	(29)	(138)	84	290
Income taxes		(18)	(23)	(12)	(7)	(19)	(5)	3	19	(46)	(16)
Net income/(net loss)		32	37	15	311	17	45	(26)	(119)	38	274
EBIT margin (%)		5.0	5.2	5.2	40.8	3.8	4.3	--	--	4.2	8.6
Other data											
ROCE (%)	(5) / (4)	10.1	11.8	13.5	151.6	9.7	12.3	--	--	8.8	20.1
Net cash provided by/(used in) operating activities		128	215	67	60	141	79	(22)	(13)	314	341
Capital expenditures for tangibles		175	144	41	41	50	48	18	15	284	248
Order intake		1,843	1,917	806	835	1,999	1,861	385	227	5,033	4,840
Order backlog at Dec. 31		305	339	287	144	3,462	3,649	59	33	4,113	4,165
Prepayments received		3	7	33	2	545	691	14	6	595	706
Headcount at Dec. 31		11,662	11,535	4,985	4,310	9,019	8,828	2,162	1,276	27,828	25,949

For comments on the segment reports, see Note (32).

Segment report by regions (secondary segments)

Segments	Germany		Other Europe		North America		Asia		Other Regions/ Consolidation		**Group**	
EUR million	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Net external sales by customer location	1,933	1,789	1,717	1,782	573	571	234	271	146	158	**4,603**	**4,571**
in % of Group sales	42.0	39.1	37.3	39.0	12.4	12.5	5.1	5.9	3.2	3.5	--	--
Segment assets	2,506	2,182	999	846	320	274	23	15	97	331	**3,945**	**3,648**
Capital expenditures for tangibles	180	155	67	53	25	28	2	2	10	10	**284**	**248**

For comments on the segment reports, see Note (32).

Notes (Group)
Fixed-asset analysis

EUR million	Gross values						
	1/1/2002	Additions*	Disposals*	Book transfers	Changes in consolidation group	Currency translation differences	12/31/2002
Intangible assets							
Development costs and other internally created intangible assets	13	4	--	--	--	--	17
Concessions, franchises, industrial property rights and licenses	114	12	3	3	(32)	(1)	93
Goodwill	416	--	--	--	46	(3)	459
Badwill from consolidation	(32)	--	--	--	--	--	(32)
Prepayments on intangibles	4	9	--	(1)	--	--	12
	515	**25**	**3**	**2**	**14**	**(4)**	**549**
Tangible assets							
Land, equivalent titles, and buildings (incl. buildings on leased land)	1,270	28	80	(56)	(8)	(9)	1,145
Investment properties	28	--	--	64	--	(1)	91
Production plant and machinery	1,689	62	51	43	(10)	(59)	1,674
Other plant, factory and office equipment	751	65	43	18	(70)	(14)	707
Prepayments on tangibles, construction in progress	100	87	18	(71)	--	(7)	91
	3,838	**242**	**192**	**(2)**	**(88)**	**(90)**	**3,708**
Financial assets							
Shares in nonconsolidated Group companies	1	--	1	--	--	--	--
Loans to nonconsolidated Group companies	--	--	--	--	--	--	--
Shares in joint ventures (at equity)	52	2	--	--	--	--	54
Shares in associated affiliates (at equity)	23	1	3	--	--	--	21
Loans to joint ventures and associated affiliates	--	--	--	--	--	--	--
Other long-term securities	14	3	--	--	--	--	17
Other long-term loans	6	1	2	--	--	--	5
	96	**7**	**6**	**--**	**--**	**--**	**97**
Total	**4,449**	**274**	**201**	**--**	**(74)**	**(94)**	**4,354**

*including revaluation-related write-down and write-up

Amortization/depreciation/write-down								Net values	
1/1/2002	Additions	Disposals	Book transfers	Write-up	Changes in consolidation group	Currency translation differences	12/31/2002	12/31/2001	12/31/2002
6	2	--	--	--	--	--	8	7	9
89	12	3	--	--	(25)	--	73	25	20
115	41	--	--	--	(6)	(2)	148	301	311
(23)	--	--	--	(2)	--	--	(25)	(9)	(7)
--	--	--	--	--	--	--	--	4	12
187	**55**	**3**	**--**	**(2)**	**(31)**	**(2)**	**204**	**328**	**345**
480	55	17	(25)	--	(2)	(3)	488	790	657
17	12	--	25	--	--	--	54	11	37
1,240	116	47	--	--	(7)	(42)	1,260	449	414
589	71	37	1	--	(48)	(12)	564	162	143
11	--	--	(1)	--	--	--	10	89	81
2,337	**254**	**101**	**--**	**--**	**(57)**	**(57)**	**2,376**	**1,501**	**1,332**
1	--	1	--	--	--	--	--	--	--
--	--	--	--	--	--	--	--	--	--
29	2	--	--	--	--	--	31	23	23
2	--	--	--	--	--	--	2	21	19
--	--	--	--	--	--	--	--	--	--
8	--	--	--	--	--	--	8	6	9
--	1	--	--	--	--	--	1	6	4
40	**3**	**1**	**--**	**--**	**--**	**--**	**42**	**56**	**55**
2,564	**312**	**105**	**--**	**(2)**	**(88)**	**(59)**	**2,622**	**1,885**	**1,732**

Notes (Group)
Accounting principles

(1) **General**

The consolidated financial statements of Rheinmetall AG and its subsidiaries for the fiscal year 2002 have been prepared in accordance with the International Accounting Standards (IAS) of the IASB and comprise balance sheet, income statement, cash flow statement, and statement of changes in equity.

All IAS effective at balance sheet date have been applied, as have the Interpretations of the Standing Interpretations Committee (SIC).

For enhanced transparency of presentation, certain items of the consolidated balance sheet and income statement have been subsumed in captions but are broken down and detailed further below in these notes. The consolidated income statement has been prepared in the total-cost format.

The consolidated financial statements are presented in euro (EUR). Amounts are almost throughout indicated in EUR million (including prior-year figures).

With its IAS-based consolidated financial statements, Rheinmetall AG has exercised the exemption option under the terms of Art. 292a HGB, viz. to draw up the consolidated accounts in accordance with internationally accepted accounting principles in lieu of consolidated financial statements according to German commercial accounting regulations. The assessment of whether the consolidated financial statements and group management report meet the prerequisites of Art. 292a HGB has been made in conformity with the DRSC interpretation in German Accounting Standard DRS-1. The present consolidated statements substantially reflect the following accounting and valuation methods in derogation of the German Commercial Code (HGB):

- translation of non-euro receivables and payables at the current closing rate and recognition in net income of the resulting translation differences

- recognition at fair value of certain financial instruments

- capitalization of internally created intangible assets

- fair valuation of essential plots of land according to the alternative revaluation method (IAS 16)

- realization of profits according to the percentage of completion (PoC) from long-term manufacturing contracts with customers

- discounting of noncurrent accruals

- waiver of providing for accrued liabilities if the probability of accrual utilization is below 50 percent

- accounting for deferred taxes according to the liability method

- capitalization of the asset and recognition of the residual liability under capital leases according to the definition criteria of IAS 17

- measurement of pension accruals according to the projected unit credit (PUC) method with due regard to future pay rises and the corridor rule of IAS 19.

The fiscal year of Rheinmetall AG and its subsidiaries equals the calendar year. Rheinmetall AG (Local Court of Registration: Düsseldorf) has its registered office in Düsseldorf at Rheinmetall Allee 1. Top-tier parent company is Röchling Industrie Verwaltung GmbH, Mannheim.

Notes (Group)

(2) **Group of consolidated companies**

Besides Rheinmetall AG, the consolidated financial statements include all German and foreign subsidiaries in which Rheinmetall AG holds the majority of voting rights (whether directly or indirectly) or whose financial and business policies or otherwise controlled by the Group. Principally, companies are initially consolidated or deconsolidated when control is transferred. Associated affiliates (i.e., companies in which a stake between 20 and 49 percent is owned and over which a controlling influence is exercised) and joint ventures (held at 50 percent and jointly managed) are stated at equity.

For lack of materiality, 4 insignificant subsidiaries (down from 5) have not been included in the consolidated financial statements.

	12/31/2001	Additions	Disposals	12/31/2002
Fully consolidated companies				
Germany	93	2	8	87
abroad	84	3	17	70
	177	**5**	**25**	**157**
Investments stated at equity				
Germany	7	1	--	8
abroad	9	1	2	8
	16	**2**	**2**	**16**

In the year under review, 5 subsidiaries were newly consolidated while 25 companies (including 17 non-German) left the consolidation group; one of the latter is carried at equity as of December 31, 2002. Newly included at equity was, moreover, 1 joint venture, another 2 investees stated at equity were retired.

The shares (newly or additionally) acquired in the year under review in the following fully consolidated companies are reportable in particular:

- Rheinmetall Elektronik AG, Düsseldorf, Germany: stake raised from 67 to 100 percent as of March 28, 2002, at a price of EUR 106 million.

- Oerlikon Contraves AG, Zurich, Switzerland: stake increased from 60 to 80 percent as of September 30, 2002, at a price of EUR 45 million.

- Jagenberg AG, Neuss, Germany: 67-percent stake in the capital stock increased to 88 percent, substantially in December 2002, at a price of EUR 9 million.

- Hirschmann KG, Neckartenzlingen, Germany: previous 90-percent stake raised to 100 percent as of March 31, 2002, at a cost of EUR 5 million.

- Further investments, mainly by acquiring further shares in already fully consolidated subsidiaries, at a total price of EUR 3 million.

In the year under review, a total EUR 168 million was spent to acquire shares in fully consolidated subsidiaries (up from EUR 19 million).

The following disposals of shares in fully consolidated subsidiaries are significant:

- Sale and transfer of Heimann Systems GmbH, Wiesbaden, as of November 30, 2002, at a price of EUR 367 million.

- Sale and transfer of Rheinmetall Informationssysteme GmbH, Düsseldorf, as of December 31, 2002, at a price of EUR 41 million.

- Sale and transfer of Intergas B.V., Coevorden, Netherlands, as of October 3, 2002, at a price of EUR 21 million.

- Divestment of various Jagenberg Group companies at a total price of EUR 9 million.

The purchase prices negotiated for the disposal of fully consolidated subsidiaries totaled EUR 438 million (up from EUR 122 million).

Notes (Group)

The acquisitions and divestments in the period impacted on the assets and liabilities as of December 31, 2002, and major lines of the consolidated income statement for fiscal 2002 as follows:

EUR million	2001	2002
Fixed assets	(52)	(39)
Current assets	(108)	(88)
Pension accruals	(14)	(14)
Other accruals	(14)	(59)
Financial debts	(23)	(29)
Trade payables and all other liabilities	(85)	(108)

EUR million	2001	2002
Net sales	(105)	(319)
Operating result	(1)	(34)
EBT	2	(33)
Net income	2	(26)

The major subsidiaries and the material investees stated at equity which are included in the consolidated financial statements of Rheinmetall AG are listed separately after these Notes. A comprehensive listing of the shareholdings of Rheinmetall AG has been deposited with the Commercial Register of the Local Court of Düsseldorf (HRB 39401).

(3) **Consolidation principles**

The financial statements of consolidated German and foreign companies are prepared in accordance with groupwide uniform accounting and valuation methods.

Subsidiaries included for the first time are consolidated according to the purchase method, specifically the book value method under the terms of IAS 22, by offsetting the cost of shares acquired against the subsidiaries' prorated equity. Any difference between cost and prorated equity is, if based on hidden reserves or burdens, allocated at the Group's percentage shareholding in such hidden reserves or burdens to the subsidiaries' assets and liabilities. Any residual net equity under or over cost is capitalized as goodwill or badwill within intangible assets. Goodwill is amortized over its estimated useful life. Any badwill is released to other operating income in accordance with IAS 22. Any net equity under cost from pre-1995 acquisitions had been offset against the Group's reserves retained from earnings. Upon deconsolidation the residual book values (amortized cost) of goodwill and badwill are accounted for accordingly when measuring the net gain or loss on disposal.

Minority interests in the consolidatable equity of subsidiaries (including those in profit and loss) are disclosed as such in the balance sheet.

Expenses and income from intragroup transactions, as well as intercompany receivables and payables are eliminated in consolidation. Intercompany profits and losses are eliminated unless insignificant. Deferred taxes are recognized for temporary differences from consolidation.

Shares in associated affiliates and joint ventures are principally stated at equity. Starting from the historical cost of the shares as of the date of their acquisition, the investment book value is increased or decreased to reflect such changes in the equity of these investees/joint ventures as are allocable to the Rheinmetall Group.

To determine the goodwill (if any) of investees carried at equity, principles analogous to consolidation are adopted, capitalized goodwill being mirrored in the investment book value and goodwill amortization recognized in net investment income.

Notes (Group)

(4) Currency translation

The functional currency concept has been adopted to translate the annual financial statements of non-German group companies into euros. As a rule, their functional currency equals the local currency. Therefore, assets and liabilities are translated at the mean current, and the income statements at the annual average, rates.

The translation differences resulting herefrom, as well as those from translating prior-year carryovers are recognized in, and only in, equity. Goodwill created from the capital consolidation of non-German companies is carried at amortized historical cost.

Variations in the year of major currencies versus the euro:

Exchange rates

	Mean rate in EUR at		Annual average rate in EUR	
	12/31/2001	12/31/2002	2001	2002
1 Brazilian real	0.4852	0.2709	0.4823	0.3570
1 pound sterling	1.6418	1.5378	1.6139	1.5929
1 Canadian dollar	0.7092	0.6100	0.7221	0.6741
1 Swiss franc	0.6755	0.6884	0.6624	0.6815
100 Czech koruny	3.1230	3.1786	2.9385	3.2392
1 US dollar	1.1334	0.9601	1.1176	1.0581
EUR 1 = Rs	2.0611	3.6920	2.0734	2.8010
EUR 1 = £	0.6091	0.6503	0.6196	0.6278
EUR 1 = Can$	1.4101	1.6393	1.3849	1.4835
EUR 1 = Sfr	1.4804	1.4527	1.5096	1.4674
EUR 1 = Kčs	32.0200	31.4600	34.0304	30.8715
EUR 1 = US$	0.8823	1.0416	0.8948	0.9451

In the local-currency financial statements of consolidated companies, currency receivables and payables as well as cash & cash equivalents are all translated at the current closing rate. Currency translation differences are duly recognized in the net financial result.

(5) **Accounting and valuation methods**

Intangible assets

Purchased intangible assets are capitalized at (acquisition) cost, internally created intangibles from which the Group is believed to derive future economic benefits and which can reliably be measured are recognized at production cost, either type of intangible asset being amortized by straight-line charges over the estimated useful life. Production cost covers all costs directly allocable to the production process, including any proratable production-related overheads. No cost of finance is capitalized. R&D costs are principally expensed. However, development costs are capitalized and amortized on a straight-line basis if a newly developed product or process can be clearly defined, technologically realized and used either internally or is destined for marketing (IAS 38), and if there is a reasonable assurance that its costs will be recovered by future cash inflows. If certain factors hint at an impairment and the recoverable amount is below amortized cost, an intangible asset is written down. Wherever the reason for write-down has ceased to exist, the charge is reversed and the asset written up accordingly.

The following unchanged useful lives underlie amortization:

	Years
Concessions, franchises, and industrial property rights	3–15
Development costs	5

Unchanged, goodwill from consolidation or the statement at equity is amortized over its estimated period of benefit, as a rule 15 to 20 years. The period is estimated with due regard to the expected benefits from the market position achieved through the acquisition and from the acquiree's value-adding potential.

Notes (Group)

Tangible assets

Tangible assets are carried at depreciated cost less any write-down. Grants newly received from customers and substantially qualifying as investment grants are directly offset against acquisition cost. The production cost of internally made tangible assets comprises all costs directly allocable to the production process, including the proratable production-related overheads.

Borrowing costs are not capitalized as part of cost. Tangible assets are principally depreciated on a straight-line basis over their estimated useful lives unless in exceptional cases another method better reflects the pattern of use.

Essential plots of land owned for business purposes are stated according to the alternative revaluation method of IAS 16 at their fair values, which regularly equal market values.

Investment properties continue to be carried at depreciated cost. The market value of investment properties, determined according to generally accepted valuation techniques and substantially based on values indicated by an independent appraiser, is stated in Note (7).

The following unchanged asset depreciation ranges (ADR) apply to property, plant & equipment within tangible assets:

	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

Tangible assets obtained under capital leases are capitalized at the lower of their fair values or the present value of minimum rents and depreciated over the shorter of their estimated useful lives or underlying lease terms (IAS 17). If certain factors hint at an impairment and the recoverable amount is below depreciated cost, a tangible asset is written down. Wherever the reason for write-down has ceased to exist, the charge is reversed and the asset written up accordingly.

Financial assets

The shares in nonconsolidated group companies and in associated affiliates other than stated at equity and the other long-term securities, all shown as financial assets, are carried at their fair values since they are throughout available for sale. Gains and losses, while unrealized, are shown in the reserves from fair and other valuation but, upon financial-asset disposal, are recognized in net income. However, if and when substantiated evidence hints at an impairment, even unrealized losses are recognized in net income.

In accordance with IAS 39, long-term loans bearing interest at fair market rates are carried at amortized cost, whereas non- or low-interest loans are discounted and shown at their present values.

Inventories and prepayments received

Inventories are recognized at cost, as a rule applying the average-price method to acquisition cost whereas production cost includes direct costs plus any portions of indirect materials, indirect manufacturing costs (labor, etc.), as well as production-related depreciation and pension expenses, but cost always excludes any borrowing costs (IAS 23). Risks inherent in inventories due to reduced utility or to obsolescence are adequately allowed for. If the net realizable value (NRV) of any inventories at balance sheet date is below their carrying value, such inventories are written down to NRV. If the NRV of inventories previously written down has risen, the ensuing write-up is principally offset against cost of materials (raw materials and supplies) or shown as increase in inventories of finished products and work in process (WIP).

Prepayments received from customers for contracts other than long-term manufacturing or construction contracts under the terms of IAS 11 are, if production cost has already been incurred, openly deducted directly from inventories, any other prepayments being recognized as liabilities.

PoC accounting

Where the requirements of IAS 11 are met, longer-term manufacturing orders or construction contracts from customers are recognized in accordance with their percentage of completion. This method implies that the production cost incurred, plus a markup in line with the percentage of completion, is shown as receivable under l/t manufacturing contracts and within net sales. As a rule, the PoC is determined on a cost-to-cost basis, i.e., at the ratio the expenses incurred bear to anticipated total expenses. Expected losses on l/t manufacturing contracts (so-called onerous contracts) are either covered by an appropriate write-down or else provided for, all with due regard to all foreseeable risks. Prepayments received are directly offset against the receivables under l/t manufacturing contracts. If resulting in a negative balance, the corresponding liability is recognized as payable under l/t manufacturing contracts.

Notes (Group)

Receivables and sundry assets

Receivables and sundry assets are capitalized at cost. Adequate allowances provide for bad debts and doubtful accounts.

Short-term securities are fair-valued as of the balance sheet date. Changes in fair value are not recognized in income until realized but shown within equity. However, if a value has been impaired and fallen below cost, even unrealized losses are recognized in net income.

Deferred taxes

In accordance with IAS 12, deferred taxes are duly recognized on the differences between the values of assets and liabilities in the consolidated balance sheet and those in the individual companies' tax accounts. Deferred tax assets also include tax reduction claims 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 reliably anticipated in each country at the balance sheet date.

In September 2002, the German government enacted certain flood victim solidarity legislation, thereby raising the corporate income tax rate for the one fiscal year 2003 from 25 to 26.5 percent. Related to the average tax rate of 40 percent (rounded) applied to calculate deferred taxes (including solidarity surtax and municipal trade tax on income), the effect entailed by such legislation is marginal and, therefore, this tax rate is also applied to deferred taxes which will reverse in 2003. Deferred taxation rates outside of Germany ranged between 15 and 40 percent, comparing with the year-earlier range of 15 to 38 percent.

Accruals

As required by IAS 19, accruals for pensions and similar obligations are determined, where defined benefit obligations (DBO) are involved, according to the projected unit credit (PUC) method, which is predicated on assumptions such as mortality, expected future pay and pension increases, plan beneficiary turnover rates, interest rate variations, as well as other actuarial parameters. The actuarial gains and losses ensuing from differences between actuarial assumptions and actual trends of the underlying parameters give rise to a gap between the present value of the DBO and the pension liabilities accrued in the balance sheet. Actuarial gains and losses outside a 10-percent corridor of the DBO's present value are distributed over the average residual service years of employees. The fair market value of any existing pension fund assets is deducted from pension accruals. Contributions to defined contribution plans (DCP), under which the company incurs no obligations other than to pay the contributions to earmarked pension funds, are recognized in net income in the year of their incurrence.

The remaining accruals according to IAS 37 provide at balance sheet date for all identifiable legal and constructive commitments and obligations to third parties if based on past transactions or events and if their amount, due date or maturity is uncertain. Accruals are measured at the best estimate of settlement amount. Non-current accruals are shown, if the effect of discounting is significant, at the settlement amount discounted as of balance sheet date.

Liabilities

Pursuant to IAS 39, liabilities are measured at amortized cost, which as a rule equals their settlement or repayment amounts. Liabilities under capital leases are recognized at the present value of future rents.

Notes (Group)

Prepaid and deferred items

Such items are shown to appropriately recognize pro rata temporis (p.r.t.) prepaid rents, royalties, license fees, interest, insurance premiums, etc.

Public grants and subsidies for capital expenditures are recognized as deferred income in line with IAS 20 and realized when the corresponding expenses are incurred. If the selling price of an asset disposed of under a sale-leaseback transaction exceeds its net book value (amortized/depreciated cost), the gain from disposal is recognized as deferred income and amortized to income over the noncancelable initial lease term.

Income and expenses

Net sales (revenues) and other operating income are recognized upon performance of the contract for goods/services or upon passage of risk to the customer. Under longer-term manufacturing or construction contracts with customers, sales are prorated according to the percentage of completion. Operating expenses are recognized when caused or when the underlying service, etc. is used. Interest income and expenses are recognized on an accrual basis.

Derivative financial instruments

Companies of the Rheinmetall Group use financial derivatives solely to hedge balance sheet items and future cash flows.

Pursuant to IAS 39, *Financial Instruments*, all financial derivative are recognized at cost and thereafter remeasured at their fair values. Financial derivatives with a positive or negative fair value are disclosed under sundry assets or all other liabilities, respectively.

Principally, any changes in the fair value of financial derivatives are immediately recognized in net income unless an effective hedge exists that satisfies the criteria of IAS 39. If the derivative is a cash flow hedge (CFH) and hence used to effectively hedge expected future cash flows, changes in the financial derivative's fair value are recognized under the other reserves only and not in net income. In this case, the changes in the derivative's value would not impact on net income until after the hedged underlying transaction has fallen due or been settled.

Changes in the value of financial derivatives used in fair value hedges (FVHs) to effectively hedge the fair value of recognized assets and liabilities are posted to net income as are any changes in the hedged assets or liabilities (where appropriate, by adjusting their book values), with the result that the compensatory effects are all reflected in the income statement.

Notes (Group)
Notes to the balance sheet

(6) Intangible assets

In the year under review, non-contracted R&D expenses of EUR 208 million were incurred (up from EUR 197 million).

Thereof, development costs of EUR 4 million met the capitalization criteria according to IAS (virtually unchanged).

Operating expenses included the following R&D-related items:

EUR million	2001	2002
Research costs and noncapitalized development costs	193	204
Amortization of capitalized development costs	2	2
Total R&D costs expensed	**195**	**206**

Total amortization of intangible assets of EUR 55 million (up from EUR 40 million) includes write-down of EUR 17 million (up from EUR 3 million) which was (inter alia) charged to the goodwill from the acquisition of Jagenberg stock. The badwill from capital consolidation was amortized to other operating income at EUR 2 million (down from EUR 9 million), the remaining badwill being amortized by fiscal 2008.

(7) Tangible assets

Depreciation includes write-down at EUR 36 million (up from EUR 2 million), of which EUR 34 million (up from nil) was charged to land and buildings—mainly investment properties (at EUR 10 million), revalued essential land (at EUR 7 million), and a leased plot of land (at EUR 11 million)—, another EUR 2 million (virtually unchanged) to production plant and machinery.

In accordance with the revaluation method of IAS 16, essential business plots of land have been stated at their fair values, which principally equal market values. The land situated in Germany and abroad was revalued on the basis of an independent appraisal report prepared as December 31, 2002. Applying the revaluation method to essential land resulted, on the one hand, in a write-up of the basic remeasurement book values (EUR 127 million; down from an adjusted EUR 143 million) by EUR 116 million (down from EUR 133 million) but, on the other, to the extent that the remeasured fair value of the land fell below depreciated cost, in a write-down of EUR 7 million (up from nil) recognized in net income. Regarding the development of the revaluation reserve, see the comments on total equity.

By definition, investment properties are held to earn rental income or for long-term capital appreciation and not used for production or administrative purposes. Investment properties are valued at depreciated cost. The investment properties have a fair value of EUR 54 million (up from EUR 50 million). In the year under review, rental income of EUR 4 million (up from EUR 1 million) was earned which contrasts with direct operating expenses of an unchanged EUR 1 million.

The disposition of EUR 55 million of tangible assets (down from EUR 63 million) is restricted by land charges, similar encumbrances and the assignment as security. Moreover, standard commercial liens totaling EUR 143 million (down from EUR 181 million) rest on assets held under capital leases and allocable to the Group under the terms of IAS 17, as well as on properties of consolidated special-purpose leasing firms.

Tangible assets have been capitalized under leases at the following amounts:

EUR million	12/31/2001 Capital leases	12/31/2001 Consolidation of special-purposes leasing firms	12/31/2001 Total	12/31/2002 Capital leases	12/31/2002 Consolidation of special-purposes leasing firms	12/31/2002 Total
Land and buldings	59	77	136	35	75	110
Production plant and machinery	45	--	45	33	--	33
	104	**77**	**181**	**68**	**75**	**143**

At EUR 24 million, the decrease in leased land and buildings is attributable to the retirement of an office building since the changed terms as of the balance sheet date no longer permitted this lease to be classified as capital lease.

As a rule, leases for realty or personalty include a purchase option. The remaining lease terms vary between 1 and 20 years. Depending on market conditions and contracting date, the interest rates underlying leases range from 4.8 to 8.1 percent.

The future rents payable under capital leases, the interest portions included therein, and the present values of future rents, which are recognized as financial debts, result from the following table:

Capital leases

	2001				2002			
EUR million	2002	2003–2006	after 2007	Total	2003	2004–2007	after 2008	Total
Rents	25	74	121	220	10	43	43	96
Discount	(8)	(30)	(70)	(108)	(3)	(12)	(10)	(25)
Present values	**17**	**44**	**51**	**112**	**7**	**31**	**33**	**71**

The cash inflow from subleasing tangible assets totaled EUR 4 million in 2002 (up from EUR 1 million). During the noncancelable lease term of the subleased tangible assets, a future cash inflow of an aggregate EUR 17 million (down from EUR 27 million) is expected.

Notes (Group)

(8) **Financial assets**

The major joint ventures' proratable assets, liabilities, income and expenses break down as follows:

EUR million		2001	2002
Assets [1]	(12/31)	142	100
Equity	(12/31)	8	6
Debt [2]	(12/31)	134	94
Net sales		219	165
EBT		0	7

[1]) Including income tax assets, prepaid expenses and deferred charges
[2]) Accruals, liabilities, income tax liabilities and deferred income

All the other long-term securities (EUR 9 million; up from EUR 6 million) are available for sale and have been fair-valued. In 2002, no significant profit or loss was produced while, the year before, EUR 2 million had been recognized as unrealized losses.

The other long-term loans total EUR 4 million (down from EUR 6 million); their book value equals their fair value.

(9) **Inventories**

EUR million	12/31/2001	12/31/2002
Raw materials and supplies	280	270
Work in process	441	322
Finished products	136	94
Merchandise	77	62
Prepayments made	124	154
	1,058	**902**
less prepayments received	(39)	(40)
	1,019	**862**

The book value of inventories stated at the lower NRV totals EUR 222 million (down from EUR 288 million). In the year under review, EUR 4 million (down from EUR 24 million) of inventories previously written down was written up as NRV had risen. Inventories do not collateralize any liabilities.

(10) **Receivables and sundry assets**

EUR million	12/31/2001	thereof due after 1 year	12/31/2002	therof due after 1 year
Trade receivables	723	18	662	40
All other receivables and sundry assets				
receivables from l/t manufacturing contracts	155	62	226	93
sundry assets	153	30	157	26
	308	92	383	119
	1,031	**110**	**1,045**	**159**

Breakdown of receivables from long-term manufacturing contracts:

EUR million	12/31/2001	12/31/2002
Production cost incurred	213	265
plus markup (less losses)	35	63
	248	**328**
less prepayments received	(93)	(102)
	155	**226**

Breakdown of sundry assets

EUR million	12/31/2001	12/31/2002
Short-term securities	3	4
Other receivables		
non-income taxes	32	31
purchase price balances (sale of real property/shares)	19	17
prepayments made	17	10
miscellaneous	2	9
Other	80	86
	153	**157**

The disclosed book values of the monetary assets covered by these items approximate their fair values.

No accounts were due from nonconsolidated Group companies, whether in 2002 or 2001. Accounts due from joint ventures and associated affiliates totaled EUR 14 million (down from EUR 22 million).

Under an ABT program, the Rheinmetall Group sells trade receivables on a revolving basis up to a maximum volume of EUR 127 million. According to IAS 39, sold receivables are treated as disposed of since the residual recourse risks are now insignificant for the Company. As of December 31, 2002, the receivables sold had an unchanged par value of EUR 127 million.

(11) **Cash & cash equivalents**

EUR million	12/31/2001	12/31/2002
Cash on hand and in bank (incl. checks)	223	367

Disposal of cash & cash equivalents is restricted at EUR 4 million (virtually unchanged).

(12) **Income tax assets**

EUR million	12/31/2001	12/31/2002
Deferred tax assets	45	65
Income tax refundable by the tax office	5	8
	50	**73**

Deferred taxes break down into, and are allocable to, the following accounts:

EUR million	12/31/2001		12/31/2002	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryovers and tax credits	83	--	94	--
Fixed assets	27	173	23	117
Inventories and receivables	172	150	227	202
Pension accruals	42	--	39	--
Other accruals	29	4	34	1
Liabilities	188	203	139	178
Sundry	7	1	15	28
	548	**531**	**571**	**526**
Offset	(503)	(503)	(506)	(506)
	45	**28**	**65**	**20**
thereof not affecting net income		54		45

Apart from the capitalized deferred tax assets from loss carryovers of EUR 94 million (up from EUR 83 million), further tax loss carryovers exist at EUR 584 million (down from EUR 680 million) which were not recognizable, and of which EUR 258 million (down from EUR 538 million) is allocable to loss carryovers for corporate income tax purposes, EUR 105 million (up from EUR 68 million) referring to those for municipal trade tax purposes, another EUR 185 million (up from EUR 74 million) to non-German tax loss carryovers. The German loss carryovers are not subject to expiration whereas the foreign ones as a rule are (e.g., in the United States utilizable within 20 years). Deferred taxes adjusted in prior periods were written up at EUR 10 million (up from EUR 1 million), while deferred tax assets capitalized in previous years were written down at EUR 2 million (up from nil). According to the German Tax Reduction Act of October 23, 2000, the changeover from the imputation system to the split rate system (split income taxation) is accompanied by a 15-year transition period during which dividends distributed from EK-40 equity portions (formerly subject to the full German corporate income tax) now entail a corporate income tax reduction and those distributed from EK-02 equity portions (exempt from corporate income tax) increase corporate income tax. The potentials for any deferred tax relief and burden amount to EUR 0.3 million (down from EUR 1 million) and EUR 2 million (down from EUR 3 million), respectively.

Notes (Group)

(13) **Total equity**

Rheinmetall AG's capital stock amounts to an unchanged EUR 92.16 million and is divided into 18 million no-par bearer shares each of fully voting common, and nonvoting preferred, stock. The preferred stock entitles to a preferential, cumulative dividend. Each of the total 36 million no-par shares accounts for EUR 2.56 of the capital stock.

The Executive Board is authorized to raise the capital stock on or before June 24, 2004, after first obtaining the Supervisory Board's approval, by issuing once or several times new stock against cash contributions for an aggregate maximum of EUR 25 million. However, the Executive Board is authorized, subject to the Supervisory Board's prior approval, to exclude the stockholders' statutory subscription rights with respect to an aggregate total par value of EUR 9.2 million provided that (i) the capital increase against cash contributions does not exceed 10 percent of the capital stock and (ii) the stock issue amount is not significantly below the then current market price, all in accordance with Art. 186(3)(4) German Stock Corporation Act ("AktG"). Furthermore, the Executive Board may exclude subscription rights for up to an aggregate EUR 1.0 million with respect to stock issued to employees of the Company or subsidiaries controlled by it.

Moreover, the Executive Board has been authorized to acquire on or before November 30, 2003, treasury stock equivalent to an aggregate maximum of 10 percent of the current capital stock. To date, the authority to repurchase any of the Company's stock has not been not exercised.

Röchling Industrieverwaltung GmbH, Mannheim, holds a 42.1-percent stake in Rheinmetall AG's capital stock, viz. 73.7 percent of the voting common, and 10.5 percent of the nonvoting preferred, stock.

The additional paid-in capital solely originates from stock premiums from Rheinmetall AG's capital increases.

The other reserves include, besides the reserves retained by Rheinmetall AG from earnings at EUR 78 million (up from EUR 66 million), also the other comprehensive income (OCI), which covers currency translation differences of a negative EUR 30 million (up from an equally negative EUR 6 million), as well as the reserves from fair and other valuation at a total EUR 65 million (down from EUR 69 million).

The analysis in 2002 of such reserves presents the following picture:

EUR million	Land revaluation reserve	Hedge reserve	Securities available for sale	Reserves from fair and other valuation
Dec. 31, 2000	**72**	**--**	**--**	**72**
First-time application of IAS 39				
(as of 1/1/2001)	--	(1)	(1)	(2)
Deferred taxes	--	--	1	1
Jan. 1, 2001	**72**	**(1)**	**--**	**71**
Change in fair values	--	(2)	(2)	(4)
Deferred taxes	--	1	1	2
Dec. 31, 2001	**72**	**(2)**	**(1)**	**69**
Change in fair values	(17)	3	--	(14)
Disposals	(7)	--	--	(7)
Deferred taxes	10	(1)	--	9
Minority interests	8	--	--	8
Dec. 31, 2002	**66**	**--**	**(1)**	**65**

Breakdown of the land revaluation reserve:

EUR million	12/31/2001	12/31/2002
Revaluation of land within tangible assets	133	116
Deferred taxes	(56)	(46)
Minority interests	(12)	(4)
Other	7	--
	72	**66**

The separate financial statements of Rheinmetall AG close the fiscal year with net earnings of EUR 24 million, proposed to be distributed in full to pay a cash dividend (including a EUR 0.20 bonus) of EUR 0.64 and EUR 0.70 per share of common and preferred stock, respectively (up from EUR 0.44 and EUR 0.64, respectively).

The minority interests mainly refer to the Automotive sector (at EUR 69 million; down from EUR 81 million), Electronics (at EUR 21 million; down from EUR 47 million), as well as Defence (at EUR 117 million; down from EUR 124 million), and include EUR 4 million (down from EUR 12 million) due to the application of the revaluation method.

(14) **Accruals**

EUR million	12/31/2001	12/31/2002
Accruals for pensions and similar obligations	673	660
Other accruals	576	581
	1,249	**1,241**

Accruals for pensions and similar obligations

These accruals provide for obligations under vested rights and current pensions payable to eligible active and former employees and their surviving dependants. Such commitments primarily encompass pensions, both basic and supplementary. The individual, confirmed pension entitlements are based on benefits that vary according to country and company and, as a rule, are measured according to service years and employee pay. Moreover, as the pension plan was restructured at the German companies, a performance-related pension obligation was incurred for the fiscal years starting 2002 whose amount hinges on the achievement of certain benchmarks for the ROCE formula. Being a noncurrent provision for the accumulated postretirement benefit obligation, the accrued health care obligations to the retirees of some US Group companies are also included in the pension accruals recognized hereunder.

Notes (Group)

The company pension system consists of both defined-contribution and defined-benefit plans. Under a DCP, the company incurs no obligation other than the payment of contributions to earmarked pension funds. These pension expenses are shown within personnel expenses and do not require any provision. In the year under review, a total EUR 89 million (up from an adjusted EUR 87 million) was paid to DCPs, specifically the Statutory Social Security Insurers in Germany. Among those DCPs where material sums are involved, the earmarked pension funds of the Swiss Group companies, whose employees pay in supplementary contributions, were overfunded as of both December 31, 2002 and 2001. According to the provisions of the underlying bylaws, such excess funds accrue primarily to the beneficiaries and eligible retirees and may not be repaid or refunded, even pro rata, to the Group companies.

Under defined benefit plans, a company is obligated to meet its confirmed commitments to active and former employees.

The following actuarial parameters have been assumed to determine the present value of the DBO:

%	12/31/2001		12/31/2002	
	Germany	USA	Germany	USA
Discount rate	5.75	6.50	5.50	6.50
Pay trend (general)	+3.00	+4.00	+3.00	+4.00
Pay trend (fixed-sum commitments)	+3.00	--	+1.25	--
Pension trend	+1.25	--	+1.25	--
Expected return on plan assets	--	9.00*	--	9.00

*rounded

Due to the lower interest rate level at the balance sheet date, the discount rate for German pension obligations was reduced by 0.25 percentage points. The non-German pension liabilities primarily refer to benefit obligations incurred by US subsidiaries, certain of which are funded by plans and earmarked funds.

The pension accruals are derived from the present value of the DBO, as well as from the plan assets:

EUR million	2001 Germany	2001 Abroad	2001 Total	2002 Germany	2002 Abroad	2002 Total
Development of the present value of the DBO						
Present value of the DBO at Jan. 1	584	173	757	611	196	807
Consolidation group changes	(14)	--	(14)	(14)	--	(14)
Reclassification	--	--	--	2	(2)	0
Exchange differences	--	9	9	--	(27)	(27)
Service cost	9	4	13	15	3	18
Interest cost	35	12	47	34	11	45
Pension payments	(29)	(16)	(45)	(30)	(15)	(45)
Plan curtailments/settlements	--	(1)	(1)	--	9	9
Past service revenue	--	--	--	--	(25)	(25)
Actuarial (gains)/losses	26	15	41	1	7	8
Present value of the DBO at Dec. 31	**611**	**196**	**807**	**619**	**157**	**776**
Development of plan assets						
Fair value of plan assets at Jan. 1	--	78	78	--	81	81
Exchange differences	--	4	4	--	(11)	(11)
Expected return on plan assets	--	7	7	--	6	6
Contributions paid to pension plan	--	11	11	--	11	11
Pensions paid by plan	--	(8)	(8)	--	(13)	(13)
Actuarial gains/(losses)	--	(11)	(11)	--	(20)	(20)
Fair value of plan assets	**--**	**81**	**81**	--	**54**	**54**
Unfunded pension obligations at Dec. 31	**611**	**115**	**726**	**619**	**103**	**722**
Unrecognized actuarial gains/(losses)	(22)	(31)	(53)	(23)	(43)	(66)
Unrecognized past service revenue	--	--	--	--	4	4
Pension accrual as of Dec. 31	**589**	**84**	**673**	**596**	**64**	**660**

Notes (Group)

As of December 31, 2002, the present value of funded pension obligations amounted to EUR 129 million (down from EUR 146 million). The unrecognized actuarial losses of EUR 66 million (up from EUR 53 million) are attributable to interest rate adjustments, as well as to the variance of the actual from the expected return on plan assets. In the year under review, plan assets actually returned a loss of EUR 14 million (up from EUR 4 million), EUR 20 million below expectations. Actuarial losses are released to expense over the average residual service years of the workforce if outside a corridor of 10 percent of total DBO.

Breakdown of pension expense:

		2001			2002	
EUR million	Germany	Abroad	Total	Germany	Abroad	Total
Service cost	9	4	13	15	3	18
Amortized actuarial gains and losses	--	--	--	--	4	4
Past service revenue	--	--	--	--	(21)	(21)
Effects of plan settlements/curtailments	--	(1)	(1)	--	9	9
Compounding of expected pension obligations	35	12	47	34	11	45
Expected return on plan assets	--	(7)	(7)	--	(6)	(6)
Total	**44**	**8**	**52**	**49**	**0**	**49**

Except for the interest portion of the annual provision and the expected return on plan assets, which are shown within the net interest result, all of the above lines are recognized as personnel expenses.

Analysis of accruals

EUR million	1/1/2002	Utilized	Added/ newly provided	Com- pounded	Released	Change in consoli- dation group	Currency differ- ences/ sundry	12/31/2002
Pension accruals	**673**	**43**	**31**	**39**	**21**	**(14)**	**(5)**	**660**
[Prior year:]	*[678]*	*[48]*	*[13]*	*[40]*	*[1]*	*[(14)]*	*[5]*	*[673]*
Other accruals								
Warranties	71	24	54	--	7	(22)	--	72
Identifiable losses	27	16	58	--	--	(1)	(1)	67
Yet unbilled costs	133	85	102	--	16	(10)	--	124
Restructuring	96	28	35	2	12	(3)	--	90
Personnel	139	72	86	--	11	(12)	(3)	127
Remaining accruals	110	41	68	--	19	(15)	(2)	101
	576	**266**	**403**	**2**	**65**	**(63)**	**(6)**	**581**
	1,249	**309**	**434**	**41**	**86**	**(77)**	**(11)**	**1,241**

The accruals for restructuring measures mainly provide for the short-term realization of the scheduled personnel retrenchment (including termination benefits, preretirement part-time work).

The remaining accruals cover at EUR 19 million legal, consultancy and audit fees (up from EUR 11 million), at EUR 8 million contractual penalties (down from EUR 11 million), at EUR 8 million bonuses, discounts and rebates (down from EUR 12 million), and at EUR 6 million environmental risks (down from EUR 10 million).

The following cash outflows are expected from each of the other accrual categories:

	2001			2002		
EUR million	‹1 year	1–5 years	›5 years	‹1 year	1–5 years	›5 years
Warranties	42	27	2	45	26	1
Identifiable losses	23	4	--	55	10	2
Yet unbilled costs	129	4	--	122	2	--
Restructuring	49	43	4	44	40	6
Personnel	90	36	13	92	23	12
Remaining accruals	81	27	2	75	22	4
	414	**141**	**21**	**433**	**123**	**25**

Notes (Group)

(15) **Liabilities**

EUR million	12/31/2001	thereof due within <1 year	thereof due after 5 years	12/31/2002	thereof due within <1 year	thereof due after 5 years
Financial debts						
bonds	347	--	--	348	--	--
due to banks	376	169	36	176	71	30
under leases	179	19	98	137	10	82
other	6	1	4	7	6	--
	908	**189**	**138**	**668**	**87**	**112**
Trade payables	**456**	**456**	**--**	**411**	**411**	**--**
All other liabilities						
prepayments received on orders	117	82	--	198	93	--
payables under l/t manufacturing contracts	336	104	111	323	79	102
sundry liabilities	322	316	--	287	268	--
	775	**502**	**111**	**808**	**440**	**102**
	2,139	**1,147**	**249**	**1,887**	**938**	**214**

The bond issue floated in 2001 matures on May 31, 2006.

The financial debts under leases comprise accounts due to the banks of, and owed by, consolidated special-purpose leasing firms at EUR 66 million (down from EUR 67 million). The liabilities due to banks do not include any financial notes payable (unchanged).

EUR 55 million of financial debts (up from EUR 47 million) is collateralized by land charges and similar encumbrances, as are another EUR 66 million (down from EUR 67 million) borrowed to finance the realty owned by consolidated special-purpose leasing firms whose consolidation is mandatory pursuant to IAS 27 in conjunction with SIC 12, and EUR 4 million for assets held under capital leases.

Breakdown of payables under long-term manufacturing and construction contracts:

EUR million	12/31/2001	12/31/2002
Prepayments received	345	366
less production cost incurred	(12)	(36)
less markups (plus losses)	3	(7)
	336	**323**

The sundry liabilities shown under *all other liabilities* break down as follows:

EUR million	12/31/2001	12/31/2002
Liabilities for social security	38	32
Due to board members and employees	10	7
Non-income taxes	61	45
Monies in transit from debt collection	46	59
Financial derivatives	8	5
Miscellaneous	159	139
	322	**287**

Notes (Group)

Trade payables include notes payable of EUR 7 million (virtually unchanged). The liabilities due to joint ventures and associated affiliates total an aggregate EUR 17 million (up from EUR 5 million). The book value of trade payables and of all other liabilities approximates their fair value.

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

Bonds							
EUR million				12/31/2001		12/31/2002	
Interest terms	Rate (%)	Currency	Maturing in	Book value	Fair value	Book value	Fair value
fixed	6.125	EUR	2006	347	347	348	350

Due to banks							
EUR million				12/31/2001		12/31/2002	
Interest terms	Weighted rate (%)	Currency	Maturing in	Book value	Fair value	Book value	Fair value
fixed	4,9	EUR	2002	97	97	--	--
fixed	5,4	var.	2003	--	--	12	12
fixed	4.9	EUR	2004	46	46	48	50
fixed	2.5	Sfr	2004	--	--	5	5
fixed	7.8	US$	2005	52	58	42	48
fixed	5.9	EUR	2005	13	14	4	4
fixed	5.6	EUR	2007	--	--	15	17
fixed	5.5	EUR	2009/2011	--	--	5	6
fixed	5.5	EUR	2020	26	20	26	25
				234	**235**	**157**	**167**
variable		EUR	2002/2003	131	131	19	19
variable		Sfr	2002/2004	6	6	--	--
variable		EUR	2009/2011	5	5	--	--
				142	**142**	**19**	**19**
				376	**377**	**176**	**186**

Under leases							
EUR million				12/31/2001		12/31/2002	
Interest terms	Weighted rate (%)	Currency	Due in	Book value	Fair value	Book value	Fair value
fixed	5.9	EUR	2002/2006	22	23	19	20
fixed	5.6	EUR	2008/2009	54	58	42	44
fixed	6.5	EUR	2010/2012	18	18	18	19
fixed	5.8	EUR	2015	7	6	7	7
fixed	6.2	Sfr	2015	11	11	11	12
fixed	7.1	EUR	2018/2020	37	39	11	13
fixed	6.1	EUR	2021/2022	30	27	29	30
				179	**182**	**137**	**145**

Other							
EUR million				12/31/2001		12/31/2002	
Interest terms	Weighted rate (%)	Currency	Due in	Book value	Fair value	Book value	Fair value
fixed	6.7	EUR	2003	6	6	5	5
variable		EUR	2003	--	--	2	2
				6	**6**	**7**	**7**

(16) **Income tax liabilities**

EUR million	12/31/2001	12/31/2002
Deferred taxes	28	20
Current income tax liabilities	25	39
	53	**59**

For details and breakdown of deferred tax liabilities, see Note (12).

(17) **Deferred income**

EUR million	12/31/2001	12/31/2002
Deferred gains from sale-leaseback transactions	29	6
Deferred public grants and subsidies	23	12
Other	8	13
	60	**31**

Notes (Group)
Notes to the consolidated income statement

(18) **Net sales**

EUR million	2001	2002
Net sales (excl. PoC)	4,498	4,378
Revenues according to PoC	105	193
	4,603	**4,571**

(19) **Net inventory changes, other work and material capitalized**

EUR million	2001	2002
Change in inventories of finished products and work in process	26	(99)
Other work and material capitalized	37	35
	63	**(64)**

(20) **Other operating income**

EUR million	2001	2002
Gains from fixed-asset disposal	39	347
Income from the release of badwill	9	2
Income from the release of accruals	54	61
Income from the reversal of bad-debt allowances	13	14
Income from compensation and refunds	11	7
Other secondary income	84	86
	210	**517**

EUR 246 million of the gains from fixed-asset disposal was earned from the divestment of Heimann Systems GmbH, another EUR 68 million from other shares sold.

In addition, the other operating income includes a EUR 23 million gain from the retirement of a leased office building; in this context, EUR 7 million has been provided for and recognized in other operating expenses.

(21) **Cost of materials**

EUR million	2001	2002
Cost of raw materials, supplies, and merchandise purchased	1,944	1,838
Cost of services purchased	286	239
	2,230	**2,077**

(22) **Personnel expenses**

EUR million	2001	2002
Wages and salaries	1,234	1,196
Social security taxes and related employee benefits	177*	153
Pension expense	100*	98
	1,511	**1,447**

*Prior-year data restated

Pension expense also reflects the employer contributions to DCPs (Social Security Insurance in Germany and comparable foreign institutions).

Annual average headcount

Employees	2001	2002
Automotive sector	12,040	11,685
Electronics sector	5,283	5,037
Defence sector	9,059	9,056
Jagenberg (financial investee)	2,405	1,391
Others/holding company	605	568
	29,392	**27,737**

(23) **Amortization/depreciation/ write-down**

For a breakdown by amortization and depreciation, see the fixed-asset analysis.

Write-down was charged to tangible and intangible assets at EUR 53 million (up from EUR 5 million).

(24) **Other operating expenses**

EUR million	2001	2002
Losses on fixed-asset disposal	3	13
Exit plans, termination benefits, preretirement part-time work	25	39
Selling expenses, commissions	104	129
Maintenance and repair (M&R)	102	88
Promotion and advertising	24	22
Other general administration	160	165
Rents (incl. incidentals)	52	54
Payroll incidentals	36	35
Facility cleaning, security/vigilance	13	13
Outsourced services	8	10
Legal, consultancy and audit fees	45	51
Write-down of receivables	12	11
Non-income taxes	12	11
Additional provisions	59	109
All other	13	47
	668	**797**

Notes (Group)

(25) **Net interest expense**

EUR million	2001	2002
Interest income		
expected return on plan assets	7	6
other interest and similar income	11	12
	18	**18**
Interest expense		
from capital leases	(8)	(6)
compounding of pension obligations	(47)	(45)
compounding of noncurrent other accruals	(2)	(2)
other interest and similar expenses	(72)	(67)
	(129)	**(120)**
	(111)	**(102)**

(26) **Net investment income and other financial results**

EUR million	2001	2002
Net investment income from joint ventures and associated affiliates	(1)	8
	(1)	**8**
Other financial results	2	(10)
	1	**(2)**

The other financial results comprise a net loss from currency translation of EUR 5 million (down from a net gain of EUR 2 million) and from financial derivatives of EUR 3 million (up from EUR 1 million).

For the first time, the other financial results include expenses for guaranty commissions at EUR 3 million (up from EUR 2 million) which the year before were shown within the net interest result (the prior-year data was restated accordingly).

Furthermore, income and expenses generated in connection with securities are, in particular, mirrored in the other financial results.

(27) **Income taxes**

EUR million	2001	2002
Current income tax expense	24	41
Deferred taxes	22	(25)
	46	**16**

The table below reconciles the expected to the recognized tax expense. The expected tax expense is determined by multiplying EBT by an unchanged tax rate of 40 percent. This rate covers German corporate income tax, the solidarity surtax thereon, and municipal trade tax. The expected tax is then matched against the effective expense.

EUR million	2001	2002
EBT	84	290
Expected income tax expense (tax rate of 40%)	**34**	**116**
Differences from foreign tax rates	(3)	(5)
Losses of subsidiaries not subjected to deferred taxation	18	11
Tax-exempt income and nondeductible expenses	(5)	(124)
Nondeductible goodwill amortization	8	13
Statement at equity	1	--
Other	(7)	5
Effective tax expense	**46**	**16**
Effective tax rate in %	**55**	**6**

(28) **Minority interests**

Minority interests in profit came to EUR 32 million (up from EUR 28 million) and in loss to EUR 4 million (down from EUR 11 million).

Notes (Group)

(29) **Earnings per share (EpS)**

EpS is obtained by dividing the weighted average number of shares issued and outstanding in the fiscal year into the Group's earnings. Neither as of December 31, 2002 nor 2001, were any shares outstanding that could dilute earnings per share. Therefore, both in the year under review and the previous year, undiluted EpS equals diluted EpS. EpS is determined separately for common and preferred stock with due regard to the latter class's preferential rights to dividends. EpS is, moreover, shown before and after goodwill amortization, "before goodwill amortization" meaning that EpS is disclosed prior to the deduction of EUR 41 million for goodwill amortization (up from EUR 26 million) and after eliminating the income from the release of badwill from capital consolidation of EUR 2 million (down from EUR 9 million).

EUR million	2001	2002
Group earnings (after minority interests)	21	246
Excess dividend (preferred over common = EUR 0.06 per share)	(1)	(1)
Group earnings after minority interests and elimination of excess dividend	20	245
Number of common shares	18 million	18 million
Number of preferred shares	18 million	18 million
Earnings per common share (after goodwill amortization)	EUR 0.56	EUR 6.81
Earnings per preferred share (after goodwill amortization)	EUR 0.62	EUR 6.87
Group earnings (after minority interests) adjusted for excess dividend, goodwill amortization and income from the release of badwill from capital consolidation (EUR million)	37	284
Earnings per common share (before goodwill amortization)	EUR 1.03	EUR 7.89
Earnings per preferred share (before goodwill amortization)	EUR 1.09	EUR 7.95

(30) **Adjusted EBIT**

EBIT after adjustment for nonrecurring expenses, losses, income and gains connected with equity interests, real estate and restructuring plans breaks down as follows:

EUR million	2001	2002
Accounting EBIT	195	392
Nonrecurring expenses, losses, income, gains related to		
shareholdings	--	(219)
real property	(28)	5
restructuring	25	35
Adjusted EBIT	**192**	**213**

Note to the cash flow statement

(31) **Cash flow statement**

The cash flow statement conforms with IAS 7 and breaks down into the cash flows generated by operating, investing and financing activities. The effects of changes in the consolidation group are eliminated, parity changes, if impacting on cash & cash equivalents, being shown in a separate line. The net cash provided by operating activities included a cash inflow from interest of EUR 10 million (virtually unchanged) and a cash outflow for interest of EUR 60 million (down from EUR 64 million). Income taxes paid came to EUR 46 million (down from EUR 86 million), those refunded totaling EUR 16 million (down from EUR 47 million). The dividends received from associated affiliates and investees amounted to EUR 8 million (up from EUR 1 million).

The cash outflow for acquisitions totaled EUR 174 million (up from EUR 100 million) and substantially concerned the purchase of further shares in Rheinmetall Elektronik AG (the company holding our stake in Aditron AG) and in Oerlikon Contraves AG. The disposal of consolidated subsidiaries produced a cash inflow of EUR 425 million (up from EUR 50 million), which includes, in particular, the purchase prices for Heimann Systems GmbH and Rheinmetall Informationssysteme GmbH. The acquisitions and disposals were settled entirely in cash. For purchase price details, see the explanations in Note (2) to the consolidation group.

No cash & cash equivalents were taken over in the M&A transactions (down from EUR 1 million) while EUR 28 million (up from EUR 2 million) in cash & cash equivalents was disposed of in divestments.

The decrease in financial debts from EUR 908 million as of December 31, 2001, to EUR 668 million as of year-end 2002 refers at EUR 38 million to noncash transactions (up from nil).

Cash & cash equivalents are identical in the cash flow statement and balance sheet.

Notes (Group) Note to the segment reports

(32) **Segment reports**

In accordance with the Rheinmetall Group's internal controlling organization, the Group breaks down into three corporate sectors (primary segments), viz.

- Automotive (parented by Kolbenschmidt Pierburg AG),
- Electronics (parented by Aditron AG), and
- Defence (parented by Rheinmetall DeTec AG),

as primary segments.

The *Others/consolidation* column includes, apart from the Group's parent (Rheinmetall AG), Jagenberg as financial investee up for sale—see Note (33)—as well as intragroup service and other nonsegment companies, plus consolidation transactions.

Responsibilities are clearly separated between the segments and Rheinmetall AG, which performs the functions of a strategic management holding company. Both corporate governance and internal reporting have been structured accordingly. The companies belonging in each segment/sector and to the financial investee Jagenberg result from the list of major Group companies below. In line with the Rheinmetall Group's shareholder value concept, segment assets and liabilities include the essential assets (excluding cash & cash equivalents and income tax assets) and liabilities (excluding financial debts and income tax liabilities). Net financial debts reflect financial debts less cash & cash equivalents. The disclosure principles applied to the reporting of segment assets/liabilities were changed versus the year before, prior-year data having been restated accordingly.

Capital employed (CE), which is used to generate EBIT, is determined as the aggregate sum of total equity, pension accruals and net financial debts and thus mirrors the net capital employed to generate EBIT. The return on capital employed (ROCE) equals EBIT divided into average capital employed (average of the balances at December 31, 2001 and 2002).

The intersegment transfers principally indicate sales among divisions and are priced as if at arm's length.

EBITDA means earnings before interest, taxes, depreciation and amortization. Income from the release of badwill from capital consolidation is hence included in EBITDA. The EBIT margin equals EBIT (earnings before interest and taxes) divided into total segment sales.

Capital expenditures refer to tangible and intangible assets (excluding goodwill). Amortization/depreciation includes goodwill amortization.

The segment EBIT shown for *Others/consolidation* includes a negative EUR 73 million that reflects the disposal of the goodwill of Heimann Systems GmbH, which was sold in 2002. If the aforesaid expenses were allocated to the Electronics segment, the capital gain of EUR 319 million would shrink to EUR 246 million while the EBIT of the Others/consolidation segment would rise accordingly. Moreover, the Others/consolidation column includes a negative EUR 15 million from a consolidation transaction that eliminates a gain recognized within Automotive and earned from the sale and transfer of a stake to Electronics.

Supplementary disclosures

(33) **Discontinued operations**

The financial investee Jagenberg, the Eurometaal companies held by Defence (Heidel and Intergas), Heimann Systems GmbH plus subsidiaries (part of Electronics) and Rheinmetall Informationssysteme GmbH (RIS) do no longer belong in the Rheinmetall Group's core business.

At its September 22, 2000 meeting, Rheinmetall AG's Executive Board formally resolved to sell the financial shareholding in Jagenberg. An analogous resolution to the same effect was adopted by Rheinmetall DeTec AG's Executive Board at its meeting on November 5, 2001, with respect to the Eurometaal subsidiaries, Heidel and Intergas.

At the June 2002 meeting of Aditron AG's Executive Board, the resolution to sell the Heimann Systems division was passed. The April 2002 meeting of Rheinmetall AG's Executive Board resolved to dispose of RIS. The divestments of Intergas, Heimann and RIS took effect as of October 3, November 30 and December 31, 2002, respectively. In addition, certain Jagenberg Group companies were sold. The financial investee Jagenberg is included in the *Others/ consolidation* segment. The consolidated balance sheet, income statement and statement of cash flows include the discontinued operations at the following amounts:

EUR million	Jagenberg		Heidel/ Intergas		Heimann		RIS		Total	
Balance sheet data at Dec. 31	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Fixed assets	86	45	10	6	11	--	19	--	126	51
Current assets (excl. cash & cash equivalents)	153	104	45	39	85	--	12	--	295	143
Cash & cash equivalents	13	7	8	1	11	--	1	--	33	8
Income tax assets, prepaid expenses & deferred charges	2	1	--	1	1	--	--	--	3	2
Pension accruals	41	40	--	--	7	--	5	--	53	40
Other accruals	30	53	4	2	23	--	5	--	62	55
Financial debts	81	17	19	19	--	--	1	--	101	36
Trade payables and all other liabilities	49	25	16	11	45	--	8	--	118	36
Income tax liabilities and deferred income	35	8	--	1	3	--	1	--	39	9

Notes (Group)
Supplementary disclosures

Summary of major income and cash flow statement data of discontinued operations:

	Jagenberg		Heidel/ Intergas		Heimann		RIS		Total	
EUR million	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002
Net sales	404	212	103	92	167	239	5	22	679	565
Operating result	(11)	(16)	8	6	20	35	4	6	21	31
EBT	(21)	(21)	7	5	21	35	3	5	10	24
Income taxes	3	2	(2)	(2)	(6)	(5)	(1)	(1)	(6)	(6)
Net income/(loss)	**(18)**	**(19)**	**5**	**3**	**15**	**30**	**2**	**4**	**4**	**18**
Net gain/(loss) from disposal	(2)	(2)	--	20	--	246	--	39	(2)	303
Net cash (used in)/provided by operating activities*	(16)	(6)	4	3	9	24	17	--	14	21
Net cash (used in)/provided by investing activities*	25	30	(4)	(2)	12	(5)	(12)	--	21	23
Net cash (used in)/provided by financing activities*	(14)	(30)	(2)	(1)	(15)	(12)	(5)	--	(36)	(43)
Change in cash & cash equivalents	**(5)**	**(6)**	**(2)**	**--**	**6**	**7**	**--**	**--**	**(1)**	**1**

*Intergas and RIS data for 2002 was not available.

(34) **Contingent liabilities and assets**

EUR million	2001	2002
Contingent liabilities		
from notes endorsed and discounted	17	2
under bonds and guaranties (incl. for drafts, notes and checks)	71	81
under warranty and indemnity agreements	206	152
	294	**235**

Contingent liabilities under bonds and guaranties include EUR 23 million to a nonconsolidated Group company (down from EUR 93 million) and EUR 54 million (down from EUR 89 million) to joint ventures.

Moreover, a performance bond exists at EUR 99 million (up from EUR 98 million) to a nonconsolidated investee; however, in the relationship of the investee's shareholders inter se, Rheinmetall's liability is limited to 9.33 percent.

From a number of lawsuits instituted by Rheinmetall, certain contingent assets exist whose amount can currently not be estimated.

(35) **Other financial obligations**

As of December 31, 2002, the commitments to purchase tangible and intangible assets for capital expenditure projects totaled EUR 33 million (down from EUR 59 million). In addition, obligations under other agreements and contracts exist at EUR 24 million (down from EUR 40 million).

In the year under review, rents of EUR 51 million (down from EUR 52 million) were expensed as paid under operating leases for computer hardware/software and other assets.

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

EUR million	Minimum rents 2003	2004–2007	after 2007	Total
Buildings	18	42	64	**124**
Other leases	30	66	23	**119**
	48	108	87	**243**

Notes (Group)

(36) **Stock appreciation rights (SARs)**

Since 1999, the Rheinmetall Group has granted qualifying managerial staff SARs for them to participate in any stock appreciation. SAR programs are basically phantom stock option plans under which participants receive a cash compensation upon exercise that equals the difference between the stock price at exercise date and the base (reference) price. The base price has been fixed at the arithmetic mean of the closing prices of Rheinmetall preferred and common stock as quoted on the 10 market days preceding plan commencement.

In addition, the Automotive sector launched a similar program that uses the price trend of Kolbenschmidt Pierburg stock as benchmark.

The SAR programs have an overall term of 7 years each: after a 3-year qualifying period, SARs may be exercised during defined time (or opportunity) windows during the residual 4-year term. If not exercised during such period or when eligible staff leave Rheinmetall for any reason other than retirement or death, the SARs become forfeited and lapse. SARs cannot be exercised unless and until the base price has been exceeded by 25 percent or more on the day of exercise.

Key parameters of the SAR programs launched to date:

SAR program	Exercisable after	Base price EUR	Number issued* 12/31/2001	thereof forfeited after 2002	thereof forfeited in 2002	thereof paid in settlement	SARs as of 12/31/2002
Rheinmetall stock							
1998	end-2001	18.09	310,000	(50,000)	--	--	260,000
1999	end-2002	12.95	882,000	(137,500)	(10,500)	(48,000)	686,000
2000	end-2003	9.24	902,500	(96,000)	(12,500)	(49,000)	745,000
2001	end-2004	16.50	869,000	--	(13,000)	(49,000)	807,000

SAR program	Exercisable after	Base price EUR	Number issued* 12/31/2001	thereof forfeited after 2002	thereof forfeited in 2002	thereof paid in settlement	SARs as of 12/31/2002
KSP stock							
1999	end-2002	15.07	247,000	(45,000)	(10,000)	--	192,000
2000	end-2003	13.20	245,000	(40,000)	(10,000)	--	195,000
2001	end-2004	11.88	222,500	--	(10,000)	--	212,500

*adjusted

In the year under review, the method previously applied to measure the obligations from and under the SAR programs was adjusted and the resultant effect recognized in personnel expenses. According to the current opinion of the IASB, obligations under SARs are fair-valued pro rata temporis by using an option price model and distributed over the qualifying period. An accrual of EUR 4 million provides for the obligations incurred up to December 31, 2002. In fiscal 2001, obligations under SARs had been stated at their intrinsic value, i.e., an unchanged EUR 8 million as of December 31, 2002.

(37) **Hedging policy and financial derivatives**

The operations and financing transactions of Rheinmetall as an international group are exposed to financial risks, mainly from liquidity, counterparty failure, exchange rate volatility and interest rate changes. In accordance with the groupwide implemented risk management system of Rheinmetall AG, such risks are not only identified, analyzed and measured but also managed through derivative financial instruments. No such derivatives may be acquired for speculation. All transactions involving financial derivatives are subject to stringent monitoring, which is particularly ensured through the strict segregation of the contracting, settlement and control functions.

Liquidity risk

Sufficient liquidity at all times is ensured by the Rheinmetall Group especially by a cash budget and forecast over a specified period, as well as through existing, unutilized credit facilities.

Counterparty risk

The Rheinmetall Group supplies primarily customers of prime standing, which downscales the risk of counterparty failure or default to an extremely low level. According to current facts, the collection risk is covered by bad-debt and equivalent allowances. Over and above this scope, the Rheinmetall Group has not extended any major credits to specific parties. The default risk from financial derivatives is the potential failure of a counterparty and is therefore capped by the positive fair value due from any such counterparty. Counterparties of Rheinmetall Group companies for contracting financial derivatives are exclusively German and foreign banks of prime standing. By setting these high standards on counterparties, the risk of uncollectible debts is minimized.

Currency risk

Due to the international nature of the Rheinmetall Group's business, certain operational currency risks arise from the fluctuating parity of the transaction currency to other currencies. Open positions exposed to a currency risk are principally hedged through financial derivatives, generally currency forwards or futures but also currency options and swaps. These hedges are contracted at corporate sector level.

Interest rate risk

For the Rheinmetall Group's financing activities, such funding tools as floating-rate facilities are used, too. Interest rate hedges like caps/floors/collars and interest rate swaps contain the risks emanating from market rate changes. These hedges are contracted centrally by Rheinmetall AG, as well as locally at subsidiary or subgroup level.

Notes (Group)

As of December 31, 2002, the currency and interest rate hedges tabled below have existed, their notional volumes being shown non-netted and thus reflecting the total amounts of all individual contracts. Being marked to the market at December 31, the fair values of financial derivatives correspond to prices in arm's length transactions.

Currency hedges	Notional volume		Maturing after 1 year		Fair market values	
EUR million	12/31/2001	12/31/2002	12/31/2001	12/31/2002	12/31/2001	12/31/2002
Currency forwards/futures	297	287	85	51	(4)	6
Other	3	4	--	--	--	--

Interest rate hedges	Notional volume		Maturing after 1 year		Fair market values	
EUR million	12/31/2001	12/31/2002	12/31/2001	12/31/2002	12/31/2001	12/31/2002
Options	192	125	100	95	--	--
Swaps	36	32	28	31	(2)	(3)
Other	25	--	25	--	--	--

Other hedges	Notional volume		Maturing after 1 year		Fair market values	
EUR million	12/31/2001	12/31/2002	12/31/2001	12/31/2002	12/31/2001	12/31/2002
Other	--	10	--	5	--	1

Although the derivative transactions contracted within the Rheinmetall Group as part of the corporate risk management policy represent hedges at the economic level, they fail virtually throughout to satisfy the IAS hedge recognition criteria. Consequently, the volume of cash flow hedges is immaterial.

(38) **Other transactions with related companies**

The subsidiaries consolidated by Rheinmetall AG directly or indirectly maintain ordinary business relations with a few nonconsolidated Group companies, as well as associated affiliates and joint ventures. Any and all trade transactions conducted in the scope of ordinary day-to-day business with unconsolidated related companies conform with the arm's length principle.

In fiscal 2001, the Rheinmetall DeTec Group had assigned and transferred beneficial ownership of a 39.5-percent stake in Oerlikon Contraves AG to the Group's great grandparent, viz. Röchling Industrie Verwaltung GmbH, Mannheim. No agreement to repurchase this stake exists. On September 23, 2002, Rheinmetall DeTec AG acquired a 20-percent stake at a price of EUR 45 million, on January 2, 2003, the remaining 19.5-percent stake at a price of EUR 43 million. The remaining minority interests in Oerlikon Contraves were acquired on the basis of a revaluation of the Air Defence Systems division.

Volume of services provided to/by related companies:

Company	Volume of services rendered		Volume of services utilized	
EUR million	2001	2002	2001	2002
EMG EuroMarine Electronics GmbH*	12	9	4	14
GIWS Gesellschaft für intelligente Wirksysteme GmbH*	52	32	--	--
Microlog Logistische Dienstleistungen*	--	1	5	10

*Company carried at equity

Notes (Group)

(39) **Supervisory and Executive Boards**

Supervisory Board

Supervisory Board fees amounted to an unchanged EUR 0.9 million in fiscal 2002. Neither was any further compensation paid, nor were any benefits granted, to Supervisory Board members for personally rendered advisory or agency services in the year under review.

Executive Board

For their duties performed on behalf of the parent and its subsidiaries, Executive Board members received a total EUR 3.9 million in the year under review (up from EUR 3.6 million), breaking down into EUR 1.5 million of fixed remuneration (down from EUR 1.8 million) and EUR 2.3 million of profit shares (up from EUR 1.6 million), plus compensation in kind at EUR 0.1 million (down from EUR 0.2 million). The latter was substantially paid in the form of company car use and grants for social security insurance. In addition, the Executive Board members received phantom stock under the SAR programs, viz. 50,000 each for 1998 and 1999, 80,000 for 2000, and 100,000 for 2001. For further details of the SAR programs, see Note (36) above.

A total EUR 1.7 million was paid to former Executive Board members and their surviving dependants (down from EUR 2 million). Pension obligations to former Management or Executive Board members and their surviving dependants exist at a total EUR 17.8 million (up from EUR 17.2 million).

Shareholdings

As of December 31, 2002, none of Rheinmetall AG's Supervisory or Executive Board members held any shares in the Company.

(40) **Corporate Governance Code**

Since December 2002, Rheinmetall AG has published on the Internet at www.rheinmetall.de, and thus made available to its stockholders, the declaration of conformity to the German Corporate Governance Code pursuant to Art. 161 AktG.

Regarding the listed subsidiaries included in the consolidated financial statements of Rheinmetall AG, viz. Aditron AG, Kolbenschmidt Pierburg AG and Jagenberg AG, the declarations of conformity under the terms of Art. 161 AktG have been published since early 2003 on the Internet at www.aditron.de, www.kolbenschmidt.de and www.jagenberg.de, respectively.

Düsseldorf, April 3, 2003

Rheinmetall AG
The Executive Board

Eberhardt	Dr. Kleinert
Dr. Krämer	Dr. Müller

Auditor’s report and opinion

Independent group auditor’s report and opinion

We have audited the consolidated financial statements prepared by Rheinmetall AG and consisting of balance sheet, income statement, statement of changes in equity, cash flow statement and the notes thereto, for the fiscal year ended December 31, 2002. The consolidated financial statements in accordance with the International Accounting Standards (IAS) are the responsibility and assertions of the Company’s Executive Board. Our responsibility is, based on our audit, to express an opinion on whether the consolidated financial statements conform with IAS.

We have conducted our audit of the consolidated financial statements in accordance with German auditing regulations and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Auditors & Accountants in Germany. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of any material misstatement. An audit includes examining, on a test basis, the evidence supporting the amounts and disclosures in the consolidated financial statements. The audit also involves assessing the accounting principles used, and significant estimates made, by the Executive Board, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, it is our opinion that the consolidated financial statements, in accordance with the IAS, present a true and fair view of the Group’s net assets, financial position and results of operations as well as of its cash flows in the fiscal year under review.

Our audit, which in accordance with German auditing regulations also covered the group management report as prepared by the Executive Board for the fiscal year ended December 31, 2002, has not resulted in any objections or exceptions.

It is our opinion that the group management report presents fairly both the Group’s overall position and the risks inherent in its future development. In addition, we confirm that the consolidated financial statements and group management report for the fiscal year ended December 31, 2002, satisfy the requirements for exempting the Company from preparing consolidated financial statements and a group management report in accordance with German law.

Düsseldorf, April 4, 2003

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

Pape
Wirtschaftsprüfer

Bovensiepen
Wirtschaftsprüfer

Major Group companies

Fully consolidated companies	Interest held %	Equity as of Dec. 31, 2002* EUR million	Net sales 2002* EUR million
Rheinmetall AG, Düsseldorf	--	355.8	0.0
Kolbenschmidt Pierburg AG, Düsseldorf	80.4	282.0	0.0
KS KOLBENSCHMIDT GmbH, Neckarsulm	80.4	172.3	244.7
Société Mosellane de Pistons S.A., Basse-Ham (Thionville), France	80.4	20.4	51.1
Karl Schmidt Unisia Inc., Marinette, USA	74.0	(1.0)	224.0
KS Pistões Ltda., Nova Odessa, Brazil	80.4	35.5	86.9
KS Gleitlager GmbH, St. Leon-Rot	80.4	13.3	129.9
MSI Motor Service International GmbH, Neckarsulm	80.4	16.2	109.9
KS Aluminium-Technologie AG, Neckarsulm	80.4	20.7	152.0
Pierburg GmbH, Neuss	80.4	111.2	510.6
Carbureibar S.A., Abadiano, Spain	80.4	32.6	130.8
Pierburg S.à.r.l., Basse-Ham (Thionville), France	80.4	25.6	121.0
Pierburg S.p.a., Lanciano, Italy	80.4	9.2	111.4
Rheinmetall DeTec AG, Ratingen	100.0	228.0	44.6
STN ATLAS Elektronik GmbH, Bremen	51.0	113.2	561.7
Rheinmetall Landsysteme GmbH, Kiel	100.0	9.3	236.2
Nitrochemie Aschau GmbH, Aschau	55.0	25.0	62.6
Mauser-Werke Oberndorf Waffensysteme GmbH, Oberndorf	100.0	13.2	50.2
Rheinmetall W&M GmbH, Unterlüss	100.0	50.1	235.4
Oerlikon Contraves AG, Zurich, Switzerland	80.5	93.4	228.7
Oerlikon Contraves Pyrotech AG, Zurich, Switzerland	80.5	23.2	52.9
Aditron AG, Düsseldorf	97.4	414.7	0.0
Hirschmann Electronics GmbH & Co. KG, Neckartenzlingen	97.4	29.5	206.7
Hirschmann Austria GmbH, Rankweil, Austria	97.4	41.4	90.2
Preh-Werke GmbH & Co. KG, Bad Neustadt/Saale	73.0	27.6	184.8
Jagenberg AG, Neuss**	87.7	22.2	6.0
Kampf GmbH & Co. Maschinenfabrik, Wiehl-Mühlen	87.7	--	85.2
LEMO Maschinenbau GmbH, Niederkassel-Mondorf	87.7	--	37.7

*according to IAS
**voting interest 99%

Companies stated at equity	Interest held %	Equity as of Dec. 31, 2002* EUR million
Joint ventures		
EMG EuroMarine Electronics GmbH, Hamburg	50.0	25.9
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., Shanghai, China	40.2	19.4
Associated affiliates		
Pierburg Instruments GmbH, Neuss	39.4	17.9
Kolbenschmidt Shanghai Piston Co. Ltd., Shanghai, China	28.1	22.9
Nico Pyrotechnik Hanns-Jürgen Diederichs GmbH & Co. KG, Trittau	100.0	(1.4)

*according to IAS

Supervisory Board of Rheinmetall AG

Supervisory Board

Klaus Greinert
Mannheim
(as from 1/22/2002)

Chairman
(as from 2/4/2002)

Chairman of the Röchling Family Council

DURAVIT AG (chairman)
DeTeWe – Deutsche Telephonwerke AG & Co. KG
DURAVIT S.A.

Werner Engelhardt
Karlsruhe
(up to 1/14/2002)

Chairman

Management Board Chairman of Röchling Industrie Verwaltung GmbH (up to 1/31/2002)

Kolbenschmidt Pierburg AG (up to 1/14/2002)
Pierburg AG (up to 1/14/2002)
Rheinmetall DeTec AG (up to 1/14/2002)
Aditron AG (chairman up to 1/14/2002)
Rheinmetall Elektronik AG
(chairman as from 5/31/2001, up to 1/14/2002)
Jagenberg AG (up to 1/14/2002)
STN ATLAS Elektronik GmbH (up to 1/14/2002)

Joachim Stöber *)
Biebergemünd

Vice-Chairman

Secretary to the Metalworkers Union's General Secretariat

GEA AG (vice-chairman)
Blaupunkt GmbH

Dr. Bernd Michael Hönle
Weisenheim

Additional Vice-Chairman
(up to 6/10/2002)

(as from 6/11/2002)
Management Board member of Röchling Industrie Verwaltung GmbH

BEA Holding AG
DeTeWe – Deutsche Telephonwerke Beteiligungs AG
Francotyp-Postalia Beteiligungs AG
PFEIFFER & MAY Grosshandel AG
Seeber Beteiligungs AG
Aditron AG
Kolbenschmidt Pierburg AG
Rheinmetall DeTec AG
STN ATLAS Elektronik GmbH (up to 2/18/2002)
Pierburg AG (up to 4/8/2002)
Jagenberg AG (up to 5/23/2002)

Felix Bader
Hassmersheim
(from 1/14/2002 to 10/31/2002)

Metalworkers Union secretary

Group Works Council Chairman of Rheinmetall AG (up to 10/31/2002)

KS Aluminium-Technologie AG

Hans-Dieter Behrens *)
Hermannsburg
(up to 6/10/2002)

Works Council member / auditor

Dr. Eckhard Cordes
Stuttgart

Executive Board member of DaimlerChrysler AG

Detroit Diesel Corporation (chairman)
MTU Motoren- und Turbinen-Union Friedrichshafen GmbH (chairman)
TAG McLaren Holdings Ltd.
European Aeronautic Defence and Space Company EADS N.V.
EvoBus GmbH (chairman)
Deutsche Messe AG
Deutsche BP AG

Dr. Ludwig Dammer *)
Düsseldorf

Head of Strategic Production Planning

Kolbenschmidt Pierburg AG

Egon Friedel *)
Bad Neustadt/Saale

Works Council Chairman
of Preh-Werke GmbH & Co. KG

Dr. Andreas Georgi
Glashütten
(as from 6/10/2002)

Executive board member of Dresdner Bank AG

Advance Holding AG
Allianz Dresdner Bauspar AG (chairman)
Asea Brown Boveri AG
DEGI Deutsche Gesellschaft für Immobilienfonds mbH (up to 12/31/2002)
Degussa AG
Deutsche Schiffsbank AG (chairman)
Deutscher Investment-Trust Gesellschaft für Wertpapieranlagen mbH
Eurohypo AG
Oldenburgische Landesbank AG (chairman)
RWE Dea AG
Stinnes AG
Allianz Dresdner Asset Management Deutschland GmbH
Dresdner Bank Luxembourg S.A. (vice president)
Dresdner Bank (Schweiz) AG (president)
Reuschel & Co. (vice-chairman)
Felix Schoeller Holding GmbH & Co. KG

Dr. Horst Girke
Germering

Dipl.-Ing.

DeTeWe – Deutsche Telephonwerke AG & Co. KG

*) employee representative

Dr. Joachim v. Harbou
Frankfurt/Main
(up to 6/10/2002)

Supervisory board chairman of Eurohypo AG

DEGI Deutsche Gesellschaft für
Immobilienfonds mbH (vice-chairman)
Hamburger Hafen- und Lagerhaus AG
Karstadt Warenhaus AG
Nestlé Deutschland AG
Rütgers AG
RWE Plus AG
ThyssenKrupp Materials AG

Dr. Martin Hirsch
Frankfurt/Main
(up to 1/14/2002)

Lawyer

Aditron AG (up to 1/14/2002)
BARTEC Barlian Holding AG (chairman)
Bestfoods Beteiligungs GmbH
Kolbenschmidt Pierburg AG
CD Cartondruck AG

Prof. Dr. Gösta B. Ihde
Mannheim
(up to 6/10/2002)

Full professor of business administration,
University of Mannheim

Rheinmetall DeTec AG
Duravit AG

Reinhard Kiel *)
Frankfurt/Main

Secretary to the German Metalworkers Union's
General Secretariat

Rheinmetall DeTec AG (vice-chairman)

Heinrich Kmett
Fahrenbach/Robern
(as from 11/14/2002)

Works Council Chairman
of KS Kolbenschmidt GmbH

Kolbenschmidt Pierburg AG

Georg Krupp
Frankfurt/Main
(up to 6/10/2002)

Former executive board member
of Deutsche Bank AG

BHS tabletop AG (vice-chairman)
Bizerba GmbH & Co. KG
IVECO Magirus AG
IVECO N.V.
Kunz Holding GmbH & Co. KG (vice-chairman)
Würth Familienstiftungen
WMF AG (chairman)
Klaus Birkel GmbH & Co. (chairman)

Dr. Rudolf Luz *)
Weinsberg
(up to 6/10/2002)

1st Delegate of the German Metalworkers Union

Aesculap AG & Co. KG (up to 7/24/2002)
Wirtschaftsfördergesellschaft
Raum Heilbronn GmbH
Kolbenschmidt Pierburg AG

Erik Merks *)
Hamburg

Works Council Chairman of STN
ATLAS Marine Electronics GmbH

SAM Electronics GmbH

Johannes Freiherr von Salmuth
Berlin
(as from 1/22/2002)

Management consultant

Röchling Family Council
Advisory Board of Gebr. Röchling KG
Supervisory Board of Wutöschingen AG & Co.

Wolfgang Tretbar *)
Nettetal

Works Council Chairman
of Pierburg AG, Nettetal plant

Dr. Sabine Thürmel
Grünwald

Computer scientist

Röchling Industrie Verwaltung GmbH
Gebr. Röchling KG
DeTeWe – Deutsche Telephonwerke
Beteiligungs AG

Gisela Walter *)
Ahnatal

Works Council Chairwoman
of Rheinmetall Landsysteme GmbH
(Kassel operation)

Prof. Dr. Dirk Zumkeller
Munich

Full professor of transport & transit systems,
Technical University of Karlsruhe

Shareholders' Committee of Röchling Industrie
Verwaltung GmbH (vice-chairman)
Advisory Board of Gebr. Röchling KG
Kolbenschmidt Pierburg AG

Executive Board of Rheinmetall AG

Executive Board

Klaus Eberhardt
Düsseldorf

Chairman
Director of Industrial Relations

Membership in supervisory boards:

Rheinmetall DeTec AG (chairman)
STN ATLAS Elektronik GmbH
(chairman, up to 4/10/2002)
Kolbenschmidt Pierburg AG (chairman)
Jagenberg AG (chairman)
Aditron AG
Rheinmetall Elektronik AG
(chairman, up to 8/12/2002)
Pierburg AG (chairman, up to 4/8/2002)
Shareholder Committee of Preh (chairman)
Shareholder Committee EMG EuroMarine
Electronics GmbH (chairman)

Dr. Gerd Kleinert
Gottmadingen

Automotive

Membership in supervisory boards:

KS Kolbenschmidt GmbH
KS Gleitlager GmbH (chairman)
Pierburg GmbH (chairman)
STN ATLAS Marine Electronics GmbH (chairman)
Karl Schmidt Unisia Inc. (chairman)
Pierburg S.p.A.
Carbureibar S.A.
EuroMarine Electronics GmbH
(shareholder committee)

Dr. Ernst-Otto Krämer
Meerbusch

Defence

Membership in supervisory boards:

Oerlikon Contraves (president)
Rheinmetall W&M GmbH (chairman)
Rheinmetall Landsysteme GmbH (chairman)
Nitrochemie Wimmis AG (chairman)
STN ATLAS Elektronik GmbH (chairman)
GIWS Gesellschaft für intelligente
Wirksysteme GmbH (chairman)
Michelin Reifenwerke

Dr. Herbert Müller
Essen

Finance & Controlling

Membership in supervisory boards:

Aditron AG
Pierburg AG (up to 4/8/2002)
Kolbenschmidt Pierburg AG (as from 3/28/2002)
Rheinmetall DeTec AG
Rheinmetall Elektronik AG (up to 8/12/2002)
Jagenberg AG (up to 5/23/2002)

Senior Executive Officers

Dr. Andreas Beyer
Law, Patents, Internal Auditing

Executive board chairman of Jagenberg AG

Heinz Dresia
Controlling and Corporate Development

Dr. Klaus Germann
Corporate Communications
(up to 12/31/2002)

Ingo Hecke
Human Resources and Senior Management

Financial glossary

Asset-backed securities (ABS)
Self-explanatory. Attractive source of cash for companies which sell, for instance, their trade receivables under asset-backed transactions.

Actuarial gains and losses
The actuarial computation of pension accruals is largely based on forecasted parameters (such as pay and pension trends). If these assumptions are changed on the basis of actual developments, actuarial gains or losses result.

Capital employed (CE)
CE provided by stockholders, creditors, employees, etc. and comprising net financial debts, pension accruals and equity. The meaningful interpretation of this indicator requires ➝EBIT to calculate ➝ROCE: EBIT should ensure a sufficient return on CE to satisfy the stakeholders concerned. Depending on the employment of the capital (on the assets side), CE is determined as the net of ➝(segment) assets (net after income taxes) less ➝(segment) liabilities plus pension accruals.

Cash flow (gross, but after taxes)
Net income/net loss plus amortization/depreciation and changes in pension accruals. This indicator shows a company's ability to internally fund its expenditures and processes and to distribute cash dividends.

Commercial paper (CP)
Nonlisted negotiable/tradable corporate bearer bond, typically maturing after 7 to 90 days, floated on the money market.

Corporate Governance Code
A code that a company commits itself to comply with, regulating internal and external practices and procedures and enhancing the company's transparency in the interests of stakeholders.

EBIT
Earnings before interest and taxes; used to assess a company's performance irrespective of its financing structure. Key indicator for the Rheinmetall Group's management to control group performance.

EBIT margin
Percentage obtained by dividing EBIT into net sales x100 and used to compare the profitability of companies of different size. EBIT margins typically vary by type of business.

EBITDA
Earnings before interest, taxes, depreciation and amortization; being a pretax performance indicator that disregards the corporate financing structure and all noncash expenses, EBITDA reflects the gross cash inflow generated by a company.

EBT
Earnings before taxes: the pretax profit/loss after financing expenses is better suited to inform stockholders about the year's performance than net income/loss since tax payments may distort the picture due to past events or special factors.

EpS before/after goodwill amortization
Earnings (net income after ➝goodwill amortization) related to the number of shares issued and outstanding; not identical with the dividend and primarily used to assess a company's results of operations. To compare several companies, the investor calculates the price-earnings ratio (PER) by relating EpS to the stock price. Since goodwill amortization neither reduces cash nor decreases value and, moreover, is not obligatory in all accounting systems, EpS before goodwill amortization is computed alternatively.

Financial derivatives
Financial instruments (e.g., options, futures) derived from original instruments (such as equities, bonds, foreign currency) and used, inter alia, to hedge against currency and interest rate risks. The prices of derivatives hinge directly or indirectly on the value of the underlying transaction.

Financial glossary

Free float	Self-explanatory, the freely exchange-tradable shares available to the general public as opposed to stakes owned long term by major investors.
Goodwill	In company acquisitions, net equity under cost (or prorated net assets over cost); requires capitalization as an intangible.
International Accounting Standard (IAS)	These standards—developed by international associations of accountants and auditors, preparers of financial statements and scientists—represent an internationally harmonized accounting and reporting system extending beyond the European Union and meant to provide high-quality, meaningful financial information, thus improving international comparability. The IAS provide a standard basis for both companies and investors and presently include 35 standards.
MDAX®	This German mid-cap index covers 50 (70 prior to 3/24/2003) companies of the prime standard from classical sectors. These equities rank directly after the 30 DAX® companies in terms of order book sales and market capitalization, besides dividend payments (performance index).
Net financial debts	All interest-bearing liabilities (such as bonds, →commercial paper, accounts due to banks) less cash & cash equivalents. This figure provides information about a company's net indebtedness.
Percentage of completion	According to IAS 11, method of accounting for long-term construction or service contracts with customers. Net sales, contract costs and contract profits/losses are recognized at their percentage of completion (PoC), although the contract may not have been fully completed and billed to the customer.
Projected unit credit (PUC) method	The PUC method (under IAS 19) is used to provide for pensions and similar obligations. Based on the present value of the DBO, not only the pensions and vested rights (entitlements) as of the balance sheet date are taken into account but also future pay and pension rises.
ROCE (return on capital employed)	Rheinmetall determines this performance ratio by dividing →EBIT into the annual average →capital employed. The stakeholders concerned can thus rate the profitability of the capital employed within the company. To add value, ROCE should exceed the percentage cost of capital. If defined identically, ROCE permits a comparison of the profitability of different companies. The ratio is used by management within the Rheinmetall Group for controlling purposes in line with the shareholder value concept.
Segment assets	All assets less cash & cash equivalents and less other assets that bear interest in any form (but not involved in EBIT generation), and income tax assets. This total is part of →capital employed for segment reporting.
Segment liabilities	All liabilities less financial debts (which require EBIT service) and income tax liabilities. This total is part of →capital employed for segment reporting.
Shareholder value principle	Management concept that subjects all decisions and actions within a company to whether shareholder value is thus added or not. Wherever →ROCE exceeds WACC (weighted average cost of capital), shareholder value is added.
Standing Interpretations Committee (SIC)	The SIC interprets potentially contentious accounting issues. The Interpretations are approved by the International Accounting Standards Board (IASB) and, from the effective date, are binding on all IAS users.

Financial glossary

Syndicated loan

Credit facility provided to a company not only by one but several banks (banking syndicate).

Working capital

Net inventories plus trade receivables (including PoC), less prepayments received and trade payables (including PoC). This short definition of (net) working capital within the Rheinmetall Group includes only parameters relevant to corporate governance and control and provides information about the financial resources tied up in WC, which is a material, quickly controllable component of →capital employed. Reducing WC releases financial resources, raises →ROCE and also shareholder value. Since the working capital level develops proportionately to the business trends, this indicator is ideally related to, for instance, net sales. However, if so, determination of the average working capital over two closing dates is preferable.

Agenda

Our Company's stockholders are invited to the annual stockholders' meeting to be held on Tuesday, May 27, 2003, at 11 a.m., in the MARITIM proArte Hotel Berlin, Friedrichstrasse 150-153, 10117 Berlin, Germany.

1. Presentation of Rheinmetall AG's adopted separate and consolidated financial statements, the management report on the Company and the Group, as well as the Supervisory Board report, all for fiscal 2002

2. Vote on the appropriation of net earnings for fiscal 2002

3. Vote on the official approval of the acts and omissions of the Executive Board for fiscal 2002

4. Vote on the official approval of the acts and omissions of the Supervisory Board for fiscal 2002

5. Vote on the authorization to acquire treasury stock

6. Vote on amendments to the bylaws

7. Appointment of statutory auditors for fiscal 2003

Our preferred stockholders are invited to a separate meeting to be held on Tuesday, May 27, 2003, immediately after the annual stockholders' meeting but not before 1 p.m., in the MARITIM proArte Hotel Berlin, Friedrichstrasse 150-153, 10117 Berlin, Germany.

Special vote by the preferred stockholders on the authorization to acquire treasury stock (agenda item 5 of the annual stockholders' meeting)

The agendas of both meetings have been abridged. Legally binding will be the agendas as published in the electronic version of the German Federal Gazette.

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