Rheinmetall AG

Annual Report 2004

Rheinmetall in figures

	Rheinmetall Group in figures		2000	2001	2002	2003	2004
	Net sales	€ million	4,570	4,603	4,571	4,248	**3,413**
	Order intake	€ million	4,563	5,033	4,840	4,128	**3,147**
	Order backlog (Dec. 31)	€ million	3,732	4,113	4,165	3,143	**2,741**
	EBITDA	€ million	374	468	701	446	**385**
	EBIT	€ million	103	195	392	204	**217**
	EBT	€ million	2	84	290	120	**146**
	Net income/(loss)	€ million	(43)	38	274	68	**101**
	Cash flow	€ million	239	315	587	308	**264**
	Capital expenditures	€ million	265	284	248	203	**183**
1	Amortization/depreciation/write-down	€ million	251	247	268	211	**168**
	Accounting equity	€ million	691	717	869	731	**779**
	Total assets	€ million	4,477	4,218	4,087	3,442	**3,100**
	EBIT margin	in %	2.3	4.2	8.6	4.8	**6.4**
	ROCE	in %	4.3	8.8	20.1	12.3	**14.9**
	Earnings per common share (IFRS)	€	(1.33)	0.56	6.81	1.72	**2.64**
	Earnings per preferred share (IFRS)	€	(1.27)	0.62	6.87	1.78	**2.70**
	Total dividend distributed	€ million	24	17	24	24	**27**
2	Dividend per common share	€	0.64	0.44	0.64	0.64	**0.74**
2	Dividend per preferred share	€	0.70	0.50	0.70	0.70	**0.80**
	Employees (Dec. 31)		29,876	27,828	25,949	20,888	**18,283**

1 *Excl. goodwill amortization*
2 *Incl. bonus of €0.20 in 2000 and 2002*

The Rheinmetall Group at a glance

Rheinmetall AG

Management holding company

Rheinmetall is a foremost Automotive and Defence technology group.

Run according to principles of local empowerment, Rheinmetall's success rests on the operational self-sufficiency and vast flexibility of altogether nine divisions subsumed under Kolbenschmidt Pierburg AG and Rheinmetall DeTec AG.

As of December 31, 2004, the management holding company, Rheinmetall AG, held directly or indirectly 96.8 percent of the stock of Kolbenschmidt Pierburg AG (the rest free-floating) and all of the stock of Rheinmetall DeTec AG.

Corporate sector Automotive Kolbenschmidt Pierburg AG

Pierburg

Systems and components
for air supply
and emission control

Oil und water pumps,
vacuum pumps

Sales
€889 million

Employees
3,471

Locations
Germany
France
Italy
Czech Republic
Spain
USA
Brazil
China (joint venture)

KS Kolben

Passenger car pistons
Piston modules

Commercial-vehicle pistons

Large-bore pistons

Sales
€582 million

Employees
5,568

Locations
Germany
France
Czech Republic
USA
Canada
Brazil
Japan
China (joint venture)

KS Gleitlager

Plain bearings, bushings
Thrust washers

Dry bearings (Permaglide)

Continuous NF castings

Sales
€160 million

Employees
982

Locations
Germany
USA
Brazil

KS Aluminium-Technologie

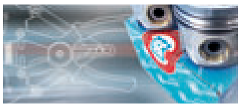
Aluminum engine blocks

Sales
€183 million

Employees
925

Locations
Germany

Corporate sector Defence Rheinmetall DeTec AG



MSI Motor Service International

Automotive parts
for engine repair
and workshops

Sales
€161 million

Employees
379

Locations
Germany
France
Great Britain
Turkey
Brazil

Rheinmetall Landsysteme

Armored wheeled and tracked vehicles

Support and mine-clearing systems

NBC protection systems

Turret systems

Sales
€342 million

Employees
1,370

Locations
Germany

Oerlikon Contraves

Air defence systems

High-performance radar systems

Sales
€310 million

Employees
1,773

Locations
Germany
Switzerland
Italy
Canada
Singapore
Malaysia

Rheinmetall Waffe Munition

Weapons and ammunition for tank and artillery systems

Medium-caliber weapons and ammunition

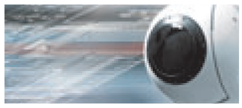
Self-defence systems

Propellants and powder

Sales
€402 million

Employees
2,212

Locations
Germany
Switzerland



Rheinmetall Defence Electronics

Command, control and reconnaissance systems

C^{3}I systems

Fire control units

Simulation systems

Sales
€357 million

Employees
1,406

Locations
Germany
Greece

Self-perception.

Between the established and the evolving, there are timeless values that pilot our self-perception. Cutting-edge technologies and expertise, financial solidity and transparency. Credibility and confidence. There is nothing fortuitous about success. Our name stands for a track record of tradition, experience, and progress. We adhere to what has remained essential: products, services, human resources—as reflected in our sales figures, balance sheets, and stock market performance.

Structure.

The Clear Directions strategy has borne fruit, driven by the transformation from a broadly diversified conglomerate into a clearly structured corporate entity. The facts and figures speak for themselves: unwavering focus on Automotive and Defence—a wise decision! Rheinmetall 2005: summoning its strengths, lean, and profitable. The substance shows: in national and international settings, firmly and forward positioned in two core businesses.

Success.

International capabilities driven by national strengths and experience. We have a healthily balanced mixture of mature, growing and about-to-grow businesses. We are armed with the flexibility of a manageably configured midsize company and the professionalism of a global player. The seeds are sown for expansion into additional markets and types of application. We are internationally braced for the challenges ahead. We have set ourselves clear yet ambitious goals. For sustained success.

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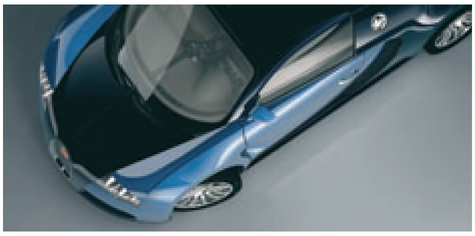
News flashes 2004

January–February 2004



Rheinmetall
Rheinmetall attends the German Corporate Conference organized by Crédit Agricole Chevreux, the Dresdner Kleinwort Wasserstein investors conference in New York and stages road shows in Amsterdam and Brussels.

Kolbenschmidt Pierburg
The new Queen Mary 2, a superlative vessel, is equipped with 64 large-bore pistons manufactured by KS Kolbenschmidt, which are installed in four 16-cylinder engines.

Pierburg contributes the secondary air system to the 1001-HP (DIN) W16 alloy engine of the new Bugatti Veyron EB 16.4.

The 2003 Global Automotive Shareholder Value Award conferred by PricewaterhouseCoopers and the internationally renowned trade magazine Automotive News goes to Kolbenschmidt Pierburg in the global automotive component manufacturer category.

Rheinmetall DeTec
With the sale of the Heidel Group, whose business is nonmilitary, Rheinmetall DeTec completes its program to focus exclusively on the core business of land forces technology.

Oerlikon Contraves und Rheinmetall Defence Electronics demonstrate their air defence and drone systems capabilities at the Asian Aerospace trade fair held in Singapore.

March–April 2004

Rheinmetall
At the annual accounts press conference in Düsseldorf, Rheinmetall presents its figures for fiscal 2003. Successful road shows are held in Edinburgh and the USA. Rheinmetall also participates in Deutsche Bank's German Corporate Conference.

With the sale of Hirschmann Electronics, Rheinmetall completes the process of divestment of its Electronics sector.

In its Code of Conduct the Executive Board agrees with Rheinmetall's European works council principles of corporate citizenship.

Kolbenschmidt Pierburg
KS Aluminium-Technologie supplies the block for the flat engine on the Porsche 911 anniversary model, which is limited to exactly 1,963 vehicles.

Large-bore pistons manufactured by KS Kolbenschmidt set to provide extraordinary mileage in the diesel engines of the renowned panorama express train operated by Australia's Rail Corporation.

Rheinmetall DeTec
After almost ten years at the helm of the Defence sector, Dr. Ernst-Otto Krämer is retiring. In addition to his position as Rheinmetall AG's CEO, Klaus Eberhardt becomes chairman of Rheinmetall DeTec's Executive Board.

Rheinmetall Landsysteme hands over the first armored Duro3-type ambulance vehicles to the soldiers serving on the ISAF mission in the Hindu Kush as a replacement for their previously unarmored units.

Rheinmetall DeTec is to play a part in a coordinated European Security Research Program, which is planned by the European Commission from 2007.

May–June 2004

Rheinmetall
Rheinmetall presents itself to analysts and investors in Stockholm, Copenhagen and London and at BW Bank's capital market conference in Frankfurt/Main.

Some 400 stockholders attend Rheinmetall's annual general meeting in Berlin.

Kolbenschmidt Pierburg
The ground-breaking ceremony for the "mini" factory in Ústí in the Czech Republic, where from early 2005 some 60 employees of the newly founded Pierburg Czech Republic are to assemble electric actuators, secondary air pumps and exhaust gas dampers.

Pierburg develops the hydrogen sensor for the fuel-cell driven Mercedes-Benz passenger car fleet of 60 vehicles.

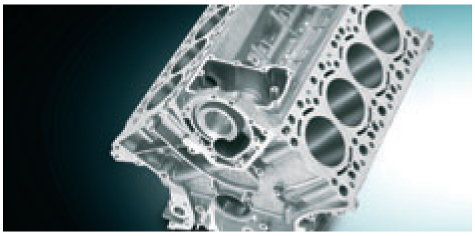
Porsche presents its 2003 Supplier Award to KS Aluminium-Technologie, ranking the Neckarsulm-based engine block specialist among its top ten suppliers.

Rheinmetall DeTec
Valuable reinforcements for the Swiss army's tank units in the shape of the new-generation *Büffel* recovery vehicle.

By establishing Rheinmetall Hellas in Greece, Rheinmetall DeTec takes another step along its consistent internationalization course.

Rheinmetall Waffe Munition concludes a master contract with Germany's Association of Large Power Plant Operators for the supply of passive protection systems designed to shield such facilities from terrorist attack.

July–August 2004



Rheinmetall
Rheinmetall presents its six-month figures at the analysts' conference in Frankfurt/Main and embarks on road shows staged in Switzerland, Italy, New York, and Boston.

Kolbenschmidt Pierburg
Advanced and highly efficient: Pierburg deploys the latest R&D plant and process engineering at its Neuss location, commissioning a new engine testing shop with six test stands.

Motor Service International reaffirms its commitment to Germany as a business location by investing in a new assembly plant near Neckarsulm.

Rheinmetall DeTec
A delegation led by the Norwegian Inspector General, Major-General Lars Sølvberg, visits the Rheinmetall DeTec locations in Bremen and Unterlüss.

Representatives of European and Atlantic armed forces, Japanese industry officials and interested trade journalists are impressed with the results of the live demonstration of the newly developed 120-mm weapon system manufactured by Rheinmetall Waffe Munition.

Following the Norwegian, Finnish and German navies, the Royal Swedish Navy has now also opted for the new *MASS* decoy system (manufactured by Rheinmetall Waffe Munition) which it is to mount to several of its corvettes.

September – October 2004

Rheinmetall
Rheinmetall visits the High-Tech Engineering trade symposium organized by Deutsche Börse and invites participants to Bremen to attend an analysts' conference at Rheinmetall Defence Electronics.

Kolbenschmidt Pierburg
Under the slogan "Technical customer support through targeted know-how transfer," Motor Service International puts the new Pierburg onboard diagnosis and service concept under the spotlight at its Automechanika 2004 presentation.

KS Aluminium-Technologie shrinks the lead time for developing industrial-stage engine blocks from 18 to six months.

Rheinmetall DeTec
Some 700 spectators, including many high rankers from politics, industry and the German, allied and friendly armed forces, follow the flight of a small drone for target acquisition (KZO) at the Baumholder military training terrain in Rhineland-Palatinate.

Together with the Braunschweig University of Technology, Rheinmetall Defence Electronics develops and markets the *Carolo* microdrone system.

More than 40 military attachés visit Rheinmetall DeTec as part of a trip organized by the Federal Defence Ministry.

November – December 2004

Rheinmetall
The broad placement of Röchling's majority stake in the capital market greatly enhances the tradability of Rheinmetall stock. In connection with the conversion proposed by the Rheinmetall AG Executive Board of preferred into voting common stock, Rheinmetall stock is expected to gain greater weight in Germany's MDAX index.

Kolbenschmidt Pierburg
A concerted presentation staged by the Automotive sector companies at the Technology Days event held at the Chrysler Technology Center proves a resounding success.

Pierburg to contribute an electric coolant pump to the new hybrid vehicle being developed by VW.

Rheinmetall DeTec
With a new agency in Warsaw, Rheinmetall DeTec is consolidating its market efforts directed at NATO member Poland.

Rheinmetall Defence Electronics launches the unique *AVIOR NV* laser night vision simulation system as a world first.

The budget committee of the German Bundestag approves the pilot production start-up of the new ultramodern *Puma* infantry tank.

Oerlikon Contraves secures an order for the *Millennium* naval gun system, to be installed on the Royal Danish Navy's new combat support ships.

Letter from the Executive Board

Dear Stockholders, Customers, and Friends
of the Rheinmetall Group:

2004: a pivotal period for the Rheinmetall Group
After almost 50 years as Rheinmetall's major stockholder, the Röchling family sold stake, which ushered in a new era for the Group. With the Röchling block broadly placed on the capital market we have become a company with widely dispersed stock and without the dominant influence of a single major stockholder. Within the context of the new much more heterogeneous ownership structure we intend to convert on a 1:1 basis the nonvoting preferred shares into voting shares. It is our conviction that this move—planned for the current fiscal year—will be in the interests of all stockholders since it will lend much greater weight to Rheinmetall stock within the MDAX index of the German Stock Exchange Corporation and further enhance Rheinmetall's appeal to institutional investors.

Fiscal 2004 was also a year in which we also finally wrapped up Rheinmetall's extensive restructuring program which had kicked off back in 2000 with a clearly defined goal: ever since then improved profitability and liquidity have enjoyed priority and growth for growth's sake has taken a backseat. Through the related focus on the two corporate sectors, Automotive and Defence, we arrived at our aspired structure in 2004. During these years of corporate reengineering, the profitability of these two sectors has risen steadily. And the investor community has rewarded our efforts: at year-end 2004 Rheinmetall's stock market value was around three times what it was at the onset of restructuring.

This restructuring process has been accompanied by extensive divestments and, in all, we disposed of businesses worth €2.5 billion in sales. Still, our core sectors showed organic growth inspired by product range innovations and accelerated globalization as reflected in 64 percent exports. The year 2004 was also a period in which we directed our attention to our domestic defence equipment customer, the German armed forces. An all-important milestone last year was the decision by the German parliament in favor of the new Puma infantry tank for the German army. In fact, for Rheinmetall this is the launching pad for one of its biggest ever individual contracts.

Predictability and continuity in success
Apart from these individual success instances, Rheinmetall last year once again demonstrated predictability and continuity in its corporate progress. We achieved out budgeted earnings. Once again, we boosted profitability and enhanced the returns obtained from our business. And, now that Kolbenschmidt Pierburg's Aluminum Technology division has negotiated a turnaround, all nine Rheinmetall operational units have shared in the overall successful performance.

Although the divestments did squeeze 2004 sales by around €800 million compared with 2003, EBIT is up by €13 million to €217 million, the EBIT margin jumping from 4.8 to 6.4 percent and thus encroaching very closely on our targeted margin of 7 percent.

Klaus Eberhardt (born 1948) has been Rheinmetall AG's CEO since January 2000 and concurrently since March 2004, CEO of Rheinmetall DeTec AG. Eberhardt was appointed Executive Board member of Rheinmetall AG in 1997 when he also stepped into the position of CEO at former Rheinmetall Elektronik AG. Before joining Rheinmetall he had been employed in senior management positions at TEMIC Telefunken, Messerschmidt-Bölkow-Blohm, and Standard Elektrik Lorenz.

Dr. Gerd Kleinert (born 1948) has been an Executive Board member of Rheinmetall AG since 2001. Born in Rüsselsheim, he is responsible for the Automotive sector and, at the same time, CEO of Kolbenschmidt Pierburg AG. Kleinert has a degree and doctorate in engineering and before joining Rheinmetall had been employed by TRW Automotive Electronics, VDO, and Adam Opel AG.

In fact, the Automotive sector did hit target in 2004 while Defence's EBIT improved from 4.3 to 5.6 percent—indeed a stride forward.

Alongside these improvements in earnings from operations, it is the financial result that showed further progress with net financial debts contracting from €230 million at the end of 2003 to €154 million a year later, even though we plowed around €22 million into repurchasing our own stock. Our equity ratio is 25 percent, up from 21. After taxes, we earned net income of €101 million, a plus of €33 million.

This evident improvement reflects the rewards of our corporate restructuring program. Our stock market performance in 2004 was again outstanding, prices rising a good 50 percent, and thus Rheinmetall stock was once more one of the five top performers among the 100 biggest German equities.

All this taken into account, Rheinmetall's performance in 2004 again gives ample grounds for pride and gratitude—pride in what has been achieved and gratitude for the confidence of our customers as well as for the total dedication of our employees and the constructive cooperation of their representatives. The Group's restructuring has entailed in some cases sweeping measures whose fruition has hinged on the united efforts of us all. The outcome: secure jobs within the Group and for a long time.

Dr. Herbert Müller (born 1953) joined Rheinmetall AG in 1995 as senior head of Corporate Finance and since 2000 has been CFO at Rheinmetall AG responsible for Corporate Finance and Controlling. Born in Lank-Latum near Düsseldorf, he had previously been employed by Contigas, Deutsche Leasing and IWKA, in addition to his scientific work for the Chair of Statutory Auditing/Controlling of Duisburg university.

Upbeat expectations for 2005

We will continue to build our group on the foundations of our two sectors Automotive and Defence. As to 2005 and further ahead, we identify sound opportunities for outperforming the sector average through organic growth engendered by our existing product lineup. Kolbenschmidt Pierburg benefits to a sustained degree from long-lasting trends in the international automotive market: reduced fuel consumption and throttled emissions specified by international codes and regulations yet drivers' desire for more and more powerful engines—plus the unwavering preference for diesel engines. Rheinmetall DeTec, in turn, is a world leader in land forces equipment and, in the process, is focusing on the armed service which now and tomorrow will have to bear the burden of missions in crisis-ridden regions. Defence's present products and capabilities address these key requirements which throughout the world are associated with the transformation of the very nature of the various armed services.

Hence, for the years ahead we are sticking to our goal of an average 5-percent organic growth. This year we expect an appreciable advance in order intake. We look forward to further improving results groupwide.

As in the past, our stockholders will share in the Rheinmetall Group's performance. The Supervisory and Executive Boards thus propose to the stockholders' meeting to increase the cash dividend by €0.10 and distribute €0.80 for each preferred share and €0.74 per common share.

This year we will once again vigorously seize every market opportunity and improvement potential available to Rheinmetall. Our uppermost goal remains an enhancement of shareholder value and this will guide our decisions in the interests of our stakeholders and, among these, most especially our stockholders.

Sincerely,

Klaus Eberhardt | Dr. Gerd Kleinert | Dr. Herbert Müller

Report of the Supervisory Board

The Supervisory Board fully and properly performed the controlling and monitoring functions incumbent on it under law, Rheinmetall AG's bylaws, the German Corporate Governance Code and the rules of procedure. The Supervisory Board dealt in depth with the Rheinmetall Group's further development and accordingly counseled the Executive Board in detail.

Focal points of reporting and thorough deliberation by the Supervisory Board were—besides Rheinmetall's business trend—the cost and revenue position, risk management, market and sales data, the operational strength of the corporate sectors, as well as the goal achievement potentials. Additional items on several Supervisory Board agendas were the changing market structure and competition, the ensuing options on Rheinmetall's strategic orientation, as well as measures and alternatives deemed expedient.

The Executive Board regularly briefed the Supervisory Board on all transactions and decisions of material significance to Rheinmetall, explaining and discussing any plan or budget variances and their reasons. Actions and transactions of the Executive Board requiring approval according to the Company's bylaws and the rules of procedure were duly submitted for decision to, and approved by, the Supervisory Board.

Supervisory Board meetings

In line with the strategy pursued by the Executive Board to focus the Rheinmetall Group on its core capabilities of Automotive and Defence, the Supervisory Board approved the divestment of Hirschmann Electronics GmbH & Co. KG at the extraordinary meeting on February 12, 2004. The annual accounts meeting on March 25, 2004, resulted in the approval of the separate and consolidated financial statements 2003 and the adoption of the separate financial statements 2003. During the May 10, 2004 meeting, at which the Executive Board reported on the Group's Q1/2004 business, issues regarding the forthcoming annual stockholders' meeting were discussed. The September 20, 2004 meeting of the Supervisory Board centered on the trend of key business indicators for H1/2004 and on the corporate sectors' position in their markets. At the year's last meeting on November 25, the Executive Board commented on the financial position, the Group's and the corporate sectors' development opportunities, and the medium-term business plan, including the capital expenditure master budget for fiscal 2005.

Eleven members participated in all meetings of the Supervisory Board, four could not attend one meeting each, and one was prevented by business from taking part in half the regular meetings.

According to an inquiry, there were in 2004 no conflicts of interests of Supervisory Board members, arising either from their office on this Board and the boards of outside companies or from any advisory functions. No consultancy, agency or other personal services were rendered. Moreover, none of the Executive Board members was involved in any interests clashing with Rheinmetall's.

Committee meetings

At three meetings, the Personnel Committee conferred on preparations for decisions in Executive Board matters. On this Committee's recommendation and thus ensuring senior management continuity, the Supervisory Board agreed to renew the appointments of CEO Klaus Eberhardt and CFO Dr. Herbert Müller for another 5-year term, their responsibilities on the Executive Board remaining unchanged.

The Audit Committee, re-organized and established in 2003, met twice in the year under review in preparation for the decisions of the Supervisory Board on the adoption of the separate financial statements and the approval of the consolidated financial statements. In addition, the Committee dealt with accounting and risk management issues, the statutory auditor's independence, the audit engagement letter, the definition of focal audit procedures and the fee agreement.

The Slate Submittal Committee, formed under the terms of Art. 27(3) German Codetermination Act ("MitbestG"), had no reason to meet in the year under review.

The Personnel, Audit and Slate Submittal Committees are all chaired by the Supervisory Board Chairman, who also informed the plenary Supervisory Board on their meetings and business.

None of the Company's former Executive Board members are on the Supervisory Board.

Corporate governance and declaration of conformity
At its November 25, 2004 meeting, the Supervisory Board discussed the subject of corporate governance in detail and—jointly with the Executive Board—endorsed the annual declaration of conformity under the terms of Art. 161 German Stock Corporation Act ("AktG"). This declaration has been published on the Internet at www.rheinmetall.com and, along with additional comments on corporate governance, on page 15 of this annual report. Rheinmetall AG has fully complied with the recommendations of the German Corporate Governance Code Government Commission as amended up to May 23, 2003, subject to one duly substantiated exception.

At the same meeting, the Supervisory Board addressed the efficiency of its own work and discussed assessments and suggestions in connection with various aspects of its activities in 2004. According to the Supervisory Board's conclusions, the Executive Board's policy of timely and direct information as well as established decision-making processes ensure that the Supervisory Board efficiently and properly performs its duties. Additionally, the Supervisory Board seized and delved into hints and recommendations which had been submitted for further improvements.

Composition of Supervisory and Executive Boards
Dr. Horst Girke and Gisela Walter had stepped down from this Board as of December 31, 2003, and were succeeded on January 22, 2004, by Dr. Dieter Schadt, and on February 9, 2004, by Harald Töpfer upon appointment by the Düsseldorf Local Court of Registration. When Hirschmann Electronics GmbH & Co. KG was sold, the term of office of Hans-Peter Haug on this Board expired, too. The Düsseldorf Local Court appointed Wolfgang Müller to succeed him as from March 25, 2004. Moreover, Dr. Rudolf Luz was appointed by the Court on June 1, 2004, as successor to Reinhard Kiel, who had resigned from his office.

The Supervisory Board thanks its resigned members for their commitment and responsible cooperation in Rheinmetall's best interests.

On February 29, 2004, Dr. Ernst-Otto Krämer, Executive Board member of Rheinmetall AG and for many years CEO of Rheinmetall DeTec AG, retired after working over 33 years for the Rheinmetall Group and almost a complete decade in command of its Defence sector. The Supervisory Board thanks Dr. Krämer for his strong personal commitment in performing a variety of duties within the Group and most notably for his outstanding efforts in the interests of the Rheinmetall DeTec Group which he has grown into an economically solid and successful company in the European market for land forces technology. Since March 1, 2004, Klaus Eberhardt has assumed the responsibility for the Defence sector on Rheinmetall AG's Executive Board, which has thus been downsized from four to three members.

Review and approval of the financial statements 2004
Rheinmetall AG's separate financial statements and its management report, which were prepared in accordance with the German Commercial Code ("HGB"), and the consolidated financial statements as of December 31, 2004, and group management report, which in line with Art. 292a HGB were formulated in conformity with the IAS/IFRS, as well as the Executive Board's dependency report on affiliations were all (including the accounting system) examined by PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Düsseldorf branch, the statutory auditors appointed for fiscal 2004 by the annual stockholders' meeting of May 11, 2004, in accordance with the Supervisory Board's audit engagement letter. An unqualified auditor's opinion was issued on both sets of financial statements.

In the scope of the risk management system audit under the terms of Art. 317(4) HGB, the statutory auditors were also required to assess whether the Executive Board had taken due steps for risk monitoring and installing an early risk identification system (ERIS) in line with Art. 91(2) AktG in order to identify in good time any developments that might jeopardize the Company's continued existence as a going concern. The auditors confirm that the system and tools installed are suitable for these purposes and that the management report on Rheinmetall AG and the Group presents a true and fair view of the risks of future developments.

Report of the Supervisory Board

The Company's and the Group's annual accounts documentation, as well as the pertinent audit reports had been submitted to all Supervisory Board members early enough to ensure thorough and careful scrutiny.

At its March 16, 2005 meeting, the Supervisory Board's Audit Committee discussed on the basis of the audit reports all relevant details with the attending auditors who, in turn, briefed the Committee on the annual audit in general, certain focal areas, and their conclusions.

At the Supervisory Board meeting of March 21, 2005, the Audit Committee presented the conclusions from its own review to the plenary Supervisory Board. The statutory auditors attended this meeting, reported on major audit conclusions and fully answered all queries of Supervisory Board members.

The Supervisory Board agrees with the audit conclusions and reviewed on its own the separate and consolidated financial statements, the management reports on Rheinmetall AG and the Group, as well as the Executive Board's proposal for profit appropriation. According to the final results of this review, the Supervisory Board saw no reason to object.

At its meeting of March 21, 2005, the Supervisory Board approved the separate and consolidated financial statements for the fiscal year 2004 as submitted by the Executive Board; the annual financial statements for 2004 are thus adopted under the terms of Art. 172 AktG.

The Supervisory Board concurs with the management reports on Rheinmetall AG and the Group, including the assessment of Rheinmetall's further development. Moreover, the Supervisory Board agrees with the Executive Board's dividend policy and proposal for the appropriation of net earnings, which is based on a cash dividend of €0.74 per share of common, and €0.80 per share of preferred, stock and will be submitted to the annual stockholders' meeting for voting.

The Executive Board submitted to the Supervisory Board the dependency report concerning affiliations for the period from January 1 through November 24, 2004, 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 Executive Board's dependency report 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 or disadvantages were compensated for."

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 2004.

The Supervisory Board thanks the customers of all Rheinmetall companies and the stockholders for the trust they have placed in Rheinmetall. The Supervisory Board likewise thanks the Executive Board as well as all the employees in Germany and abroad for their dedicated efforts, their close personal commitment, and their valuable contributions to Rheinmetall's favorable development.

Düsseldorf, March 21, 2005
The Supervisory Board

Klaus Greinert
Chairman

Corporate governance

The confidence of national and international investors, business associates, financial analysts, the media and the staff in Rheinmetall AG's business strategy, management and supervision is largely affected by a corporate governance and control that are consistent and responsible, add value and are oriented toward profitable growth. Effective corporate governance combined with safeguarding stockholder interests, prompt reporting, proper accounting and efficient interaction between the Executive and Supervisory Boards have always enjoyed high priority within the Rheinmetall Group.

www.rheinmetall.com/bylaws.php

Background facts

Management and supervision of Rheinmetall AG, a stock corporation based in Germany, are predicated on German stock corporation, capital market and codetermination legislation, as well as on the German Corporate Governance Code (the "Code"), translated into practice in accordance with the Group's specific situation.

www.corporate-governance-code.com

Safeguarding stockholder interests

Stockholders exercise their voting and control rights when they meet once annually. The stockholders' meeting resolves on all statutory matters and issues, including profit appropriation, the official approval of the acts and omissions of supervisory and executive board members, the election of the statutory auditor, as well as on intercompany agreements, capitalization moves, and amendments of the bylaws. In line with the one share one vote principle, each share of Rheinmetall common stock entitles to one vote at the annual general meeting. Before this meeting is held, all reports and documents required for voting are published on the Company's website and even sent as hard copy on request. In cases where stockholders cannot personally exercise their voting right at their annual meeting, they may appoint a personal proxy or authorize Rheinmetall's proxy for voting. The Supervisory Board Chairman presides over the stockholders' meeting.

Executive Board

Since March 1, 2004, comprising two members besides the CEO, the Executive Board, though acting on its own responsibility, is bound by Rheinmetall's interests and committed to the sustained increase in shareholder value. In line with the German statutory dual-board principle, which assigns a corporation's management and supervision to the respective separate board, Rheinmetall's Executive Board works closely and constructively together with the Supervisory Board. The Executive Board's duties, responsibilities and powers are defined by law, Rheinmetall AG's bylaws, and the Executive Board Rules of Procedure. The Executive Board develops the strategic orientation and determines corporate goals and targets, budgets and distribution of resources. Moreover, it is responsible for compliance with the law and accountable for the installation of a reasonable risk management system. Defined fundamental transactions and material decisions require the prior approval from the Supervisory Board. The Executive Board's information and reporting obligations to the Supervisory Board have been precisely formulated in specific detail.

The compensation structure is determined 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, contribution and personal performance, as well as the economic and financial situation, the sustainable success and future prospects of Rheinmetall on industry comparison.

The remuneration is fixed at a competitive level consistent with international market conditions for highly qualified executives, its amount and structure being modeled on the compensation paid by comparable German or foreign corporations.

The target income breaks down into a 60-percent fixed, and 40-percent variable, portion. Additionally, an incentive program has been installed that is pegged to the absolute annual increase in the Rheinmetall Group's shareholder value. The actual-to-actual comparison of the "fundamental equity" value is based on the mean of three successive fiscal years.

Corporate governance

www.rheinmetall.com/cg.php

The Supervisory Board Chairman briefed the annual stockholders' meeting on May 11, 2004, on the basic elements of Executive Board remuneration, which have also been outlined on the Company's website.

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

The Company has taken out a D&O policy (Directors' & Officers' liability insurance, including consequential loss) with a reasonable deductible for its Executive Board members.

Supervisory Board

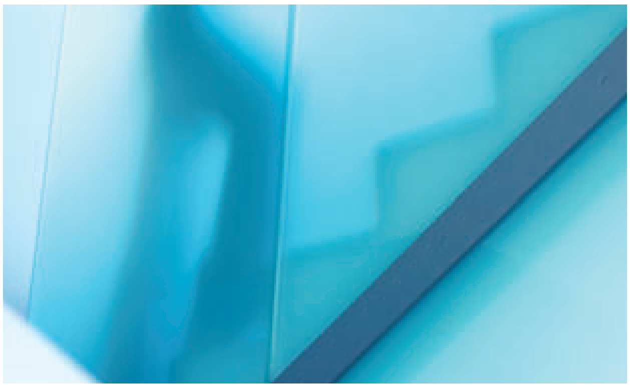
The Supervisory Board has 16 members, eight each stockholder and employee representatives, as prescribed the German Codetermination Act 1976. The stockholder representatives are elected with a simple majority by the stockholders' meeting, while employee representatives are elected by the workforce according to codetermination regulations. A Supervisory Board member's term is five years. The term of office of the present Supervisory Board will expire at the close of the annual stockholders' meeting 2007.

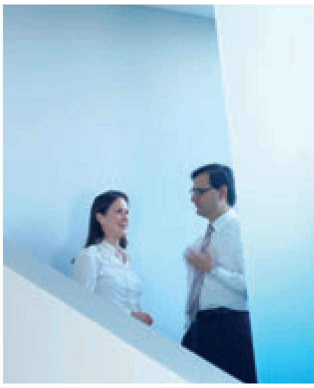
In the performance of their duties, Supervisory Board members are not bound by any proposal or instruction but must act in the Company's best interests. The Supervisory Board provides advisory services in management issues to, and oversees the conduct of business by, the Executive Board.

Supervisory Board members ensure that they have sufficient time to properly perform their consultancy and monitoring functions. The number of nongroup offices a Supervisory Board member who is also on the executive board of a listed company may hold is limited to four.

With a view to best performing its functions and enhancing its efficiency, the Supervisory Board has formed from among its member three committees to which certain responsibilities have been assigned. The Personnel, Audit and Slate Submittal Committees, whose members are equally stockholder and employee representatives, deal with complex issues and prepare resolutions for submittal to, and adoption by, the plenary Supervisory Board meeting. The individual duties, powers and processes have been laid down in rules of procedure. Reports on committee activities are presented to the plenary Supervisory Board.

As proposed by the Executive Board, the annual stockholders' meeting voted on May 11, 2004, to amend the bylaws with respect to the Supervisory Board's remuneration, thus ensuring that it complies with the recommendations of the Code. Committee membership or chairmanship and the ensuing greater workload are now compensated for by reasonable additional fees.





The Company has taken out a D&O policy (Directors' & Officers' liability insurance, including consequential loss) with a reasonable deductible for its Supervisory Board members.

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

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

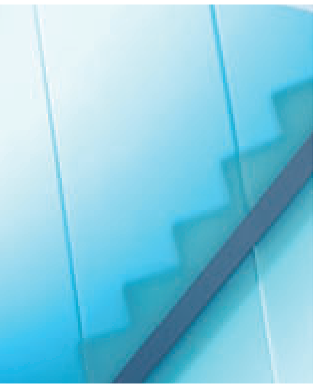
At its November 25, 2004 meeting, the Supervisory Board dealt with its own activities in 2004 and conducted an efficiency audit.

Financial communications
Up-to-date, fair and equal-opportunity financial communication is self-evident within the Rheinmetall Group and is aligned with the rights and interests of the stockholders and the general public. The various target groups are informed concurrently to ensure equal opportunities. The Company reports at length on the business and financial situation, as well as on significant intragroup events and changes. Quarterly and annual reports, press releases and other relevant data on current trends and the latest changes are all available on the Company's website. As prescribed by the law, any circumstances of potential impact on the Rheinmetall stock price are promptly published in ad hoc notifications. At regular intervals, conferences are staged and road shows organized for investors and financial analysts to ensure the ongoing exchange of information with the financial and capital markets. All related key publications are made available in German and English.

Due and proper accounting
For enhanced transparency and ready comparison to international competitors, Rheinmetall AG formulates its consolidated financial statements and interim reports in accordance with the International Financial Reporting Standards (IFRS) ↗. As prescribed by the law, Rheinmetall AG's separate financial statements are prepared according to the German Commercial Code ("HGB").

↗ *www.iasb.org*

Risk management
The groupwide reporting and control system is designed to identify, detect, profile, map, assess and control the business and financial risks the Group is exposed to in connection with its international operations. The monitoring system components supply reliable information about the current risk position and contribute toward goal achievement, besides minimizing risk-related costs. The statutory auditor regularly tests the risk management system's methods and procedures for dependability, effectiveness and efficiency. Using the test results and findings, Rheinmetall refines and updates the monitoring system in a continuous process in response to the changing business environment.



Corporate governance

Independent external audits
The annual stockholders' meeting elected PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Düsseldorf branch, as statutory auditor for fiscal 2004.

The Supervisory Board defined certain focal audit areas. The Supervisory Board ensures that the audit work is not adversely affected by clashing interests and obligates the statutory auditor to promptly disclose any reasons for non-eligibility or partiality. Further, the statutory auditor would report any material findings, conclusions or events that are contradictory to the declaration of conformity issued by the Executive and Supervisory Boards under the terms of Art. 161 AktG. The 2004 annual audit has not indicated any such contradictions.

Directors' dealings
Pursuant to Art. 15a German Securities Trading Act ("WpHG"), the Executive and Supervisory Board members of Rheinmetall AG are 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 6.6 of the Code.

Those recommendations of the Code as amended up to May 21, 2003, which are currently not implemented by Rheinmetall AG are disclosed in the following declaration of conformity issued by Rheinmetall AG's Executive and Supervisory Boards and published in December 2004 on the Company's website:

Joint declaration of conformity of the Executive and Supervisory Boards pursuant to Art. 161 AktG on the recommendations of the German Corporate Governance Code Government Commission

"Rheinmetall AG's Executive and Supervisory Boards declare that Rheinmetall AG has fully carried out since the issuance of the preceding declaration of con-

Rheinmetall on the Internet—faster and more informative

Sustained economic success and its stock price uptrend brought Rheinmetall increasingly to the attention of financial markets and the business media during fiscal 2004. Correspondingly, the need for information about the Group's strategic positioning, product range and investor relations activities grew further. Rheinmetall responded to this trend not only by stepping up its press relations and contacts with investors but also by providing a greatly expanded range of information on the Internet. To this end, the www.rheinmetall.com website was completely reconstructed and navigationally harmonized with the Automotive (www.kolbenschmidt-pierburg.com) and Defence sector websites (www.rheinmetall-detec.com).

In addition to extensive background information about the Group, the new Rheinmetall website offers a wide variety of user-specific services and download options. Both private and institutional investors, for example, can find not only current stock prices and performance figures but also detailed factbooks and chart presentations as well as the assessments of stock analysts and rating agencies. Rheinmetall's website is rounded off with a detailed list of links, making it easier to access groupwide information and thus increasing transparency for customers, stockholders, the media, and job seekers. The number of recorded hits, which in 2004 was almost double that of the previous year, proves that the revamped website has elicited an enthusiastic response.

formity in November 2003/February 2004, or will act on, the recommendations of the German Corporate Governance Code Government Commission as amended up to May 21, 2003, and officially published on July 4, 2003, in the digital Federal Gazette, except for the following recommendation that neither has been nor will be implemented:

The remuneration paid to each individual Executive and Supervisory Board member (§§ 4.2.4 and 5.4.5 of the Code, respectively) will not be disclosed in the notes to the consolidated financial statements.

Since the preceding declaration of conformity disclosed in November 2003/February 2004, Rheinmetall AG has adopted the recommendations of the Code as amended up to November 7, 2002:

As proposed by the Executive Board, the annual stockholders' meeting resolved on May 11, 2004, to amend the clause in Art. 13 of Rheinmetall AG's bylaws on the remuneration of Supervisory Board members to thenceforth conform with the recommendations of § 5.4.5 of the Code. This amendment to the bylaws was recorded by the Commercial Register on June 1, 2004.

In fiscal 2004, the publication deadlines recommended in the Code for the consolidated financial statements and the interim reports were duly observed (§ 7.1.2 of the Code)."

The additional suggestions in the Code have also largely been adopted.

Investor relations efforts redoubled

In 2004, Rheinmetall again stepped up its active day-to-day investor relations efforts. During the year under review, all major financial centers were visited by the Executive Board and Investor Relations management in the course of a total 16 road shows and 10 bank conferences. At these events together with one-on-one meetings held in Düsseldorf some 250 appointments were kept with investors. Apart from two analysts' conferences for the presentation of the 2003 annual and the 2004 semiannual accounts, a meeting with financial analysts on defence issues was held in Bremen. It goes without saying that conference calls are regularly conducted at Rheinmetall following the announcement of quarterly and year-end results.

Increased capital market interest is also reflected in the number of banks which regularly assess Rheinmetall stock. In 2004, another four financial institutes started coverage of Rheinmetall stock. The number of analysts that have earmarked Rheinmetall for regular review has thus climbed to almost 20.

These increased efforts are rewarded on capital markets not only with an improved stock price but also a higher rating for communication with financial markets. The German financial magazine Capital for example, when awarding its 2004 Investor Relations Prize—based on a survey of 300 analysts from 74 financial institutes—ranked Rheinmetall as the year's shooting star among the 198 stock corporations assessed.

Rheinmetall stock

Stock markets were in 2004 plagued by economic uncertainties, soaring oil prices, and fears of terrorist attacks. A year-end rally ensured that the key stock market indexes closed the year up. Thanks to its strategic further development and solid results of operations, Rheinmetall stock easily outperformed the market, both the common and preferred shares showing price gains in 2004 of 50+ percent.

World stock markets defying economic uncertainties

Following the considerable price gains in 2003, the trend in 2004 of the leading market indexes mirrored the grave uncertainty about the economic future. Up to mid-August, the world's stock markets had proved sensitive to any bad news from the Middle East crisis region and to the associated fear of terrorist attacks. Moreover, the surging oil price and the concern about the sustainability of an economic recovery that had been predicted for 2004 and 2005, kept suppressing investor appetite. Stock exchange optimists began to prevail only as late as Q3, with the result that the key reference indexes closed 2004 in the black. While the Dow Jones showed a rather modest uptick of 3 percent to 10,783 for the year, stockholders in Germany were pleased with a 7-percent upswing of the Dax to 4,256, investors in MDAX equities even benefiting from a 19-percent surge to 5,376.

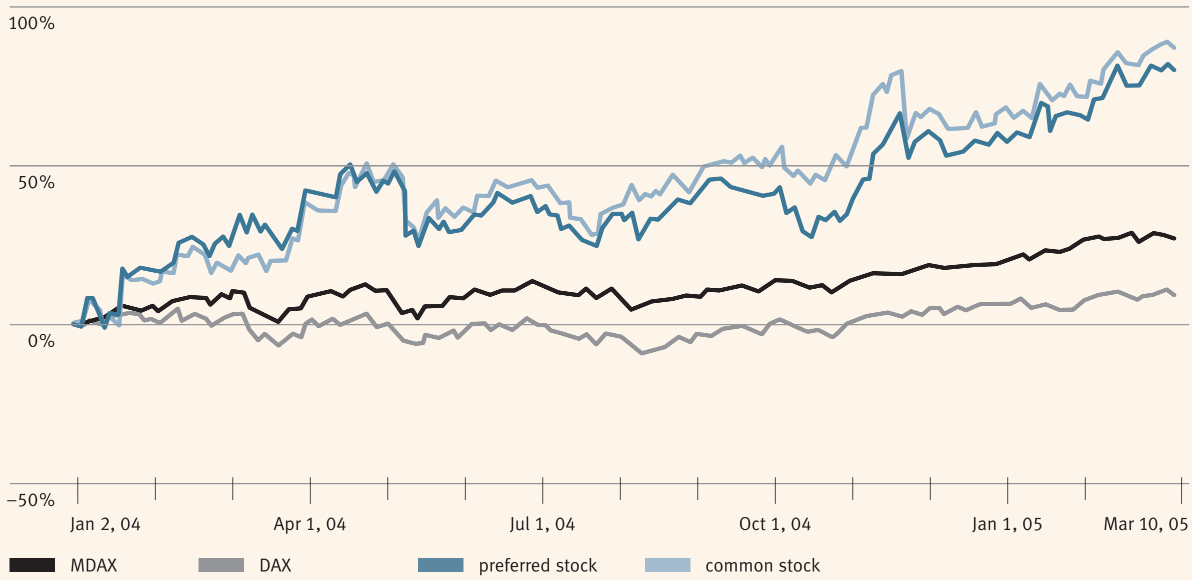
Rheinmetall stock gaining 50+ percent in 2004

Rheinmetall stock prices showed a trend in the period that was largely unscarred by economic and geopolitical events. It was rather Rheinmetall's operational improvements and the outcome of its strategic realignment that governed stock performance. Welcome corporate news sparked, and kept rekindling during 2004, analyst and investor interest in Rheinmetall equities. This, combined with a multitude of buy recommendations, propelled Rheinmetall's stock prices, its preferred and common shares soaring year-on-year by 55 and 63 percent, respectively. The completion of portfolio purges and confident messages sent out at the annual accounts press conference in late March plus good Q1 news in May all drove up the stock price in the first half of 2004. The annual lows of €23.81 (preferred) and €23.31 (common) were quoted in the first few trading days of the year.

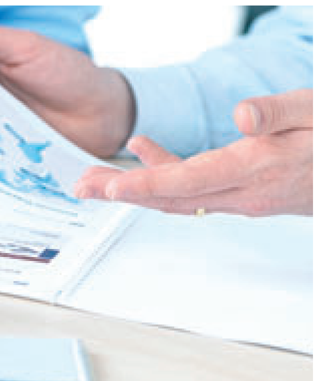
When the Company published the semiannual financial information for 2004 and endorsed its year-end forecasts, Rheinmetall stock started to break records.

Rheinmetall stock price trend compared to DAX and MDAX

January 2, 2004, to March 10, 2005



Another stock price booster was the announcement to consolidate common and preferred shares in 2005. Rheinmetall stock will thus further whet investor appetite, mainly the institutional investors'. On November 22, 2004, preferred stock peaked at its historical high of €39.99, common shares reaching their annual high of €41.99 on the same day. The successful stock market year closed at prices of €38.34 (preferred) and €39.10 (common).



Rheinmetall stock

Performance per share picking up

The shareholder value improvement programs significantly stepped up performance data per share in 2004.

Earnings per preferred share *in €*		2003	2004
EpS	(in 2003, €2.62 before goodwill amortization)	1.78	2.70
Adjusted EpS	(in 2003, €2.85 before goodwill amortization)	2.21	2.87

Added weight of Rheinmetall stock in the MDAX

With an unchanged 36 million shares (18 million each of common and preferred stock) as of December 31, 2004, Rheinmetall AG had a year-end market capitalization of €1.3+ billion (up from around €840 million). The average daily trading volume for the more liquid preferred variety inched up from 63,200 in 2003 to 63,500 in the period. Within the MDAX statistics of Deutsche Börse AG (the German Stock Exchange Corporation), Rheinmetall preferred stock at the end of December 2004 was placed 27th for market capitalization and 28th for stock turnover (up from 36th and 31st at January 1, 2004, respectively). Ever since the broad placement on the capital market of the 42.1-percent stake in the capital stock, previously held by Röchling Industrie Verwaltung (RIV), Rheinmetall's free float has swollen substantially. This factor plus the envisaged consolidation of the two stock classes will in 2005 additionally increase Rheinmetall's weight within the MDAX.

Ownership structure shakeup

The stronger appeal (especially to the international investor community) and the withdrawal of Röchling as a previous major stockholder have toppled Rheinmetall's ownership structure. Until late November, RIV had been the controlling stockholder, owning 73.7 and 10.5 percent of the Company's common and preferred stock, respectively. On November 24, 2004, RIV communicated, and very successfully followed through inside only three trading days with, its intentions to broadly place its stake on the market. On November 11, Rheinmetall AG's Executive Board resolved to repurchase shares due to the sustained improvement of the financial position and the results of operations. By year-end 2004, the Company had acquired a total of 56,085 common and 533,493 preferred Rheinmetall shares as treasury stock.

Dividend

For fiscal 2004 and on the basis of the higher net income, Rheinmetall will propose to the annual stockholders' meeting a cash dividend of €0.74 per common share and €0.80 per preferred share.

Rheinmetall on the debt market

Finance principles

The Rheinmetall Group's primary finance principles are to ensure the availability of cash sufficient to meet payment obligations at all times, the best possible planning of capital costs, and an adequate flexibility to satisfy the requirements of operations.

Moreover, for reasons of risk prevention, Rheinmetall aims at sources of finance (especially debt) well diversified in terms of lenders, financial instruments and regions. Against the backdrop of current uncertainties regarding the development in the money and capital markets, as well as about the attitude of financial institutes, the independence of the Rheinmetall Group from individual investor groupings has become vital. Therefore, Rheinmetall has responded to this necessity by selecting a well-balanced mix of financial institutes and using a broad range of financial instruments.

Diversified set of debt instruments

Over and above the traditional lender-borrower relations, the Group has for years been able to draw on a syndicated 5-year €400 million credit facility, approved and revolved in 2002 and basically used not only to readily raise funds as and when needed but also as a backup line for Rheinmetall's €500 million commercial paper (CP) program (launched in 2002). By issuing short-term debt instruments under the CP program, quick funds can now be raised additionally.

Long-term funds are available to the Group from the 5-year €350 million corporate bond issue floated in 2001 (carrying amount €317 million as of December 31, 2004), as well as under long-term loan agreements and leases. In addition, meantime twelve domestic and foreign Group companies participate in an asset-backed securities (ABS) program under which trade receivables are sold continuously. This instrument was renewed in 2004 and increased to a ceiling of €170 million.

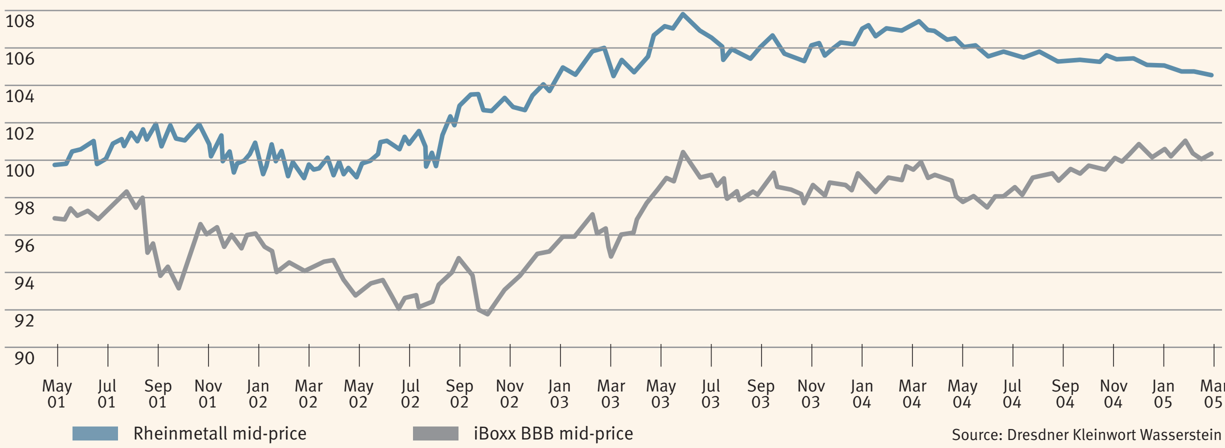
Favorable trend of Rheinmetall bonds on the secondary market

As of December 31, 2004, the bond was quoted at a mean price of 104 percent (up from 99.54 percent at issuance in 2001).

It is traded at the Luxembourg Bourse under ISIN DE 000 677 682 6.

Rheinmetall bond price trend versus iBoxx BBB

May 17, 2001, to March 10, 2005



Source: Dresdner Kleinwort Wasserstein

General economic conditions

Global economy recovers in 2004

Following a weak 2003, business activity gained substantial momentum internationally during the course of 2004. According to initial estimates, real economic growth increased by around 4 percent worldwide. Even though this encouraging trend slackened somewhat in the second half of the year owing to a slowdown in expansion in the USA and China, this would represent the strongest growth since 2000. The chief reasons for the cooling-off at year-end were the soaring prices for crude oil and other commodities during 2004.

Strong growth in China unabated

www.oecd.org

In 2004, the contribution by industrialized nations to gross world product was smaller than that of the emerging markets, which once again recorded especially strong growth. China's gross national product increased by a good 9 percent, according to OECD estimates, for instance. East Asia expanded by about 5.5 percent overall, according to the fall report by Germany's key economic institutes. The Russian economy continued to perform very buoyantly, with experts predicting growth of 7 percent.

The US economy expanded by more than 4 percent in 2004, according to OECD sources, up from growth of approaching 3 percent the year before. Japan's economy advanced 2.6 percent in 2004—the highest since 1996. Growth also picked up in Euroland, albeit remaining at a somewhat moderate level during the period. According to preliminary estimates, economic output in the European Union climbed 2.4 percent, up from a mere 1 percent in 2003.

While, with economic expansion estimated at 1.6 percent in 2004, Germany is lagging behind this trend, this does represent an improvement on the zero growth recorded in 2003, however. With private consumption still subdued, a situation further aggravated by rising energy costs during the course of the year, the upswing in economic activity worldwide impacted favorably on Germany's export industry.

Automotive industry on the up in 2004

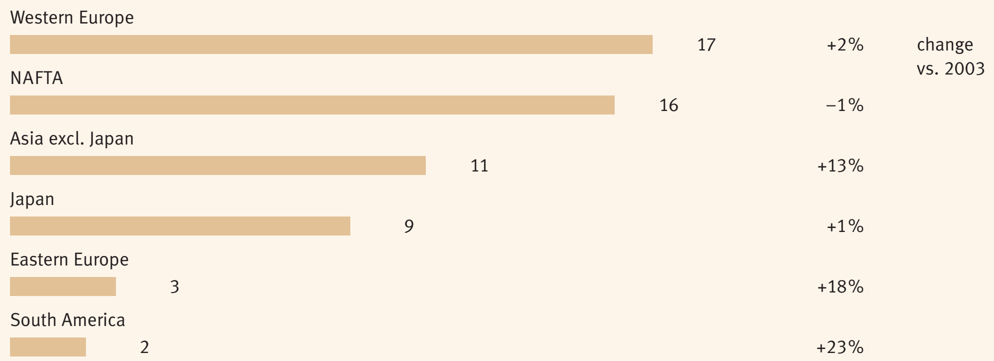
www.vda.de

The economic recovery worldwide, high pent-up demand in China and a large number of new vehicle models provided an overall pleasing year for the automotive industry in 2004. According to the estimates available to date, global production of passenger cars and light commercial vehicles (LCVs) climbed around 5 percent from 2003 to 59 million units.

As in the previous year, the automotive industry benefited from strong growth rates in East Asia, but also from sharply advancing production volumes in South America and Eastern Europe.

In Western Europe, the largest market in terms of output figures, an increase of two percent to some 17 million units was achieved, not least thanks to rising car production in Germany, Europe's most important auto market. Production of passenger cars and LCVs in Germany rose by about 2 percent to 5.4 million units owing to stronger domestic demand but especially on the back of rising exports. The year 2004 was less favorable for Italian carmakers, which saw their manufacturing volume decline by almost 10 percent. The UK and Spain showed slightly improved production figures whereas output in France rose by about 6 percent.

Production of light vehicles/LCVs in 2004 in selected world regions *million vehicles*



Source: CSM Worldwide

In NAFTA (USA, Canada, Mexico), neither economic growth nor the generous discounts again offered by car manufacturers were reflected in production. At some 16 million vehicles, automobile production remained slightly below the year-earlier level.

Japan benefited from the economic upswing and from rising exports, auto production increasing by one percent to 9.3 million units. The demand and production boom in the rest of Asia was maintained during 2004, the region registering growth of 13 percent overall. China again stood out, with production surging by 14 percent to some 4 million vehicles.

South America and Eastern Europe registered high growth rates, albeit at a low level, with gains of 23 percent and 18 percent, respectively. This reflects both the economic upturn and the relocation of production facilities to these regions.

Within the buoyant automotive industry, the diesel vehicles segment made the strongest gains in 2004, too. In Western Europe, some 48 percent of all new cars registered during the year under review had diesel engines. In general, vehicles with lower fuel consumption and reduced emissions are recording the highest growth rates worldwide—with a continuing trend toward higher engine output.

Lightweight construction materials such as aluminum and magnesium as well as products which merge mechanical and electronic technologies gained further ground. In these segments Kolbenschmidt-Pierburg holds a leading competitive and technological edge, benefiting from this favorable and burgeoning market trend.

Defence technology growing thanks to changed environment

Largely unaffected by the prevailing economic climate, the Defence sector's performance has been increasingly marked in recent years by globally heightened security requirements. In addition, the progressing internationalization of defence policy is dominating market activities. National defence budgets are being greatly influenced by obligations to international alliances such as NATO or the EU, accounting for international missions such as in Kosovo or Afghanistan.

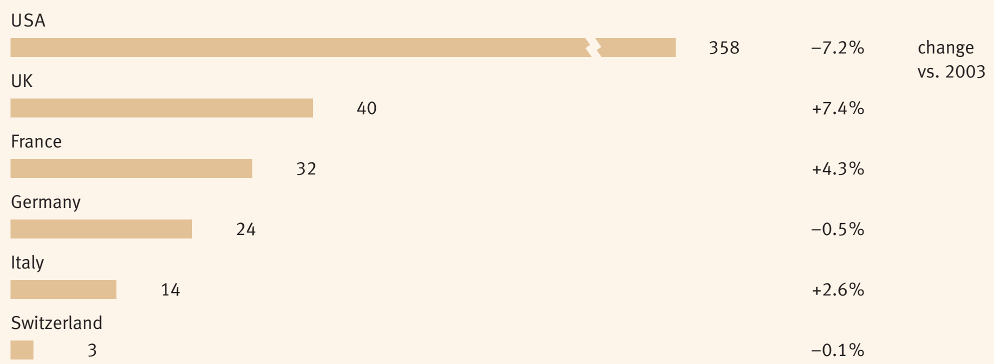
Prompted by these new deployment scenarios, the armed forces of many countries worldwide are undergoing transformation, a process which reveals a great need for the modernization of ordnance. The focus is on shifting defence budgets in the direction of new matériel which aids the mobility, reconnaissance capability and protection of soldiers while facilitating systems networking. Against this background, the external environment in which Rheinmetall DeTec AG operates as a leading supplier of land forces systems improved.

The defence expenditures of major European nations were stepped up in 2004, for instance, in the UK by €2.7 billion to just under €40 billion and in France by 4 percent to €32 billion. At €358 billion, the United States report the biggest budget.

www.bmvg.de

At about €24 billion, the German defence budget virtually remained at an unchanged level. The ongoing transformation of the German armed forces and the resulting modernization requirements were already reflected in procurement planning in 2004. Whereas in 2003 matériel spending and R&D had accounted

Defence expenditures 2004 by selected countries *€ billion*



Source: The International Institute for Strategic Studies (IISS)

General economic conditions

for some €5 billion, this increased to about €6 billion in 2004, representing a rise in the total budget share from 20.5 to 24.6 percent. In accordance with the Federal Government's current financial plan, this proportion available for procurement of relevance to Rheinmetall's market activities is set to advance to almost 30 percent by 2008.

The national market and the German armed forces as flagship customer remain of utmost importance to Rheinmetall DeTec. The introduction of new equipment within the German armed forces—as shown, for example, by the *Leopard* battle tank experience—lays the foundation stone for export success. The decision adopted in 2004 to procure the new *Puma* infantry tank for the German army together with the commissioning of pilot production worth €350 million was therefore hugely relevant to Rheinmetall DeTec's business operations.

Alongside securing its position in the German market, the opening of foreign markets is gaining increasing importance for the Defence sector. Major contracts, usually spanning several years, were in 2004 processed for the armed forces in Scandinavia, Greece, and Spain. Additionally, the US market and specific Asian market regions offer future potential and growth opportunities.

New civilian tasks for defence technology

www.rheinmetall-detec.com

With the establishment of its new Homeland Security field of business, Rheinmetall DeTec has taken a significant step into a new segment. Prompted by the growing threat posed by terrorist activities and organized crime, successful prevention and a speedy response aimed at protecting the civilian population and nonmilitary institutions are becoming ever more important. In this regard, Homeland Security stands for the protection of borders, civil defence, the protection of property, and disaster prevention. Contracted to develop and manufacture fog-based systems to shield large power plants in Germany, Rheinmetall DeTec secured a major contract in this new market segment in 2004.



The situation of the Group

Rheinmetall Group indicators *€ million*

	2003	**2004**
Net sales	4,248	3,413
Order intake	4,128	3,147
Order backlog (Dec. 31)	3,143	2,741
Employees (Dec. 31)	20,888	18,283
EBIT	204	217
EBT	120	146
Average capital employed	1,661	1,456
EBIT margin *in %*	4.8	6.4
ROCE *in %*	12.3	14.9

When using the adjusted EBIT as defined in Note (30) to the consolidated financial statements, the accordingly adjusted indicators are as follows:

	2003	2004
Adjusted EBIT *€ million*	223	224
Adjusted EBIT margin *in %*	5.2	6.6
Adjusted ROCE *in %*	13.4	15.4

Fiscal 2004 highlights

The Executive Board's decision to refocus the Rheinmetall Group on its Automotive and Defence core capabilities considerably streamlined the previously complex corporate structure. In fiscal 2004, two divestment projects initiated in prior periods concluded the shareholding portfolio purging program.

As announced in February 2004, the takeover by HgCapital, a London- and Frankfurt/Main-based private equity investor, of Hirschmann Electronics GmbH & Co. KG, Neckartenzlingen, was formally closed in March 2004, thus completing the divestment of the Electronics sector.

May 2004 saw the previously announced successful withdrawal from the entire nonnaval marine electronics business as EMG Euromarine Electronics GmbH, Hamburg disposed of its operations by transferring its 88.6-percent stake in ECI EuroCom Industries A/S, Ålborg, Denmark, to Thrane & Thrane, Lyngby, Denmark.

The situation of the Group

Rheinmetall posts 3.4 billion sales

In fiscal 2004, the Rheinmetall Group posted sales of €3,413 million. The year-earlier €4,248 million had included a number of companies since sold and is therefore not comparable. Of the aggregate sales, 57 percent was contributed by the Automotive sector and 41 percent by Defence.

Sales by corporate sector *€ million*

	2003	Share of total sales	**2004**	Share of total sales
Automotive	1,884	44%	1,941	57%
Defence	1,605	38%	1,384	41%
Others/consolidation	759	18%	88	2%
Rheinmetall Group	4,248	100%	3,413	100%

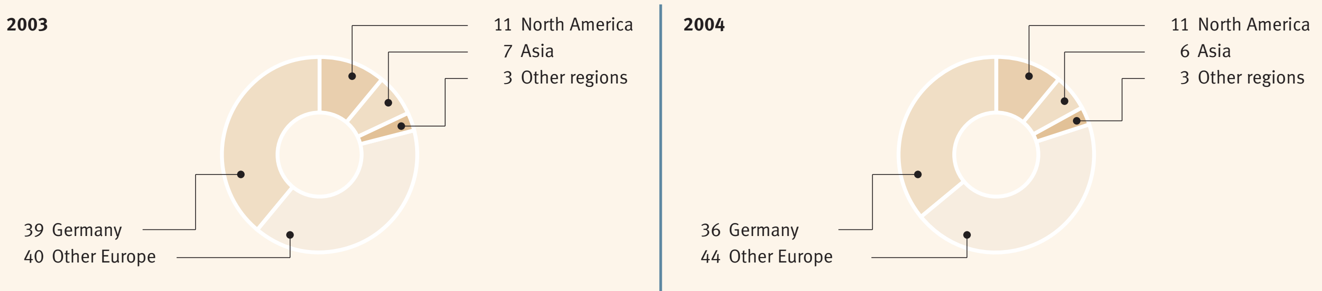
Automotive benefited from its foremost competitive position to generate record revenues of €1,941 million, up 3 percent over the high year-earlier €1,884 million. Adjusted for currency translation effects, the advance was around 5 percent. The chief sales generators were again the Pierburg and Pistons divisions which shared between them 75 percent of the Kolbenschmidt Pierburg Group's sales.

In the past fiscal year the Rheinmetall DeTec Group showed sales of €1,384 million with more buoyant business outside of Germany impacting noticeably. The decline over 2003 is solely due to the split-off of the Naval Systems unit from former STN Atlas Elektronik and the divestment of noncore, nonmilitary businesses. Adjusted for these consolidation group changes, Defence managed to edge up like-for-like sales by €7 million. Despite a perceptible drop in large-caliber ammunition sales, Weapon & Munition again inputted the largest share.

For fiscal 2004, "Others" includes Hirschmann Electronics and EuroCom Industries pro rata temporis (both disposed of in the first half of the period).

Business outside of Germany in 2004 rose from a high 61 percent in 2003 to 64 percent. The key markets were Europe and North America. Two-thirds of Automotive's sales were generated outside of Germany while Defence raised its sales to international customers from 57 to 62 percent.

Sales by region *in %*



Based on Rheinmetall Group sales of €4,248 million

Based on Rheinmetall Group sales of €3,413 million

New orders

The Rheinmetall Group showed an order intake for 2004 of €3,147 million (down from €4,128 million), the slump being substantially ascribable to the smaller consolidation group and in some cases postponements into early 2005 of a number of sizable contract award decisions affecting the Defence sector. Like-for-like, group orders slipped 2 percent.

The order backlog of €2,741 million fell short of the year-earlier high €3,143 million. At the end of fiscal 2004, orders on hand at Defence totaled €2,417 million (down from €2,748 million) and includes mega-contracts extending over several fiscal years. At Defence, 65 percent of the higher sales expectations for 2005 are already fulfilled by the year's opening order backlog.

Profitability improved

Despite an €800+ million shrinkage in sales, the Rheinmetall Group's 2004 EBIT mounted by €13 million to €217 million and, for the first time, all nine Automotive and Defence divisions contributed a profit.

EBIT by corporate sector *€ million*

	2003	**2004**
Automotive	103	139
Defence	69	77
Others/consolidation	32	1
Rheinmetall Group	204	217

This commendable performance reflects recent years' concentration on the profitable core businesses. Decisive factors in this improved performance were the groupwide cost-reduction and efficiency-enhancement programs through restructuring the operating business, the forward-looking product strategy focus on growth markets, and a selective internationalization thrust.

For fiscal 2004, the Kolbenschmidt Pierburg Group posted an EBIT of €139 million, 35 percent up over the high year-earlier figure, while Defence's EBIT was up by €8 million to reach €77 million. The €31 million decline under "Others" is chiefly due to the Electronics sector's EuroMarine Group and the Jagenberg Group both included in 2003.

The situation of the Group

Adjusted EBIT € *million*	2003	**2004**
EBIT	204	217
Nonrecurring losses/gains from		
shareholdings	(26)	(23)
realty	(7)	4
restructuring	52	26
Adjusted EBIT	**223**	**224**

Net interest expense

A further reduction in debts slashed net interest expense by another €13 million to €71 million.

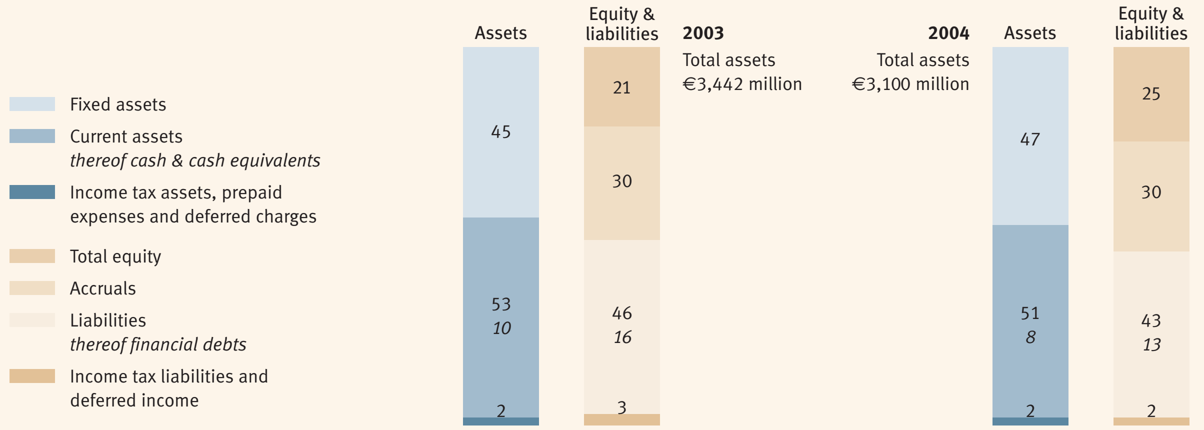
After income taxes, net income for 2004 totaled €101 million, up by €33 million.

Group net income € *million*	2003	**2004**
EBIT	**204**	**217**
Net interest expense	(84)	(71)
EBT	**120**	**146**
Income taxes	52	45
Group net income	**68**	**101**
Minority interests	(5)	(5)
Group net income after minority interests	**63**	**96**

Asset and capital structure

In the year under review, the Rheinmetall Group's total assets shrank 10 percent to €3,100 million, also due to consolidation group changes. The ratio of fixed to total assets improved from 45 to 47 percent while the equity ratio was raised by four points to 25 percent. By slashing net financial debts by €76 million to €154 million, net leverage (i.e., the ratio of net financial debt to equity) was definitely upgraded, from 31 percent in 2003 to 20 percent in the period.

Asset and capital structure *in %*



Value added

In the wake of the consolidation group changes in fiscal 2004, the value added by the Rheinmetall Group declined from the prior year's €1,612 million to €1,272 million. While the Group's total operating performance came to €3,660 million (down from €4,592 million), the ratio of value added to total operating performance was maintained at 35 percent, the previous year's magnitude. The value added per capita (rounded) grew 5 percent to €67,000 (up from €64,000).

The workforce received 81 percent of the value added; the Treasury's share of 4 percent corresponded to €57 million. The interest payable to lenders/banks dropped in 2004 by 16 percent to €83 million, thus accounting for 7 percent of value added. At €24 million, stockholders received 2 percent. The residual 6 percent of value added, equivalent to €77 million (up from €44 million), remained within the Rheinmetall Group.

Source and use of value added *€ million*

	2003		**2004**	
Source				
Group's total operating performance	4,592		3,660	
Input	(2,738)		(2,220)	
Amortization/depreciation	(242)		(168)	
Value added	1,612		1,272	
Use		in %		in %
Employees	1,380	86	1,031	81
Treasury	65	4	57	4
Lenders (banks)	99	6	83	7
Stockholders	24	1	24	2
Rheinmetall	44	3	77	6
Value added	1,612	100	1,272	100

The situation of the Group

Targeted expenditures—a major ingredient in future success

Rheinmetall's additions to tangible and intangible assets (excluding goodwill) amounted to €183 million (down from €203 million). As a percentage of the Group's sales, this is 5.4 percent (up from 4.8 percent). As in 2003, Automotive accounted for the lion's share. Amortization and depreciation (excluding goodwill) came to €168 million and hence €15 million short of outlays.

Capital expenditures by corporate sectors *€ million*

	2003	**2004**
Automotive	127	133
Defence	46	50
Others/consolidation	30	0
Rheinmetall Group	203	183

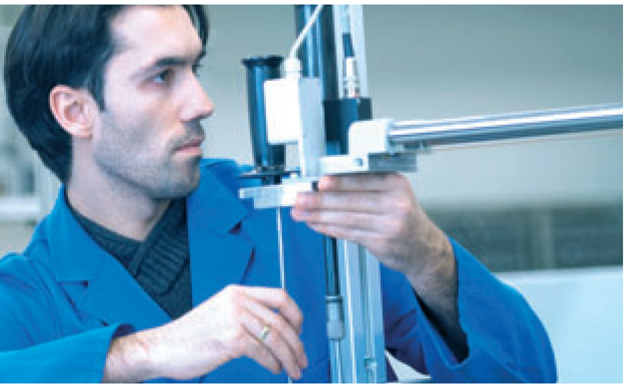
Automotive spending €133 million

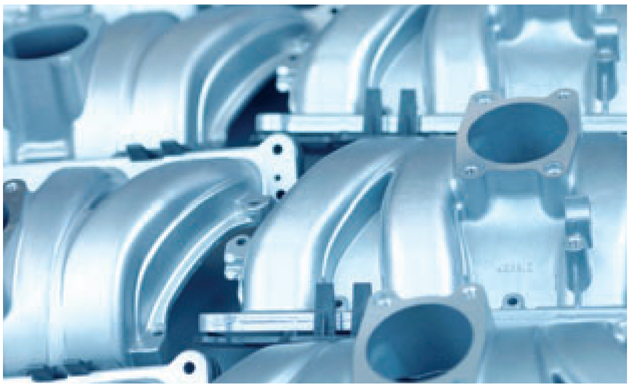
The Automotive sector's expenditures added up to €133 million (down from €127 million) in fiscal 2004. Once again, Germany accounted for 51 percent of the total, while 49 percent was spent abroad.

The Pierburg division's capital outlays in Germany were chiefly related to preparations for the series start-up of two completed intake manifold projects for German luxury car manufacturers and an innovative electric coolant pump for gasoline engines. Capacities were stepped up for the production of electric throttle bodies and the necessary electric motors. Major items of expenditure abroad comprised the modernization of infrastructure facilities for improving production processes and the expansion of an electric throttle body production line.

Besides replacement and rationalization measures, the Pistons division's chief priority was setting up and extending production capacities required for new customer projects including the necessary investments in foundry and machining facilities.

Whereas the Plain Bearings division's expenditures at the St. Leon-Rot location concentrated on expanding the product range, the division's Papenberg plant invested in foundry process improvements. The procurement of an automatic stamping/bending/calibrating machine will lay the foundations for broadening the product lineup and overcoming the bottlenecks at the two machines used previously. Another





item of spending was an expansion of input material production capacity. The US investments were primarily aimed at improving the quality of the casting/cladding line for bronze materials.

Spending by Aluminum Technology concerned low-pressure casting facilities and the related capacity extensions for starting up and maximizing manufacture of new products.

Defence spending up

In 2004, the Rheinmetall DeTec Group spent a total of €50 million, up from €46 million in 2003.

Land Systems continued to implement its Product Data Management system designed to coordinate development and design efforts for optimum efficiency across all its locations.

Air Defence Systems focused on the development of the high-mobility *Skyranger* multimission system and the *Millennium* naval gun. Another area of emphasis was PCB production at Zurich as well as retrofitting other production and testing equipment.

Spending by Weapon & Munition concentrated on upkeep and rationalization measures for improving production cycles at Unterlüss and Neulüss while replacement expenditures for modern and flexible CNC machining centers required for casing and barrel manufacture enabled the Mauser Oberndorf facility to revamp and further rationalize its production processes. The Buck Neuenburg branch completed the press and assembly line project launched in 2003 for producing multispectral fogging projectiles. Ongoing quality and efficiency improvements at Nitrochemie Aschau GmbH required replacement spending on polybasic propellant powder production, individual projects including an intensive kneading machine and a new building for housing this.

Defence Electronics engaged in a comprehensive revamp of its computer infrastructure and expanding its IT and communications systems.

The situation of the Group

Detecting trends—giving shape to ideas

Studious and extensive R&D efforts within the advanced areas of Automotive and Defence not only assure a competitive edge, they strengthen market positions and are therefore a key factor in the sustained business success of the Group.

Technology, market and industry sector trends are closely analyzed. New challenges are identified early on and responded to with vast flexibility and short development times. Existing product lines are refined and supplemented, new or adjacent areas of business tapped with the aid of innovative products, systems, and services.

The Group's own R&D efforts are complemented by close cooperation with university and other research institutes with the aim of utilizing, among other things, complementary know-how and knowledge transfer in such disciplines as automotive, production and electrical engineering.

R&D expenditures in 2004 were high, totaling €143 million worldwide. R&D efficiency was likewise enhanced: synergies were more intensely exploited and cooperation improved. In terms of sales and at 4.2 percent, R&D expenditure matched the year-earlier percentage.

R&D expenditures by sector *€ million*

	2003	% of sales	**2004**	% of sales
Automotive	81	4.3	97	5.0
Defence	60	3.7	39	2.8
Other companies	42	1.0	5	0.2
Rheinmetall Group	183	4.3	141	4.1

Market trends driving Automotive's R&D efforts

www.rheinmetall.com/kmp.php

Engine performance enhancement along with emission and weight reduction were once more the focal points at the Pierburg division where progress was again achieved in electric and motor-driven products for on-demand operation and hence lower fuel consumption. Alongside work on an integrated exhaust gas recirculating module that includes a cooling unit and bypass valve, a project started on an integrated intake manifold module including the intake manifold, an intake air throttle, and an exhaust gas recirculating valve. A milestone during the period was the series launch of the first on-demand electric coolant pump. Worked was stepped up on the development of a variable-response oil pump.

Enhanced power density and further downscaled consumption and emissions were again factors driving the development of new engine components



at the Pistons division in 2004. In the case of gasoline engines, this mainly entails performance upgrading through turbocharging and direct injection and/or variable valve timing. Within such environments, the pistons combine maximum strength with reduced mass. The LiteKS technology specifically developed for such pistons has been supplemented by high-grade piston ring groove protection for the first time used on gasoline engines.

With the rising power density developed by the new turbocharged car diesel engines, integrated coolant passages are an absolute must. Besides the cooled ring carriers (GalleriKS), series-produced large combustion-recess pistons are featuring variable cross-section coolant passages (ContureKS). Development work in 2004 addressed the design and casting technologies for advanced variable geometries that allow recess lip and groove temperature reductions of around 20 °C.

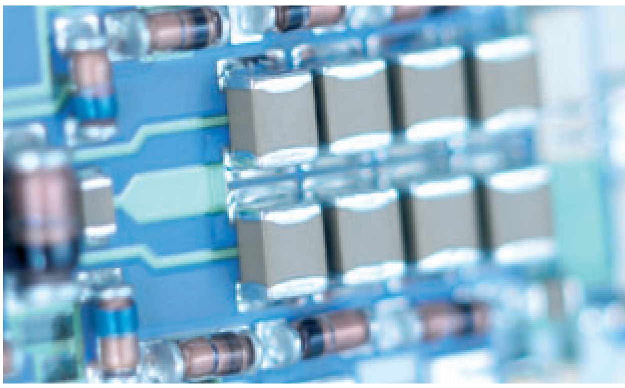
For commercial vehicle engines, R&D efforts again focused on all-steel pistons suitable for cylinder pressures of up to 250 bar and on adherence to future emission codes and regulations.

Also developed ready for car and truck engine production during the period were further improved materials compatible with maximum thermal and mechanical loads. For large engines, maximum strength single and multipart steel pistons were developed and shipped out to a number of customers for field testing.

At Plain Bearings, lead-free alloys in the steel/aluminum, steel/sintered bronze and steel/brass families were tried out under series-production conditions enabling the first specimens to be produced for approval testing. Progress was also achieved in lead-free base materials and, especially, lead-free galvanic layers. Initial tests conducted on connecting rod bearings with a special glide coat proved promising.

Product and process development work at Plain Bearings culminated in a new kind of strip heating technique that greatly accelerates production speed during sintering and plastics impregnation. Initial prototypes have already been made for highly sophisticated applications involving laser-welded flange bushings with dimensions impossible to achieve by conventional forming techniques. With the aid of deep-drawing processes it is possible to extend the range of sliding bushings to include base-bonded and hence one-side sealing plain bearings. With this in mind, the deep-drawing properties of the KS sliding materials were systematically explored in the course of 2004.

The Aluminum Technology division's process development efforts focused on thin-walled and intricate structures when using low-pressure casting techniques for upmarket engine blocks. It is also hoped to continuously shorten development times through added use of virtual tools. By more intensely exploiting existing resources it proved possible to make production start-ups even more reliable and further reduce manufacturing costs.



The situation of the Group

R&D securing Defence's leadership

With its innovative systems and key components the Rheinmetall DeTec Group is already well poised to exploit the changed tasks facing the defence industry. In order to keep helping shape the forthcoming changes both nationally and on foreign markets and building on the Group's foremost market position, R&D work commissioned by customers is being supplemented with development efforts financed from DeTec's own resources.

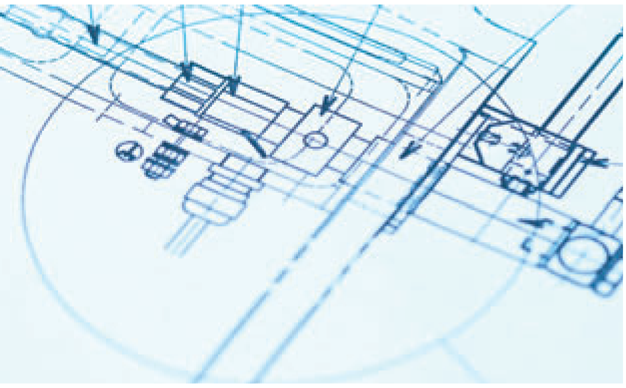
www.rheinmetall-detec.com/ puma.php

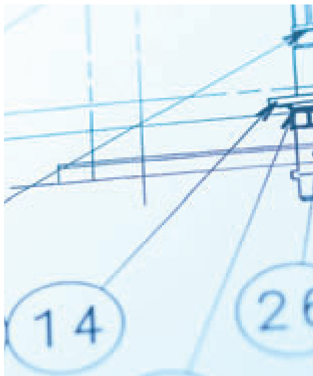
The new *Puma* infantry fighting vehicle is the Land Systems division's central project and moreover a cutting-edge technology product within the German defence industry. The crucial features of the new infantry tank include the highest possible crew protection, strategic mobility thanks to its transportability in the new Airbus A400M military aircraft and a technical design consistently tailored to the future needs of the armed forces.

In order to strengthen DeTec's leading position in NBC reconnaissance worldwide, a state-of-the-art simulator was developed for the *Fuchs* armored reconnaissance vehicle, enabling effective training as crew and equipment interact on realistic virtual scenarios involving a threat from NBC warfare agents. As a response to increased demand for self-propelled and semi-self-propelled combat vehicles, development of a robot technology demonstrator was pursued further.

The Air Defence Systems division unveiled the newly developed *Skyranger* system at Eurosatory 2004 in Paris as well as prototypes of its *Skyranger* cannon system. The key component in the highly mobile, self-propelled multimission system is the turret integrated into the vehicle. The cannon system can engage both extremely small missiles and ground targets very effectively. Further areas of activity included the ongoing development work on the battle management systems for networking guided missile- and cannon-based air defence systems as well as the highly sensitive 3D-X-Tar radar system for detecting and tracking very small targets over longish ranges.

The Weapon & Munition division centered on concluding the development program for 120-mm HE rounds with impact and electronically programmable fuse. Work also continued on preparing the 155-mm HE projectile for series production and on developing a range of mortar ammunition to be used in the





120-mm smooth bore mortar of the *Wiesel 2*. The *Corect* module, which was jointly developed with the Air Defence Systems division and enables satellite-assisted artillery missile trajectory correction, successfully completed its first test flights during the fiscal year. In addition, in the field of nonlethal impact agents, development of a medium-energy laser demonstrator continued, while interactions and possible product applications for high-power microwaves were examined in various studies.

Another focal point of R&D efforts was the project devoted to a recoilless machine gun with caseless ammunition. The acceptance tests for the *MASS* naval defence system and related ammunition for use in protection systems for ships were concluded. In addition, based on this technology, the division successfully completed the development of a system for shielding large power plants against terrorist attack from the air. Development work was also completed on the 155-mm multispectral smoke projectile DM 125, which is currently superior to all comparable smoke projectiles in terms of its effect and environmental compatibility.

The Defence Electronics divisions continued according to plan with the development of the First infrared searching and tracking system and with work on a new platform for the *Seoss* electronic periscope. The *Saphir* thermal imaging device, a third-generation sensor which is setting new standards in achievable thermal resolution, is about to reach the production stage. The chief R&D efforts in the air systems product group were aimed at expanding the product portfolio in the field of versatile multimission drones. As part of the ongoing *Taifun* development contract, work centered on demonstrating target acquisition capabilities and on developing an operational thermal imaging device including the data route. In the simulation and training unit, the TacSi tactics module developed by the land systems and battle simulation unit deserves special mention as the basis for future simulators. This tactical real-time simulation system constitutes cutting-edge simulation technology.


The situation of the Group

Employees as value generators

The Rheinmetall Group's employees make a major contribution to their companies' shareholder value through their knowledge, skills and dedication. They identify with an unmistakable corporate culture which relies on professional performance, personal responsibility and common understanding. The companies' structure based on flat hierarchies enables clearly defined chains of command, direct communication, the delegation of responsibility to experienced specialized and managerial staff, as well as the devolution of powers and authority.

In order to safeguard and build on sustained competitiveness, capabilities demanded by the market have to be available. In an environment of rising requirements and the increasing complexity of processes and products, well trained employees with wide-ranging qualifications, up-to-date knowledge and a pronounced readiness to learn are becoming increasingly crucial to the success of a technology group.

A key task of human resources management in the Rheinmetall Group over the past fiscal year was again the rigorous implementation of measures aimed at consolidating and improving managerial resources using modern management tools.

Potential analysis and succession planning—an integral part of providing for the future

Success depends on knowledge of potential and goals and of opportunities for growth and optimization. Executives have to be groomed for strategic and operative tasks as well as able to adapt quickly to new challenges and respond flexibly to change. It is not just a matter of professional qualifications; first-class leadership qualities are also required.

On the basis of a uniform, multistage assessment process, the performance and development potential of executives and possible managerial candidates has been identified, analyzed and evaluated at all Rheinmetall Group companies. The definition of the current position based on objective standards enables an open dialogue on strengths and weaknesses while helping through individual measures to improve specialized, methodological and interpersonal skills. This consistent human resources development tool makes succession planning easier, ensuring that key positions within the Group are filled by qualified executives predominantly from within our own ranks.

Promoting talent and building on existing strengths

Knowledge needs to be deepened, skills need to be broadened and performance needs to be improved. A diverse range of conventional and innovative training and advanced training courses geared to the skills and talents of individual employees and to the companies' requirements is available. The foundations have thus been laid for continuously acquiring the new skills, knowledge and competence necessary for a successful working life.

Under the administrative management of its established Academy, Rheinmetall offers, alongside external seminars and events, in-house training and skills-upgrading programs with the focus on the subject areas of strategy, leadership, project work, and globalization. These training courses and workshops form a platform stretching beyond the usual functional, hierarchical and regional boundaries for specialists from varying fields to pool their knowledge, experience and views.

Junior executives who have demonstrated that they possess the development potential to hold responsible positions in company management complete the Young Manager Program and are thus thoroughly groomed for their future managerial roles.

Moreover, additional advancement initiatives are being launched in 2005. The Executive Development Program is directed at experienced executives in middle management. They are to undergo advanced training in the fields of strategy, business process optimization and change management so that they can implement success-directed structures and processes in their sphere of responsibility. The program includes the Leading My Business concept, which is a competence model designed to nurture enterprising management abilities in all areas of the organization.

In addition, efforts are being stepped up to deepen the level of expertise of selected employee groups by providing additional training in key skills. For example, certification courses are being conducted for project managers in accordance with the standards of the International Project Management Association. Through a new in-house program for engineers who carry out the cross-subject and cross-interface analysis and coordination of system elements, the relevant additional skills related to the management of complex technical system environments are being conveyed to these technology experts.

Blended Learning—a selective mix of methods and media

The Blended Learning concept unites conventional and IT-assisted forms of learning. Presence seminars are combined with modular computer- or web-based teaching materials and coordinated didactically so that both corporate-specific and personal learning goals can be achieved more effectively and quickly. The mix of media and methods enhances the motivation to learn, improves the sustainability of the knowledge being conveyed and encourages both personal responsibility and media competence on the part of employees. On the basis the e-Campus intranet platform, the place, time and pace of private study can be organized individually and flexibly. Apart from the encouraging response and broad approval which the pilot projects have aroused, the tested digital seminars are to be offered groupwide in 2005. The components of the skills-enhancing concept are to be gradually extended and new e-learning modules prepared.

Vocational training enjoying high priority

Our future depends on training. The commitment to sound vocational training in a state-approved trade is still writ large. The trainees of today are the experts of tomorrow. During the fiscal period, the Rheinmetall Group's companies continued to discharge their responsibility to society by providing within the framework of their own requirements hands-on training for a total of 693 youngsters.

The situation of the Group

Rheinmetall Foundation–commitment to young scientists

The aim of the nonprofit Rheinmetall Foundation is to support financially talented young scientists, with awards being conferred for dissertations or theses in engineering disciplines.

In November 2004, the trustees awarded grants to four excellent young scientists at the Federal Armed Forces University, Munich, the University of Hannover and Aachen University of Technology, for their outstanding scientific efforts in the fields of automotive, production and electrical engineering. In line with the Foundation's charter, the money is to be spent on related activities, such as attending advanced courses or gaining additional qualifications.

The criteria for the assessment are the practical application of the topic being tackled, the problem's degree of difficulty and complexity, the innovative power of the identified solution, and the grade awarded to the dissertation or thesis by the higher education institution concerned. In addition, the prize winners are expected to put across a convincing case in addition to their academic qualifications, with yardsticks including interpersonal and communication skills as well as a close focus of goals and results.

Profit-related and meritocratic pay structures

The management culture in the Rheinmetall Group combines strength in terms of the strategy being pursued and clear performance expectations with tangible orientation toward implementation and results. Attractive, fair market conditions of employment and consistent value-enhancement compensation and incentive systems promote motivation and results. Executive and management board members as well as other senior executives receive a variable pay component which is linked to corporate success and the achievement of agreed targets. This meritocratic compensation system for managerial staff creates an individual incentive to surpass set goals as much as possible besides allowing executives to share in the risks and rewards of their business. The range of this variable pay component has now been extended to 0–200 percent, thus strengthening the link between success and the opportunities and risks involved.

In addition, an incentive program has been introduced for Executive Board members and managerial staff which is geared to the absolute annual increase in the Group's shareholder value. Actual performances in "fundamental equity capital" are compared based on a mean value of three successive fiscal years. This was introduced throughout the Group for the first time in 2004 for all executive staff.

As part of the management by objectives (MbO) program, employees below executive level are also being managed increasingly according to agreed goals. A proportion of the pay of these employees is also linked to the achievement of agreed goals and to corporate success. Until this modern remuneration scheme has been established groupwide, those employees not yet included will at least enjoy a share of their division's profits.

Attractive pension plans—an important part of HR policy

Employee pension schemes are gaining in importance. The Rheinmetall Group provides its employees and executives with a modern and flexible group pension scheme and supports them in planning and implementing a scheme which supplements statutory pension insurance, thus increasing financial security in old age.

This forward-pointing pension scheme, which applies to all Rheinmetall's domestic plants, consists of three components: a reliable basic plan, an intermediate profit-related plan linked to the enhancement of shareholder value and an employee-funded supplementary plan, which enables various forms of payment conversion (deferred compensation, direct insurance, partly employee-/partly state-funded pension based on the Riester model).

Rheinmetall's workforce exceeds 18,000

At the end of fiscal 2004, the Rheinmetall Group employed a worldwide workforce of 18,283, which was 2,605 fewer than the prior year's 20,888. The staff structure continued to change through scheduled divestments and various groupwide measures aimed at adapting to market trends, business processes and cost structures. The Kolbenschmidt Pierburg Group's share of the total workforce rose to 62 percent, with 37 percent of Group staff employed in the Defence sector, and the remaining 1 percent employed in the holding and service companies.

With 10,611 employees, Germany still had the largest workforce. Overall, 42 percent of the total headcount were employed outside of Germany. In accordance with our international growth strategy, this share is set to rise gradually over the coming years.

Reflecting the reduced headcount, personnel expenses fell to €1,010 million, down from €1,339 million in 2003. Personnel expense per capita was again €53,000. The ratio of payroll to sales fell from 31.5 to 30.0 percent in 2004.

Sales per capita advanced 6 percent from €169,000 in 2003 to €179,000.

Rheinmetall AG

Rheinmetall AG performing strategic holding functions

www.kolbenschmidt-pierburg.com

www.rheinmetall-detec.com

Its central holding company function implies that Rheinmetall AG is in charge of the uniform management and economic control of its Group. Besides conducting business on the basis of specific targets and objectives, Rheinmetall AG has a strategic function and is responsible for optimizing the portfolio of shareholdings and focusing its capital market capabilities. Its corporate support and service functions include Controlling, Finance, Human Resources, Corporate Communications, Legal Affairs, and Taxes and were performed by a staff of 65 as of December 31, 2004 (down from 77), the 2004 headcount averaging 69.

Through intermediate holding companies, Rheinmetall AG is affiliated with the subgroup parents of Automotive (Kolbenschmidt Pierburg AG) and Defence (Rheinmetall DeTec AG). Within the framework of the strategies, targets and policies determined by Rheinmetall AG's Executive Board, the clearly defined and functionally self-contained subgroups are autonomous operations acting on their own responsibility for business and having their own senior management, a structure that ensures great flexibility, ready market access, and close customer proximity.

As holding company, Rheinmetall AG basically earns financial income (from investments and interest) as well as service and management fees apportioned to group companies, less the related personnel and impersonal expenses. Unlike the consolidated financial statements, Rheinmetall AG's separate financial statements continue to be prepared in accordance with German GAAP (HGB regulations).

The investment income for 2004 shrank from €143 million a year ago (which had included the €161 million gain from the merger with Aditron AG) to €48 million.

Chiefly as a result of the lower investment income, Rheinmetall AG's EBT for 2004 dropped from €120 million in 2003 to €23 million.

Rheinmetall AG's net income for 2004 came to €23 million (down from €112 million) and, after transfer from the reserves retained from earnings, its net earnings to €27 million, which is proposed to be distributed as cash dividend.

Rheinmetall AG's group management and services functions include the central funding of subsidiaries. In May 2001, a 5-year 6.125-percent €350 million corporate bond issue was floated and in 2004 partly redeemed early, with the result that the bonds were carried at €317 million in the balance sheet as of December 31, 2004.

The corporate sectors: Automotive

Automotive sector expanding service business

In the Motor Service division, MTS Motorenteile-Service GmbH acquired in early January 2004 the engine components operations of E. Trost GmbH & Co. KG, Stuttgart, and PV Autoteile GmbH, Duisburg. In the second quarter of 2004, the now renamed MSD Motor Service Deutschland GmbH, Neckarsulm, purchased Willy Konczewski GmbH & Co. KG, Berlin. These acquisitions are designed to strengthen market presence, supplement the product range and expand customer service.

In January 2004, Pierburg GmbH sold its 49-percent stake in Pierburg Instruments GmbH to the previous majority stockholder AVL Holding GmbH, Graz, Austria.

With the expansion of the Ústí location through the acquisition of a plot of land and construction of a production shop, the Pierburg division is exploiting the advantageous economic environment in the Czech Republic. Under the mini-factory concept, some 60 employees at Pierburg s.r.o., established in May 2004, are producing and assembling electric actuators, secondary air pumps and exhaust gas dampers.

New sales record achieved

In fiscal 2004, the Automotive sector generated sales of €1,941 million, representing an all-time high. The prior-year €1,884 million was thus exceeded by 3 percent and, adjusted for currency translation effects, even by 4.6 percent. As a result, the Kolbenschmidt Pierburg Group's growth virtually mirrored the 4.7-percent expansion in automobile production worldwide while being well above Kolbenschmidt Pierburg's key sales markets, which showed an increase of 2 percent in Western Europe and a 1-percent decline in the NAFTA region.

The divisions achieved sales of €667 million at home. This strong 10-percent increase was attributable to the acquisitions in the Motor Service division as well as boosted sales at Pierburg. The domestic share of total sales increased by two points to 34 percent. At €1,274 million, customers abroad accounted for two-thirds of group sales as in the preceding year.

Sales in Europe (excluding Germany) improved by 1.3 percent to €844 million. Europe's share of total sales remained steady at 44 percent, rising sales to

Rheinmetall Group benefiting from continued diesel boom

Sales of diesel vehicles are rising. Almost every other new car registered in Western Europe today is equipped with a diesel engine. With fuel consumption about a third lower than its gasoline cousin, the compression ignition engine has also caught up with the spark ignition in terms of driving pleasure and refinement. This trend is unabated. The German Association of the Automotive Industry (VDA) reported a 2-percent year-on-year rise in passenger car sales in Western Europe for 2004. At the same time, the proportion of diesel vehicles among the new registrations in 2004 increased to 48.5 percent. Compared with the prior-year period, a good 7 million diesel vehicles were sold, representing a rise of 13 percent.

Compared with the diesel success story in Western Europe, the US market for diesel automobiles is, however, still completely untapped. At the Detroit Motor Show in January 2005, German manufacturers showcased a broad range of diesel vehicles. The background to this is that the quality of diesel fuel is to be greatly improved in the USA by law from 2006.

The Kolbenschmidt Pierburg Group, which forms part of the Rheinmetall Group, can keep benefiting from this ongoing boom. The pistons, engine blocks and plain bearings manufactured by the automotive specialist Kolbenschmidt Pierburg, as well as its air supply and emission control systems and pumps, are used by renowned carmakers. Due to its own engineering and development efforts, Kolbenschmidt Pierburg ranks among the leading manufacturers from which the OEMs source a large share of their components. These are high-tech products meeting ultimate standards without which pollution could not be controlled on the present scale either.

Thanks to such developments it has been possible for diesel engines to contribute the lion's share of carbon dioxide emission reduction in recent years, as established by the VDA. The rising demands on diesel engines will also necessitate the use of new materials in future. Kolbenschmidt Pierburg is already working on the systems of the tomorrow and will continue to benefit from the diesel boom.

Automotive indicators *€ million*		
Kolbenschmidt Pierburg AG	2003	**2004**
Net sales	1,884	1,941
Order intake	1,860	1,950
Order backlog (Dec. 31)	314	324
EBIT	103	139
EBT	72	111
Employees (Dec. 31)	11,316	11,364
Average capital employed	748	695
EBIT margin *in %*	5.5	7.2
ROCE *in %*	13.8	20.0

customers in Poland and Spain compensating for a declining volume of business with buyers in Hungary, France, and the UK.

Outside of Europe, the countries of North and Central America remained the key sales markets, even though their share of group sales again fell by 2 percentage points to 14 percent. This trend reflected weaker business in the USA above all, with the US dollar's strong depreciation against the euro also having an adverse impact. In local currency, the prior-year sales level was matched.

The remaining world markets accounted for 8 percent, as in the previous year, or €158 million of sales by the sector. In the sales volume of €71 million shown for the Asian region, the prorated sales of a total €47 million of the Chinese joint ventures carried at equity are not included.

World's first: Kolbenschmidt Pierburg's electric coolant pump

An example of the Rheinmetall Group's innovative power is an electrically driven water pump developed by the automotive component manufacturer Pierburg. The innovation ends this system's dependency on the direct drive through the engine, thus eliminating a frequent cause of breakdowns, because the absence of a connecting V-belt removes a weak point in the engine compartment.

Pierburg has become the first series manufacturer worldwide of such an electrically driven cooling water pump. The system's benefits are obvious. Apart from improved fail-safeness, thanks to its well-devised control system the pump regulates its output depending on the engine's requirements. The latter is thus relieved of the task of continuously supplying an auxiliary unit. This has very practical implications for everyday use. With a cold start, for example, the pump works at low capacity. As a result, the engine reaches the operating temperature more quickly and the car interior warms up faster. The pump works at a higher capacity in summer temperatures, in contrast, even at full load going up a mountain slope. With Pierburg's intelligent water pump the engine reaches its optimum operating temperature more quickly and is maintained in this state under all performance conditions. Up to half a liter of fuel per 100 km can be saved in this way.

Unlike conventional cooling water pumps which are directly connected to the engine, the Pierburg system is smaller. Traditional pumps are oversized because they have to operate at a constant drive speed in all temperature ranges. This means that in winter the heating system in the car interior starts later and in summer in extreme situations the cooling effect can be insufficient. Thanks to the cooling system's on-demand drive these disadvantages are eliminated.

The corporate sectors: Automotive

Substantially improved earnings—all divisions in the black

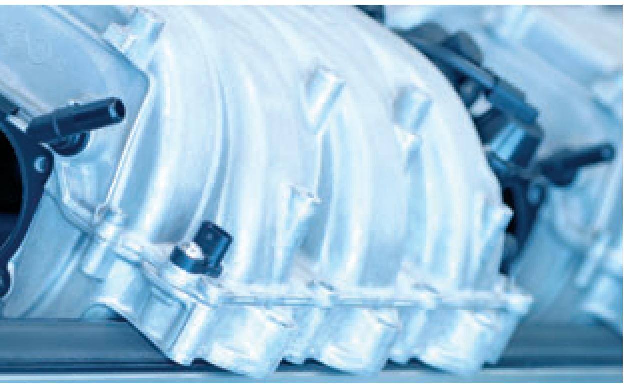
Automotive's EBIT for fiscal 2004 increased by 35 percent to €139 million. In contrast to the preceding year, all Kolbenschmidt Pierburg Group divisions contributed a profit in 2004.

In the year under review, the Pierburg division saw its sales inch up by a moderate 1.3 percent to €889 million. The air supply unit managed to reverse in 2004 its slight sales downtrend of 2003. Whereas sales of emission control products were at the year-earlier level, the pumps unit registered a minor shortfall because the sales lost on the disposal of the electric fuel pump unit were not completely offset by higher revenues in the remaining units. As in the preceding year, the Pierburg division again made the biggest profit contribution in 2004, its EBIT reaching €67.4 million, representing a 16.8-percent rise. Apart from the favorable effects of restructuring in Germany and Italy, this profit increase was attributable to one-time gains from the sale of the stake in Pierburg Instruments GmbH and from the disposal of a production line and a plot of land in Italy.

With sales of €582 million, the Pistons division fell just short of the high prior-year level (€594 million). In local currency terms, in particular Karl Schmidt Unisia Inc. and the South American subsidiary KS Pistões Ltda. managed to expand their sales volume. EBIT shrank by 2.6 percent to €37 million. High inflation-related rises in the costs of labor and materials reduced the EBIT of the Brazilian company KS Pistões Ltda. Increased volumes, price rises on the domestic market and savings from strict cost management compensated for these cost pressures only partially. Currency translation effects eroded earnings further.

Following the muted sales trend in 2003, the Plain Bearings division raised its sales by 9 percent to €160 million in 2004, with all units contributing higher sales than the year before. Apart from the metal plain bearings business, the continuous castings unit achieved notable increases thanks to higher output and its success in passing on higher material costs to the customer. The division's EBIT was perked up by €7.6 million to €16.6 million. With the German and Brazilian subsidiaries performing at the prior-year level, this significant improvement was based on the substantial progress made by the US company KS Bearings Inc. in its operations, which—unlike in the previous year—was not eroded by necessary risk provisions in 2004.

In the Aluminum Technology division, the efforts of preceding years to improve capacity utilization finally bore fruit in 2004, double-digit growth of 14.4 percent



Net sales Automotive 2004 *in %*

Basis: Net sales corporate sector Automotive €1,941 million

lifting sales to €183 million. Apart from the slight sales rise in the die-casting segment, these significant gains were chiefly attributable to the substantial advances in productivity in the low-pressure castings sector. Compared with a red EBIT in 2003 of €3.3 million, a further reduction in reject rates as well as enhanced productivity together with improved capacity utilization, especially in the low-pressure castings sector, produced a black EBIT of €5.0 million.

At €161.4 million, the Motor Service division's sales in fiscal 2004 were 16.5 percent higher than in 2003, partly thanks to the acquisitions made in 2004. Moreover, the division managed to hold its own in Western Europe and the Middle East despite the still challenging market situation. Encouraging sales were also registered in South America and Eastern Europe. However, the division failed to benefit from its increased sales. One-off burdens for the integration of the German engine component operations acquired in 2004, intensifying price competition in Western Europe as well as more expensive products in markets with the US dollar as key currency were responsible for EBIT receding by €3.4 million to €13.0 million. The commendable earnings performance by the Brazilian and Turkish companies compensated for these effects only partially.

The corporate sectors: Defence

Defence continued portfolio streamlining in 2004

The realignment of the portfolio of shareholdings, initiated in 2003 with a lasting increase in shareholder value in mind, was systematically continued during the year under review. By creating perspicuous ownership and management structures, the organizational changes made will provide greater flexibility and higher transparency. The Rheinmetall DeTec Group has thus laid the cornerstone for cementing its market position as leading land forces systems supplier in Europe.

In February 2004, Rheinmetall DeTec AG sold the Heidel Group, whose business is nonmilitary, to FRIMO Beteiligungs GmbH, Lotte. Through the disposal of these peripheral nonmilitary activities the Defence sector took another decisive step toward concentration on its core land forces systems business.

Consistent restructuring at Weapon & Munition

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With a consistent restructuring of the Weapon & Munition division, Rheinmetall DeTec responded to the changed market conditions in this industry segment. Retroactively as of January 1, 2004, Rheinmetall W&M GmbH increased its equity interest in Pyrotechnik Silberhütte GmbH, Silberhütte, by 33.3 percent to 100 percent. In March, WNC-Nitrochemie GmbH, Aschau, was renamed Rheinmetall Waffe Munition GmbH, Ratingen. Rheinmetall W&M GmbH, Mauser-Werke Oberndorf Waffensysteme GmbH, Grundstücksverwaltungsgesellschaft Carl-von-Linde-Strasse 14 mbH, Buck Neue Technologien GmbH, and Pyrotechnik Silberhütte GmbH were all merged to form the new Rheinmetall Waffe Munition GmbH. The locations of the previously separate companies will be retained as development or production facilities. In July 2004, Rheinmetall DeTec AG contributed both its 55-percent stake in Nitrochemie Wimmis AG,

Puma setting new standards

The German armed forces' decision in favor of the new *Puma* infantry fighting vehicle has opened a new chapter in the history of land forces systems. In overall charge of the procurement contract is the Kassel-based Projekt System und Management GmbH (PSM), in which Rheinmetall Landsysteme GmbH, Kiel, and Krauss-Maffei Wegmann GmbH & Co. KG, Munich, each hold a 50-percent stake.

With the *Puma* the German army will be gaining a leading product of German industry in the years ahead. Thanks to its equipment and capabilities, this infantry fighting vehicle will be setting the standard worldwide. The core skills of crew security and protection, the ability to overcome obstacles and battlefield effectiveness as well as commandability make the *Puma* a vehicle which meets the modern requirements being set by armed forces, including peacekeeping missions and possible out-of-area combat operations.

The *Puma* offers the best possible protection against bombardment and mines, has ample engine capacity and high fire power thanks to its weaponry. Its state-of-the-art communications also enable the vehicle to operate in networked scenarios. The *Puma*'s air transportability in the future A400M transport aircraft is another ingredient in this system's success. The *Puma* can also be adapted to various deployment scenarios thanks to its modular design. A completely new two-stage defence concept has been developed to this end, under which the *Puma*'s air transportability is ensured in the basic version with protection level A (Air Transportable), guaranteeing the most effective protection against mines worldwide. In addition, adaptable shields can be fastened to the sides of the vehicle on the spot, thus giving the *Puma* the much more comprehensive protection level C (Combat).

The *Puma*'s main armament is also high-tech, its design being based on the tried-and-tested MK 30-2 automatic cannon, enhanced by the newly developed Ahead (Advanced Hit Efficiency and Destruction) technology.

Altogether, the German army as first customer is to purchase 410 vehicles worth some €3.05 billion. The handover of the first prototype is scheduled for the end of 2005. The *Puma* procurement contract will also secure up to 5,000 jobs in Germany.

Defence indicators *€ million*		
Rheinmetall DeTec AG	2003	**2004**
Net sales	1,605	1,384
Order intake	1,473	1,102
Order backlog (Dec. 31)	2,748	2,418
EBIT	69	77
EBT	46	56
Employees (Dec. 31)	7,435	6,799
Average capital employed	528	496
EBIT margin *in %*	4.3	5.6
ROCE *in %*	13.0	15.5

Wimmis, Switzerland, and its 51 percent in Nitrochemie AG, Wimmis, Switzerland, to Rheinmetall Waffe Munition GmbH. In addition, the 37.5 percent held in Hartchrom Defense Technology AG, Steinach, Switzerland, was transferred to this company. These organizational changes are designed to interlink the range of expertise in weapon systems and ammunition more closely and to accentuate Rheinmetall Defence's position as Europe's leading supplier of ground forces equipment.

Homeland security—a growth market for Rheinmetall DeTec

Ever since September 11, 2001, the vulnerability of public or symbolic buildings and facilities to a new style of terrorist attack has impressed itself on the public consciousness. The very fact that the United States has since then established in its Department of Homeland Security one of the largest ministries in the world shows that protection of the homeland has taken on a completely new dimension. Protection concepts and systems for guarding against the terrorist threat are replacing conventional military defence systems and increasingly in demand. With its longstanding tradition of excellence and unsurpassed expertise in defence technology, the Rheinmetall Group possesses almost ideal qualifications to take on this challenge. Initial sales successes bear this out. German nuclear power plant operators, for example, will soon be equipping their installations with Rheinmetall DeTec smokescreen systems which are capable of concealing these facilities from exact visual detection in the event of an attack by a hijacked aircraft.

Rheinmetall DeTec's product portfolio offers a whole series of solutions for a multilayered protection concept. After all, reconnaissance, surveillance, protection and defence all represent core Rheinmetall capabilities.

Advanced operations control systems of the kind required for military command and control functions can also be modified for the protection of civilian property. The product range also includes acoustic monitoring systems capable of detecting and reporting the presence of approaching vehicles from a large number of ambient noises. In addition, seismic sensors are able to pick up the slightest vibrations in the ground, caused by approaching intruders, for example. This entire range of protection products is already available. The networking of all the components through special interfaces provides a detailed overview of the situation.

The surveillance of large areas from the air can now be accomplished by deploying unmanned air vehicles of the type currently being supplied by Rheinmetall DeTec to the German armed forces. This enables efficient automated ground monitoring of whole regions. Vehicles for NBC reconnaissance and the transporting of casualties under difficult conditions supplement Rheinmetall's homeland security arsenal. In addition, high-energy microwave systems can be used for temporarily or permanently disabling electronic devices while mobile robotic systems manufactured by Rheinmetall DeTec have long been used in defusing explosive devices.

The corporate sectors: Defence

In March 2004, 51 percent in Nico Feuerwerk GmbH, Trittau, was disposed of. The gradual divestment by December 31, 2006, of the remaining stake in this company specializing in small fireworks has already been contractually agreed upon.

Also in March 2004, Rheinmetall DeTec AG relocated its head office from Ratingen to where the Rheinmetall Group is headquartered in Düsseldorf. With a view to further streamlining organizational structures a number of administrative functions of the two holding companies were combined as a result of this move.

With Rheinmetall Hellas S.A., Athens, incorporated in Greece in April 2004, Rheinmetall DeTec is strengthening its market presence in this NATO country. Rheinmetall Defence Electronics GmbH, Rheinmetall Landsysteme GmbH, Oerlikon Contraves AG, and Rheinmetall Waffe Munition GmbH each hold a 25-percent stake in the company.

Defence sales reach some €1.4 billion

In fiscal 2004, the Rheinmetall DeTec Group generated net sales of €1,384 million in a challenging market environment, which represented a €221 million decrease due to the smaller consolidation group. Like-for-like sales rose by a moderate €7 million.

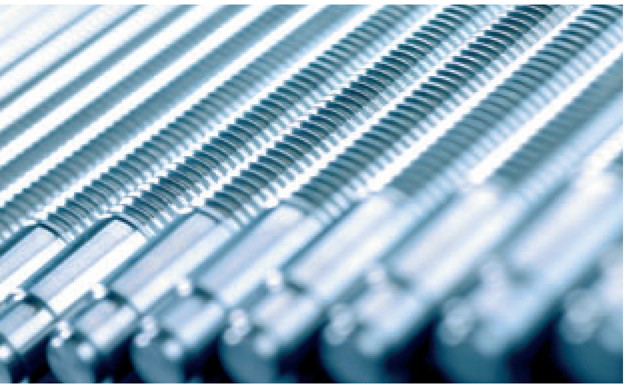
Accounting for 62 percent, sales to customers outside of Germany underlined Defence's continued efforts to expand its international activities. The chief sales region remained Europe (excluding Germany), which accounted for 45 percent of total sales. Asia and North America contributed 9 and 7 percent of sales, respectively, with other regions making up 2 percent.

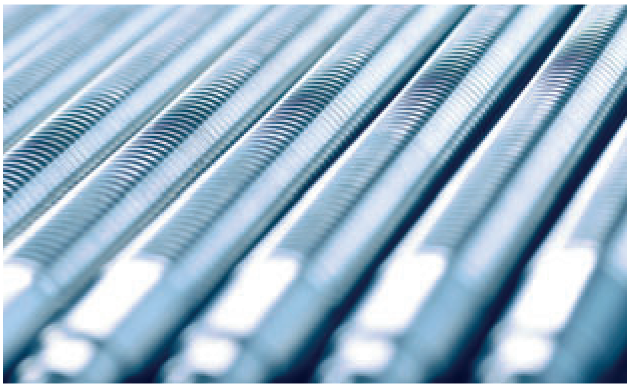
At €1,102 million, the sector's order intake failed to match the prior-year €1,473 million. €218 million of this shortfall was attributable to consolidation group changes and about €153 million to the postponement of expected major projects to the first few months of the current fiscal year.

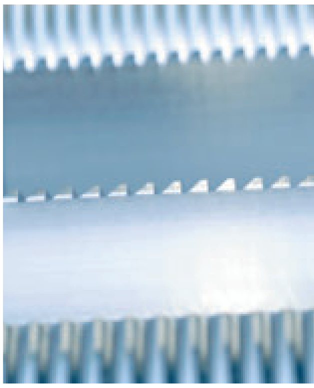
In fiscal 2004, Defence's EBIT rose by 12 percent from the year-earlier €69 million to €77 million.

254 board cannons for the Eurofighter

In the period under review, the Weapon & Munition division generated sales of €402 million (down from €567 million). This 29-percent fall was chiefly due to the disposal of the Heidel Group and of Nico Feuerwerk GmbH. Moreover, as expected, reduced national procurement programs lessened sales of large-caliber







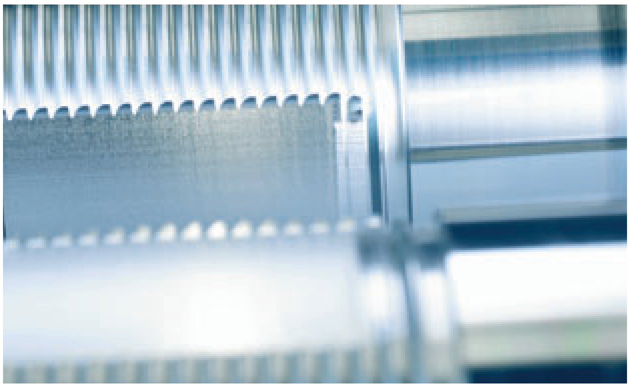
Net sales Defence 2004 *in %*

Basis: Net sales corporate sector Defence €1,384 million

ammunition. Deliveries of SMArt sensor-fuse ammunition, an artillery shell equipped with the very latest sensor technology, as well as combat upgrade programs on the *Leopard 2* battle tanks of the German and Dutch armed forces generated most of the revenues. Shipments of the BK 27 board cannon for the *Eurofighter* and of the light naval gun to the German navy under long-term supply contracts also made a sizeable impact on sales, as did propellant powder for tank ammunition supplied to the British army.

With an order inflow of €415 million, the division contributed the lion's share of the Defence sector's new contracts, as in the preceding year, albeit short of the year-earlier €480 million owing to the Heidel Group's deconsolidation as of January 31, 2004. Most notable among the orders booked were the contracts for the supply of 254 weapon systems as part of the second batch for the *Eurofighter* and for 30,000 cartridges of the 155-mm multispectral smoke projectile DM 125 to the German armed forces. In Italy, a contract was secured for gun barrels and additional components for 34 systems of the 2000 tank howitzer. In the new homeland security products area of business, a key order was booked for shielding systems for twelve large power plants in Germany, which will also serve as a reference for marketing the system internationally.

In fiscal 2004, Weapon & Munition's EBIT of €26 million was €11 million below the prior-year €37 million, which could not be matched due to the downsized consolidation group and the sales decline in large-caliber ammunition during the period.



The corporate sectors: Defence

Defence Electronics receiving major contracts from Finland and the Greek armed forces

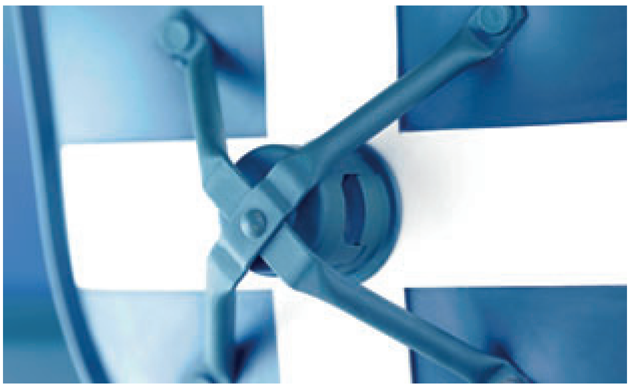
The Defence Electronics division saw its sales shrink by 12 percent to €357 million in 2004 owing to the split-up of STN Atlas Elektronik GmbH in 2003. On a like-for-like basis, sales increased by 24 percent. During the year under review, major projects with delivery periods extending over several years were a prime source of the division's sales. For example, further fire command systems for the *Leopard 2* battle tank were supplied to Spain and work related to a development contract from Germany for the series production of unmanned air vehicles for target detection. Additional sources of sales were the shipments of the Asrad air defence system to Greece and of observation and reconnaissance equipment for the German-Dutch *Fennek* reconnaissance vehicle.

Order intake fell from €419 million in 2003 to €275 million in 2004. This substantial 34.5-percent drop was exclusively due to the split-up of STN Atlas Elektronik GmbH in 2003. Adjusted for this effect, incoming business increased by €11 million. The booking of an order for the supply of series-produced training simulators for the new *Tiger* combat helicopter to the German and French armed forces was a key highlight. Other sources of new business were the orders from the Finnish armed forces for the Asrad short-range air defence system and for the fire command systems for the *Leopard 2* battle tank to be delivered to Greece.

Defence Electronics' EBIT reached €22 million (up from €12 million) although 2003 had included the prorated share of the split-off STN Atlas Elektronik GmbH for January to July.

Land Systems: development contract for the new *Puma* infantry fighting vehicle

In the period under review, sales by Land Systems grew by 3 percent to €342 million. In addition to the equipment of the *Marder* infantry vehicle, started in 2002, with a modern mine protection system for international missions, the shipment of 17 *Büffel* recovery vehicles to the Swiss army was the mainstay of sales. Other significant sources were the work in connection with a development contract for the new German *Puma* infantry fighting vehicle and the shipment to Kuwait of eight armored multipurpose *Condor* vehicles, which can be used in particular for reconnaissance, border patrol, and transportation purposes.



As expected, Land Systems' order intake fell to €278 million in 2004 (down from €323 million). The chief sources of new business were the contracts from Germany for 75 Bv 206S transport vehicles and for 36 light armored *Wiesel 2* vehicles, most of which are to be produced in the mobile command center configuration. In addition, an order was booked for the supply to the US Navy of 240 air start units, mobile devices for starting up aircraft engines.

EBIT surged to €22 million (up from €13 million).

Air Defence Systems: delayed incoming business from abroad

The Air Defence Systems division's sales dropped by 7 percent to €310 million, especially due to postponed contract awards abroad. Stationary air defence systems remained the prime sales motor, the new-generation *Skyshield* and *Skyguard* systems again accounting for an increasing share of sales. Notable individual contracts included the modernization of *Skyguard* fire units with Sparrow missile launchers for Greece as well as the supply of additional *Skyshield* fire control systems to Spain. Apart from air defence systems business, the reconnaissance and information management unit also made a significant contribution to sales.

Air Defence Systems' recorded an order intake of €164 million, falling short of the prior-year €287 million owing to postponed contract awards abroad. During the period, an order to equip two combat support ships and a patrol boat belonging to the Danish navy with six *Millennium* guns marked the booking of the first contract for the series production of this newly developed naval gun system. Additionally, a contractual option was agreed upon for the equipment of another two Danish naval vessels with four *Millennium* guns. Significant contracts were also secured for military communications systems.

Air Defence Systems' EBIT reached €17 million (up from €14 million).

Risk management

Groupwide risk management system

Rheinmetall's groupwide risk management system consists of a series of varying, dovetailing budgeting, controlling and information systems embracing every area of the Group. It is the Executive Board that formulates the Group's risk strategy and defines accountabilities, communication channels, the documenting of and response to identified risks besides laying down the thresholds and tolerance levels. This groupwide uniform risk management system makes sure that decisions of major business impact and ongoing routine business activities are confined to defined risk limits and comply with legal requirements.

Any risks identified by the corporate sectors are noted, analyzed for cause and likelihood and graded for their quantitative impact. As part of the risk aggregating process, the various risk reports are compiled, the overall risk/cost situation of the Group determined and minimized through suitable precautionary, safeguarding, and corrective action.

As independent staff department and on the basis of a project plan approved by the Executive Board, the Internal Auditing department examines processes, structures and procedural instructions for adequacy, effectiveness and reliability. Last year these efforts centered on capital spending, cost-efficiency and system audits, as well as propriety and compliance tests, besides the observance of legal regulations and groupwide policies. Any flaws or insufficiencies uncovered in the course of these audits are straightened out in conjunction with the management responsible.

Balancing risks through sector and market diversification

It is not possible to fully avert risks linked to economic, market, and capital expenditure cycles, rapidly evolving technologies, and fiercer competition.

Any downturn in the global economy may impinge on the Rheinmetall Group's sales and earnings. At Group level, risk diversification and offset result from the dissimilar economic cycles and demand fluctuations in the two—in this respect unrelated—core sectors of Automotive (Kolbenschmidt Pierburg Group) and Defence (Rheinmetall DeTec Group) as well as the geographic distribution of their locations.

Business in the Automotive sector is subject to how the global auto market progresses. However, this group's globalization policy does abate the impact of individual markets and customers on business performance. Added to this is a diversification of customer structure which helps to offset output fluctuations among the OEMs. Growing market transparency is reflected in the unabated high price pressure exercised by customers which is met through product and process innovations, CIPs, and observing strict cost management.

The Rheinmetall DeTec Group specializes in equipment for the land forces, specifically armored vehicles, weapons and munition plus electronic equipment and the latest air defence systems. The sector's market potential results from the defence budgets of prospective customer countries. The main risks are related to the depleted public-sector budgets in Germany and certain targeted markets abroad and in fiercer competition from across the Atlantic.

Operational and legal risks

Procurement risks occur when the raw materials and supplies required in the manufacture of the products are not (easily) available to the required extent in the necessary quantity and quality. In order to avert possible procurement bottlenecks and ensure a steady flow of supplies, the procurement markets are closely monitored to enable prompt response to any changes. Procurement risks are also offset by determining alternative sources of supply, efficient contract management, ongoing supplier ratings, quality and reliability audits at the suppliers and by accumulating adequate buffer stocks.

Containing sales risks

Sales and marketing risks are contained by a variety of measures including the expansion of existing product, market and customer segments, more attention to key account management, and long-term contracts.

Potential threats emanating from production cycle and pollution risks are effectively abated through unwavering adherence to all legal requirements, detailed quality assurance rules, and strict quality controls. Steps taken encompass process certifications to international standards, preventive maintenance procedures, repeated and scheduled revamping of plant and machinery, and ongoing improvements to production processes and manufacturing techniques.

Among the business risks are those tied to M&A, capital expenditures, and R&D. These are activities necessary to the survival of the Group but, at the same time, risky due to the possibly uncertain outcome. Meticulous research (in the case of M&A through exhaustive due diligence procedures), into capital expenditures (preinvestment analyses) and new R&D projects (feasibility studies and cost-benefit analyses) is conducted in the course of multistage approval processes aimed at increasing risk visibility. Inventions are patented where possible.

The business success of a technology-driven group such as Rheinmetall hinges to a large degree on having an exceptionally qualified staff and a host of specialists familiar with a wide variety of disciplines. Frequent staff turnover and/or problems recruiting highly qualified specialist and managerial staff with sector-specific expertise may pose a threat which is addressed by having attractive, incentive pay rates, training courses in selected subjects, and modern corporate pension schemes.

There is increasing dependence on complex electronic IT technologies and process control systems. Nonetheless, IT security is not seen as a risk factor. The software and hardware installed is state-of-the-art. Together with skilled services providers, the technical configuration and the functional security structures of the IT architecture are repeatedly upgraded. Adequate steps have been taken to safeguard against unauthorized data access and/or misuse.

Financially 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. Moreover, in the 2004 consolidated financial statements 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).

Legal and litigation risks emanating from tax, fair trade, patent, antitrust or contract regulations and legislation are countered by strict compliance to relevant laws and regulations. Additionally, the Group is comprehensively advised by its own professionals and in exceptional cases, refers to recognized outside experts and specialists.

Proceedings continuing since 1998 are examining the acceptability of the share exchange ratios underlying the merger of Kolbenschmidt and Pierburg. How long these will continue and what the outcome will be is still open.

Regarding the 1999 merger of KIH Kommunikations Industrie Holding AG and Aditron AG and the squeeze-out at Aditron AG in 2003, arbitration proceedings are pending before Karlsruhe Higher Regional Court and Düsseldorf Regional Court concerning the reasonableness of the underlying exchange rates and the amount of cash payment, respectively. Rheinmetall AG's Executive Board considers the claims to be unjustified.

Risk management

Hedging against financial risks

In the course of their operating business, the Rheinmetall Group companies find themselves exposed to the risk of fluctuating exchange and interest rates. The progressive globalization of procurement, production and financing processes is already steadily abating the impact of currency swings. In addition, marketable financial derivatives are used to hedge against currency and interest rate risks, mainly currency forwards, currency swaps, caps, and currency options. Short or option writer positions are generally avoided.

The central cash management system, as well as the deployment of financing instruments (such as commercial paper, an asset-backed securities program, bonds) ensure that sufficient cash and cash equivalents are at all times available for operations and capital expenditures. Adequate and sufficient accruals provide for any losses on long-term orders, sourcing and supply contracts, as well as any other risks (e.g. warranties). Because of the customer structure, the risk of defaulting debtors is very low. Neither does the Group’s business hinge on any specific customers and/or (crisis-prone) regions whose adverse repercussions might jeopardize the survival of the Rheinmetall Group.

Independent auditor’s statement

During the annual audit and in accordance with applicable German laws (KonTraG), the statutory auditors also assessed the early risk identification system (ERIS) and certified that, in line with Art. 91(2) AktG, the Executive Board had taken due steps and that the ERIS tested are basically suitable for the required purposes.

Executive Board’s overall risk assessment

Major risks or developments with a potentially long-term adverse impact on the Group’s net assets, financial position or results of operations could not be identified in the period under review. From today’s vantage point, no risks exist that might jeopardize in the foreseeable future either the continued existence as a going concern or the future development of Rheinmetall AG or its corporate sectors.



Prospects

Subsequent events

No significant events occurred in the period between December 31, 2004, and the date at which this report was prepared (March 7, 2005).

Outlook

Global economy growing at a somewhat slower pace in 2005

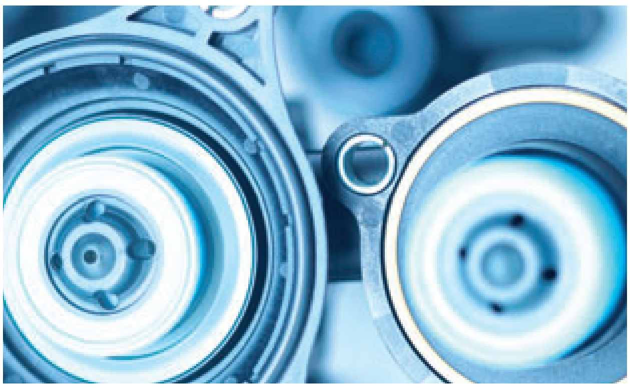
In spite of increased oil prices and the slowdown in the economic boom in East Asia, experts are predicting continued further growth for the world economy in 2005. The International Monetary Fund expects global GDP to increase by 4.3 percent this year. For the USA, growth of over 3 percent, fueled by high public spending, is anticipated. The oil price hike is expected to have a dampening effect on the dynamic economies of East Asia. Growth in China may have reached its peak in 2004, but relatively high growth momentum is still being forecast. The expected slowdown is likely to be more marked in Japan, chiefly due to slackening export growth. For Euroland, Germany's leading economic institutes are predicting economic growth of 2.3 percent for 2005 based on increased consumer confidence and a buoyant export trend.

Germany remains at bottom of growth league

By international standards, Germany may well remain among those at the bottom of the economic growth table. The forecasts for 2005 are assuming that German GDP will grow by between 1.3 and 1.7 percent. The next stage of tax reform should have a favorable impact on private consumption while flagging economic momentum worldwide could well affect exports adversely.

Confidence in motor vehicle manufacture for 2005

Based on a generally optimistic outlook, industry experts are predicting further growth in car manufacturing during the current fiscal year. Present estimates forecast a worldwide total of some 62 million cars and light commercial vehicles (LCVs) for 2005, representing a rise of over 4 percent. Although demand in China may recede somewhat, growth rates of again approaching 10 percent are possible there during the current year. Japan's output is likely to crawl up to some 10 million vehicles. Western Europe and the NAFTA region are expected to stall at around 17 million and just under 16 million units, respectively, with Central & Eastern Europe showing the strongest percentage growth in a double-digit range. Industry experts regard as chief risk factors the consequences of the oil price rise, which have been difficult to



Prospects

quantify accurately to date, as well as the cost burden from likewise soaring steel prices. The continued exceedingly favorable trend in the diesel segment may well have an encouraging impact. Long-term studies forecast for the diesel engine option a doubling of vehicles produced to 27 million units by 2015, with diesel vehicles' market share in the USA set to surge from just under 5 percent to 16 percent.

Automotive sector with growth expectations

The market trend in vehicle manufacture anticipated for 2005 and the good start to fiscal 2005 provide the Automotive sector with a solid foundation for continuing its planned organic growth and for enhancing performance in all the Kolbenschmidt Pierburg Group's divisions.

In order to achieve the targets set for fiscal 2005, Kolbenschmidt Pierburg plans to continue the innovation drive launched during the past fiscal year and aimed at tapping high-margin market segments and safeguarding market positions. In addition, the internationalization strategy is to be consistently pursued with particular focus on Southeast Asia and North and South America. Value-enhancing growth potential, which can be opened up through acquisitions and cooperation projects, is also being examined. Alongside this, optimizing business processes and structures remains a key task, as do—with a view to further bolstering financial muscle—a selective investment policy and strict working capital management.

Provided that there are no serious adverse changes in the political and macroeconomic environment or in the conditions on the major procurement and sales markets, the Automotive sector is anticipating for fiscal 2005 further sales growth and stabilization of the very good earnings level at least.

Matériel expenditure budget rising further in 2005

The German government's defence bill for 2005 specifies a ceiling of €23.9 billion. Whereas operating expenditures are being slashed, the matériel budget is set to rise from 24.6 to 25.6 percent or from €5.9 billion to €6.1 billion. It must also be taken into account that major contracts have already been placed during previous years. Defence budgets are expected to increase further worldwide. The US defence budget for 2005, for example, has been increased by some 5 percent to US$422 billion. For Europe, excluding Germany, experts are predicting that budgets will be raised by about 2.5 percent to just under €85 billion. Prompted by new deployment scenarios, armed forces worldwide will continue to undergo transformation. As a result, the external environment is improving for defence technology companies which like Rheinmetall specialize in light armored vehicles, protection systems, as well as products for reconnaissance purposes and for networking various platforms. Systems for protecting nonmilitary institutions and close-range air defence systems will also gain in importance.

Sustained strengthening of Defence's profitability

Against the background of the military hardware demand trend, the Defence sector is expecting increased sales for fiscal 2005 through organic growth. Export markets—not least thanks to increasing international arms collaboration—are set to become more important for Rheinmetall DeTec.

The Weapon & Munition and Defence Electronics divisions will make notable contributions to growth in 2005. At Weapon & Munition, key megacontracts—including for large-caliber ammunition, medium-caliber weapons and naval defence systems—are expected to compensate for the sales shortfall of 2004. In the electronics sector, the fire command systems for the Leopard battle tank to be delivered to Greece and Spain as well as the light, autonomously deployed air defence systems bound for Finland and Greece will boost sales growth. In the Air Defence Systems unit, export business in the Middle and Far East is also likely to augment sales.

In the armored vehicles business, the development contract for the new Puma infantry tank, the manufacture of the tank howitzer for the Netherlands and the recovery tank program for the Swiss army will be the chief sources of sales in 2005.

Based on the growth forecast and the measures aimed at process and product optimization already implemented or initiated, Rheinmetall DeTec is predicting that a sustained increase in profitability can be achieved in fiscal 2005.

Rheinmetall with encouraging sales and profit expectations

Rheinmetall's Automotive and Defence core sectors hold leading positions in their respective markets and are reaping the benefits of the chief market and demand trends.

Based on this and supported by the encouraging start to fiscal 2005, Rheinmetall is sticking to its target of annual organic growth averaging 5 percent. For the current fiscal year, sales are forecast to rise and order intake to improve on the previous year. Against the backdrop of a sound economic uptrend, Rheinmetall again expects solid earnings for the whole Group.

Düsseldorf, March 7, 2005

Rheinmetall AG

The Executive Board

Eberhardt Dr. Kleinert Dr. Müller

This annual report contains statements and forecasts referring to the Group's future development which are based on assumptions and estimates by 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.

Consolidated financial statements 2004 Rheinmetall AG

Consolidated balance sheet as of December 31, 2004

	ASSETS *€ million*	12/31/2003	12/31/2004	Note
	Fixed assets			
	Intangible assets	392	411	(6)
	Tangible assets	1,106	1,022	(7)
1	Financial assets	51	41	(8)
		1,549	**1,474**	
	Current assets			
	Inventories	716	653	(9)
	less prepayments received	(27)	(28)	
		689	625	
	Trade receivables	490	387	(10)
	All other receivables and sundry assets	300	298	(10)
	Cash & cash equivalents	336	258	(11)
		1,815	**1,568**	
	Income tax assets	**71**	**53**	(12)
	Prepaid expenses & deferred charges	**7**	**5**	
		3,442	**3,100**	

	EQUITY & LIABILITIES *€ million*	12/31/2003	12/31/2004	Note
	Total equity			(13)
	Stockholders' equity (Rheinmetall AG)			
	Capital stock	92	92	
	Additional paid-in capital	208	208	
	Other reserves	312	355	
	Group earnings (after minority interests)	63	96	
	Treasury stock	--	(22)	
		675	**729**	
	Minority interests	56	50	
		731	**779**	
	Accruals			
	Accruals for pensions and similar obligations	530	487	(14)
2	Other accruals	443	417	(14)
		973	**904**	
	Liabilities			
3	Financial debts	566	412	(15)
	Trade payables	455	385	(15)
2	All other liabilities	620	547	(15)
		1,641	**1,344**	
	Income tax liabilities	**80**	**62**	(16)
	Deferred income	**17**	**11**	(17)
		3,442	**3,100**	

1 *thereof carried at equity: €32 million (down from €42 million)*
2 *prior-year data adjusted*
3 *thereof long-term: €391 million (down from €519 million)*

Consolidated income statement for fiscal 2004

	€ million	2003	2004	*Note*
	Net sales	**4,248**	**3,413**	(18)
	Net inventory changes, other work and material capitalized	26	27	(19)
	Total operating performance	**4,274**	**3,440**	
	Other operating income	249	141	(20)
	Cost of materials	(2,014)	(1,641)	(21)
	Personnel expenses	(1,339)	(1,010)	(22)
	Amortization/depreciation/write-down	(242)	(168)	(23)
	Other operating expenses	(722)	(560)	(24)
	Operating result	**206**	**202**	
	Net interest expense	(84)	(71)	(25)
1	Net investment income and other financial results	(2)	15	(26)
	Net financial result	**(86)**	**(56)**	
2	**Earnings before taxes (EBT)**	**120**	**146**	
	Income taxes	(52)	(45)	(27)
	Group net income	**68**	**101**	
	Minority interests	(5)	(5)	(28)
	Group earnings (after minority interests)	**63**	**96**	

1 *thereof profit from financial assets carried at equity: €7 million (down from €9 million)*

2 *thereof net result from discontinued operations: €4 million (down from €22 million); cf. Note (33)*

	2003	2004	Note
EpS, common stock	€1.72	€2.64	(29)
EpS, preferred stock	€1.78	€2.70	(29)
EBIT	204	217	
EBITDA	446	385	
Adjusted EBIT	223	224	(30)

Consolidated statement of cash flows for fiscal 2004

€ million	2003	2004
Cash & cash equivalents at Jan. 1 (BoP)	**367**	**336**
Group net income	68	101
Amortization/depreciation/write-down/write-up of intangibles and tangibles	238	168
Change in pension accruals	2	(5)
Cash flow	**308**	**264**
Net result from fixed-asset disposal	(35)	(25)
Change in other accruals	(7)	--
Change in inventories	(6)	--
Change in receivables, liabilities (excl. financial debts) and prepaid & deferred items	46	(72)
Other noncash expenses and income, net	(5)	(3)
[1] **Net cash provided by operating activities**	**301**	**164**
Cash outflow for additions to tangible and intangible assets	(203)	(183)
Cash inflow from the disposal of tangible and intangible assets	47	32
Cash outflow for additions to consolidated subsidiaries and financial assets	(148)	(25)
Cash inflow from the disposal of consolidated subsidiaries and financial assets	115	108
Net cash used in investing activities	**(189)**	**(68)**
Dividend paid out by Rheinmetall AG	(24)	(24)
Other profit distribution	(5)	(2)
Treasury stock	--	(22)
Financial debts raised	6	1
Financial debts redeemed	(118)	(126)
Net cash used in financing activities	**(141)**	**(173)**
Cash-based change in cash & cash equivalents	**(29)**	**(77)**
Parity-related change in cash & cash equivalents	(2)	(1)
Total net change in cash & cash equivalents	**(31)**	**(78)**
Cash & cash equivalents at Dec. 31 (EoP)	**336**	**258**

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

[1] *included are*
net interest paid at €43 million (virtually unchanged)
net income taxes paid at €46 million (up from €40 million)

Statement of changes in equity

€ million

	Capital stock	Additional paid-in capital	*Reserves retained from earnings*	*OCI: currency translation differences*	*OCI: reserves from fair and other valuation*	All other reserves	Group earnings after minority interests	Treasury stock	**Stock-holders' equity (Rhein-metall AG)**	Minority interests	**Total equity**
Balance at January 1, 2003	**92**	**208**	*78*	*(30)*	*65*	**113**	**246**	--	**659**	**210**	**869**
Dividend payments	--	--	*(24)*	--	--	(24)	--	--	(24)	(5)	(29)
Currency translation differences	--	--	--	*(11)*	--	(11)	--	--	(11)	(2)	(13)
Changes in consolidation group	--	--	*(10)*	--	--	(10)	--	--	(10)	(153)	(163)
Transfer to/from reserves	--	--	*246*	--	--	246	(246)	--	--	--	--
Accumulated OCI	--	--	*(2)*	--	--	(2)	--	--	(2)	1	(1)
Group net income	--	--	--	--	--	--	63	--	63	5	68
Balance at December 31, 2003	**92**	**208**	*288*	*(41)*	*65*	**312**	**63**	**--**	**675**	**56**	**731**
Adjustment acc. to IFRS 3	--	--	*5*	--	--	5	--	--	5	--	5
Balance at January 1, 2004	**92**	**208**	*293*	*(41)*	*65*	**317**	**63**	**--**	**680**	**56**	**736**
Dividend payments	--	--	*(24)*	--	--	(24)	--	--	(24)	(2)	(26)
Currency translation differences	--	--	--	--	--	--	--	--	--	--	--
Changes in consolidation group	--	--	--	--	--	--	--	--	--	(9)	(9)
Transfer to/from reserves	--	--	*63*	--	--	63	(63)	--	--	--	--
Accumulated OCI	--	--	--	*1*	*(2)*	(1)	--	(22)	(23)	--	(23)
Group net income	--	--	--	--	--	--	96	--	96	5	101
Balance at December 31, 2004	**92**	**208**	*332*	*(40)*	*63*	**355**	**96**	**(22)**	**729**	**50**	**779**

For comments on equity, see Note (13).

Notes (Group)
Segment reports according to IFRS

Primary segments € million	2003	2004	2003	2004	2003	2004	2003	2004
Corporate sectors	Automotive		Defence		Others/ Consolidation		**Group**	
Net external sales	1,884	1,941	1,602	1,384	762	88	**4,248**	**3,413**
Intersegment transfers	--	--	3	--	(3)	--	**--**	**--**
Total segment sales	1,884	1,941	1,605	1,384	759	88	**4,248**	**3,413**
P/L from investees stated at equity	8	7	--	--	1	--	**9**	**7**
Income from write-up	--	--	--	--	3	--	**3**	**--**
Write-down	(6)	(3)	(7)	(1)	(4)	--	**(17)**	**(4)**
Segment EBIT	98	139	68	77	38	1	**204**	**217**
Cash flow from operating activities	174	222	159	--	(32)	(58)	**301**	**164**
Segment assets	1,246	1,237	1,459	1,421	330	131	**3,035**	**2,789**
thereof goodwill	*145*	*150*	*194*	*203*	*1*	--	***340***	***353***
thereof investment book values at equity	*37*	*30*	*2*	*2*	*3*	--	***42***	***32***
Segment liabilities	674	697	1,189	1,069	202	81	**2,065**	**1,847**
Segment expenditures	150	139	109	54	64	--	**323**	**193**

Secondary segments € million	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004
Regions	Germany		Other Europe		North America		Asia		Other Regions/ Consolidation		**Group**	
Net external sales by customer location	1,649	1,236	1,706	1,495	486	372	280	194	127	116	**4,248**	**3,413**
in % of Group sales	38,8	36,2	40,2	43,8	11,4	10,9	6,6	5,7	3,0	3,4	**--**	**--**
Segment assets	2,055	1,615	787	715	235	222	29	22	(71)	215	**3,035**	**2,789**
Segment expenditures	210	93	71	69	23	14	15	5	4	12	**323**	**193**

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

Segment reports according to management structure

€ million		2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**
Corporate sectors		Automotive		Defence		Others/ Consolidation		**Group**	
Balance sheet (Dec. 31)									
Total equity	(1)	363	428	370	408	(2)	(57)	**731**	**779**
Pension accruals	(2)	256	241	212	221	62	25	**530**	**487**
Net financial debts	(3)	105	(4)	(127)	(93)	252	251	**230**	**154**
Capital employed (CE)	(1)+(2)+(3)	724	665	455	536	312	219	**1,491**	**1,420**
Average CE	(4)	748	695	528	496	385	266	**1,661**	**1,456**
Income statement									
Net external sales		1,884	1,941	1,602	1,384	762	88	**4,248**	**3,413**
Intersegment transfers		--	--	3	--	(3)	--	**--**	**--**
Total segment sales		1,884	1,941	1,605	1,384	759	88	**4,248**	**3,413**
thereof Germany (%)		*32.1*	*34.3*	*43.1*	*38.3*	--	--	*38.8*	*36.2*
thereof abroad (%)		*67.9*	*65.7*	*56.9*	*61.7*	--	--	*61.2*	*63.8*
EBITDA		239	261	138	118	69	6	**446**	**385**
Amortization/depreciation/write-down		(136)	(122)	(69)	(41)	(37)	(5)	**(242)**	**(168)**
Segment EBIT (acc. to mgt. structure)	(5)	103	139	69	77	32	1	**204**	**217**
Net interest expense		(31)	(28)	(23)	(21)	(30)	(22)	**(84)**	**(71)**
EBT		72	111	46	56	2	(21)	**120**	**146**
Income taxes		(29)	(31)	(22)	(20)	(1)	6	**(52)**	**(45)**
Net income/(net loss)		43	80	24	36	1	(15)	**68**	**101**
EBIT margin (%)		5.5	7.2	4.3	5.6	--	--	**4.8**	**6.4**
Other data									
ROCE (%)	(5)/(4)	13.8	20.0	13.0	15.5	--	--	**12.3**	**14.9**
Segment expenditures		127	133	46	50	30	--	**203**	**183**
Order intake		1,860	1,950	1,473	1,102	795	95	**4,128**	**3,147**
Order backlog at Dec. 31		314	324	2,748	2,418	81	(1)	**3,143**	**2,741**
Prepayments received		17	29	478	439	(1)	(1)	**494**	**467**
Headcount at Dec. 31		11,316	11,364	7,435	6,799	2,137	120	**20,888**	**18,283**

For comments on the segment reports according to management structure, see Note (32).

Notes (Group)
Fixed-asset analysis

Fixed-asset analysis *€ million*

2003	Gross values				
	1/1/2003	Additions	Disposals [1]	Book transfers	Changes in consolidation group/ shareholding
Intangible assets					
Development costs and other internally created intangible assets	17	10	--	1	4
Concessions, franchises, industrial property rights and licenses	93	13	11	12	(24)
Goodwill	459	--	2	--	54
Badwill from consolidation	(32)	--	(6)	--	11
Prepayments on intangibles	12	3	--	(11)	--
	549	26	7	2	45
Tangible assets					
Land, equivalent titles, and buildings (incl. buildings on leased land)	1,145	11	27	1	(127)
Investment properties	91	--	5	5	(3)
Production plant and machinery	1,674	64	52	43	(86)
Other plant, factory and office equipment	707	33	56	20	(167)
Prepayments on tangibles, construction in progress	91	69	2	(71)	(12)
	3,708	177	142	(2)	(395)
Financial assets					
Shares in joint ventures (at equity)	54	9	--	8	(40)
Shares in associated affiliates (at equity)	21	--	--	(8)	(2)
Other long-term securities	17	2	--	--	(6)
Other long-term loans	5	--	1	--	--
	97	11	1	--	(48)
Total	**4,354**	**214**	**150**	**--**	**(398)**

2004	1/1/2004	Additions	Disposals	Book transfers	Changes in consolidation group/ shareholding
Intangible assets					
Development costs and other internally created intangible assets	32	13	--	--	(5)
Concessions, franchises, industrial property rights and licenses	82	14	3	4	(20)
Goodwill	345	--	--	--	9
Prepayments on intangibles	4	--	--	(4)	--
	463	27	3	--	(16)
Tangible assets					
Land, equivalent titles, and buildings (incl. buildings on leased land)	981	9	10	3	(68)
Investment properties	85	7	14	--	(8)
Production plant and machinery	1,593	60	71	44	(107)
Other plant, factory and office equipment	530	28	52	8	(51)
Prepayments on tangibles, construction in progress	71	52	10	(55)	(4)
	3,260	156	157	--	(238)
Financial assets					
Shares in joint ventures (at equity)	31	--	--	--	(1)
Shares in associated affiliates (at equity)	11	--	8	--	(1)
Other long-term securities	13	2	1	--	--
Other long-term loans	4	3	1	--	--
	59	5	10	--	(2)
Total	**3,782**	**188**	**170**	**--**	**(256)**

[1] *including revaluation-related write-down*

		Amortization/depreciation/write-down								Net values
Currency translation differences	**12/31/ 2003**	1/1/2003	Additions	Disposals	Book transfers	Write-up	Changes in consolida-tion group/ shareholding	Currency translation differences	**12/31/ 2003**	**12/31/ 2003**
--	32	8	4	--	--	--	--	--	12	20
(1)	82	73	12	9	--	--	(21)	(1)	54	28
(2)	509	148	31	2	--	--	(12)	(1)	164	345
--	(15)	(25)	--	(6)	--	1	10	--	(10)	(5)
--	4	--	--	--	--	--	--	--	--	4
(3)	612	204	47	5	--	1	(23)	(2)	220	392
(22)	981	488	28	4	--	--	(54)	(12)	446	535
(3)	85	54	2	3	--	3	(2)	(1)	47	38
(50)	1,593	1,260	110	47	(3)	--	(58)	(35)	1,227	366
(7)	530	564	55	51	3	--	(140)	(6)	425	105
(4)	71	10	--	--	--	--	--	(1)	9	62
(86)	3,260	2,376	195	105	--	3	(254)	(55)	2,154	1,106
--	31	31	--	--	--	1	(30)	--	--	31
--	11	2	--	--	--	--	(2)	--	--	11
--	13	8	2	--	--	3	--	--	7	6
--	4	1	--	--	--	--	--	--	1	3
--	59	42	2	--	--	4	(32)	--	8	51
(89)	**3,931**	**2,622**	**244**	**110**	**--**	**8**	**(309)**	**(57)**	**2,382**	**1,549**

Currency translation differences	**12/31/ 2004**	1/1/2004	Additions	Disposals	Book transfers	Write-up	Changes in consolida-tion group/ shareholding	Currency translation differences	**12/31/ 2004**	**12/31/ 2004**
--	40	12	2	--	--	--	--	--	14	26
--	77	54	11	3	--	--	(17)	--	45	32
(1)	353	--	--	--	--	--	--	--	--	353
--	--	--	--	--	--	--	--	--	--	--
(1)	470	66	13	3	--	--	(17)	--	59	411
(1)	914	446	24	6	--	--	(40)	--	424	490
--	70	47	1	4	--	--	(5)	--	39	31
(14)	1,505	1,227	91	66	1	--	(96)	(10)	1,147	358
(1)	462	425	39	48	(1)	--	(42)	(1)	372	90
(1)	53	9	--	9	--	--	--	--	--	53
(17)	3,004	2,154	155	133	--	--	(183)	(11)	1,982	1,022
--	30	--	--	--	--	--	--	--	--	30
--	2	--	--	--	--	--	--	--	--	2
--	14	7	3	--	--	--	--	--	10	4
--	6	1	--	--	--	--	--	--	1	5
--	52	8	3	--	--	--	--	--	11	41
(18)	**3,526**	**2,228**	**171**	**136**	**--**	**--**	**(200)**	**(11)**	**2,052**	**1,474**

Notes (Group)
Accounting principles

(1)
General

The consolidated financial statements of Rheinmetall AG and its subsidiaries for the fiscal year 2004 have been prepared in accordance with all International Financial Reporting Standards (IFRS/IAS) and Interpretations of the IASB effective at balance sheet date, as well as with those voluntarily applied early (see below).

Since January 1, 2004, the new IFRS 3, *Business Combinations*, as well as IAS 36 and 38 (both revised 2004) are voluntarily applied early. The rules of these Standards have been applied prospectively since the beginning of the fiscal year, i.e., business combinations are accounted for according to the new rules while prior-year comparatives remain unadjusted. As from such date, amortization had been discontinued. A goodwill impairment test is carried out once annually. In the opening balance sheet as of 1/1/2004, badwill was derecognized by offset against retained earnings, without affecting the income statement.

The following Standards (revised under the IASB Improvements Project) have, moreover, been applied early:

- IAS 2, *Inventories*
- IAS 10, *Events after the Balance Sheet Date*
- IAS 21, *The Effects of Changes in Foreign Exchange Rates*
- IAS 28, *Investment in Associates*
- IAS 31, *Interests in Joint Ventures*
- IAS 40, *Investment Properties*

When applying the revised Standards, the transitional provisions have been duly observed.

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. Additional financial statements include a consolidated statement of cash flows and a statement of changes in equity.

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

With its IFRS-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 analogous accordance with the GASC interpretation in German Accounting Standards GAS 1 and GAS 1a. The present consolidated statements substantially reflect the following accounting and valuation methods in derogation of German GAAP (German Commercial Code):

- translation of non-euro receivables and payables at the current closing rate and recognition in net income of the resulting translation differences (IAS 21)
- no amortization of goodwill (IFRS 3/IAS 36)
- recognition at fair value of certain financial instruments (IAS 39)
- capitalization of internally created intangible assets (IAS 38)
- statement at fair value of essential plots of land according to the alternative revaluation method (IAS 16)
- realization of profits according to the percentage of completion (PoC) from dedicated manufacturing contracts with customers (IAS 11)
- discounting of noncurrent accruals (IAS 37)
- waiver of providing for accrued liabilities if the probability of accrual utilization is below 50 percent (IAS 37)
- accounting for deferred taxes according to the liability method (IAS 12)
- 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.

(2) Consolidation group

Besides Rheinmetall AG, the consolidated financial statements include all German and foreign subsidiaries in which Rheinmetall AG holds the majority of voting rights (whether directly or indirectly) or whose financial and business policies are otherwise controlled by the Group. Generally, companies are newly consolidated or deconsolidated when the interest therein is transferred (acquired or disposed of). 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.

All subsidiaries are included in the consolidated financial statements. In 2003, two insignificant subsidiaries had not been included for lack of materiality.

Consolidation group: companies included

	12/31/2003	Additions	Disposals	**12/31/2004**
Fully consolidated companies				
Germany	74	4	(25)	53
abroad	53	2	(15)	40
	127	**6**	**(40)**	**93**
Investments stated at equity				
Germany	7	0	(4)	3
abroad	9	0	(4)	5
	16	**0**	**(8)**	**8**

In the year under review, six subsidiaries were newly consolidated while 40 companies (including 15 non-German) left the consolidation group.

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

– Motorservice Deutschland GmbH, asset deal in January/April 2004, at a price of €8 million

– Pyrotechnik Silberhütte: 67-percent interest increased to 100 percent by June 2004, at a price of €2 million

– Kolbenschmidt Pierburg AG, Düsseldorf, Germany: 95-percent stake in the capital stock increased to 97 percent by December 2004, at a price of €11 million; newly created goodwill: €6 million

In the year under review, a total €21 million was spent to acquire shares in fully consolidated subsidiaries (down from €172 million). The following disposals of shares in fully consolidated subsidiaries are significant:

– Sale and transfer of the Heidel Group in January 2004), at a price of €19 million

– Sale and transfer of Hirschmann Electronics GmbH & Co. KG, Neckartenzlingen, in March 2004, at a price of €75 million

– Sale and transfer of EuroCom Industries A/S (ECI) in May 2004, at a price of €14 million

– Further divestments at a total €2 million

The purchase prices negotiated for the disposal of fully consolidated subsidiaries totaled €110 million (down from €200 million).

Notes (Group)
Accounting principles

The acquisitions and divestments in the (prior) period impacted on the assets and liabilities as of December 31 and major lines of the consolidated income statement as follows:

Acquisitions/divestments € million	2003	2004
Fixed assets	(133)	(44)
Current assets	(499)	(153)
Accruals for pension and similar obligations	(125)	(36)
Other accruals	(70)	(27)
Financial debts	16	(22)
Trade payables and all other liabilities	(238)	(44)

Acquisitions/divestments € million	2003	2004
Net sales	(300)	(83)
Operating result	10	(3)
EBT	16	(3)
Net income	13	(2)

All major consolidated subsidiaries and the material investees stated at equity 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.

Since January 1, 2004, subsidiaries included for the first time are consolidated according to the purchase method, specifically the full revaluation method under the terms of IFRS 3, by contrasting the cost of shares acquired against the subsidiaries' prorated equity revalued as of acquisition date. Cost equals the fair values of the assets given, liabilities assumed, and equity instruments issued by the acquirer, in exchange for the acquisition, plus any related direct costs. Any remaining difference is capitalized as goodwill within intangible assets.

Any residual badwill is immediately released to other operating income.

The value of goodwill is once annually tested for impairment by comparing the book value to the recoverable amount, the latter being determined from the value in use. If and when the value in use is below book value, it is tested whether the net fair value (NFV: fair value less costs to sell) is higher. A cash-generating unit's value in use is calculated according to the DCF method, discounting future cash flows over a 3-year detailed corporate planning period and based on empirical and current forecast data.

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

Within the Defence sector, planning is substantially predicated—besides on projects and inquiries already included in its order backlog—on national defence budgets of EU nations and the NATO, duly allowing for new-market access and cost-paring programs.

The discount rate applied is the current WACC of 9.0 percent. For the period after the last planning year, a growth allowance of 0 percent (Automotive) or 1 percent (Defence) is deducted from the risk-specific pretax discount rate.

Goodwill impairment losses are immediately recognized as write-down in the corresponding income statement line. Pre-2004 acquisitions are carried unchanged in accordance with the previously adopted book value method of purchase accounting for capital consolidation purposes. As from January 1, 2004, the net goodwill book values as of year-end 2003 are stated at amortized cost, amortization being concurrently discontinued. As stated above, goodwill values are instead tested once annually for impairment.

Minority interests in the consolidatable equity of subsidiaries (including those in profit and loss) are recognized and disclosed as such in the balance sheet. The hidden reserves and burdens, as well as the pertinent profits or losses, are disclosed through the recognition at fair value of minority interests in pre-2004 acquisitions.

Expenses, losses, income and gains from intragroup transactions, as well as intercompany receivables/payables and contingent liabilities are all mutually offset. Intragroup trade transfers are based on both fair market prices and intragroup transfer prices as if at arm's length. Intercompany profits and losses are eliminated unless insignificant. Deferred taxes are recognized for all temporary differences from the consolidation of receivables/payables, income/expenses, and intercompany profits/losses.

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

To determine the goodwill (if any) of investees carried at equity, principles analogous to full consolidation are adopted, capitalized goodwill being mirrored in the investment book value and tested once a year for impairment.

Notes (Group)
Accounting principles

(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 corresponds to the local currency as the currency of the primary business environment in which such companies operate. Therefore, assets and liabilities are translated at the mean current, and the income statements at the annual average, rates. The translation differences resulting herefrom are recognized in, and only in, equity as accumulated other comprehensive income (OCI). Goodwill created from the capital consolidation of a newly acquired non-German company is assigned to the acquiree and translated at the current rate of the acquiree's functional currency, the goodwill of pre-2004 acquirees being carried at amortized cost and also translated at the current rate. The annual financial statements of a small Turkish subsidiary were prepared on the basis of the historical cost concept and adjusted in accordance with IAS 29, *Financial Reporting in Hyperinflationary Economies*.

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

Rheinmetall AG's consolidated financial statements are prepared on the basis of groupwide uniform, consistently applied accounting and valuation principles. For the extent of newly applied Standards, see (1) above under *General principles*. The proratable equity of investees carried at equity is valued according to analogous principles.

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, which 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.

Intangibles break down into indefinite-lived and finite-lived assets, the latter-category intangible assets being amortized by straight-line charges from the date of first use over their useful lives. 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:

Intangible assets

	Years
Concessions, franchises, and industrial property rights	3–15
Development costs	5–7

Intangible assets with an indefinite useful life are defined as assets from which the company will derive benefits for an unforeseeable period of time, and are hence not amortized but their value tested once annually for impairment.

Tangible assets

Tangible assets are carried at depreciated cost less any write-down. The production cost of internally made tangible assets comprises all costs directly allocable to the production process, including the prorratable production-related overheads. Borrowing costs are not capitalized as part of cost. Tangible assets (if finite-lived) are generally depreciated on a straight-line basis over their estimated useful lives unless in exceptional cases another method better reflects the pattern of use.

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

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

Public subsidies, as well as grants which have been received from customers and substantially qualify as investment grants, are directly offset against acquisition cost.

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 fair market value of investment properties, determined according to generally accepted valuation techniques and substantially based on updated values indicated by an independent appraiser, is stated in Note (7).

Tangible assets obtained under capital leases are capitalized at the lower of their fair values or the present value of minimum lease payments 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 in 2004 as financial assets, were throughout available for sale, and such financial instruments are carried at their fair values. Where such fair market values are not reliably determinable, assets are carried at amortized cost. Gains and losses, while unrealized, are shown in the OCI as 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.

Initial measurement is based on the value at settlement date.

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.

Notes (Group)
Accounting principles

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, always based on normal workloads, 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 amount, 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 dedicated 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 criteria and 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 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 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 manufacturing contracts. If resulting in a negative balance, the corresponding liability is recognized as payable under manufacturing contracts.

Receivables and sundry assets

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

Since the short-term securities are throughout available for sale they are stated at fair value as of the balance sheet date. Changes in fair value are not recognized in income until realized but shown within equity (OCI). However, if a carrying 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 temporary 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 the tax assets receivable from the expected future utilization of tax loss carryovers (if their realization is reasonably certain). Deferred taxes are determined by applying the local tax rates current or reliably anticipated in each country at the balance sheet date.

An unchanged 40 percent is applied to calculate German deferred taxes (corporate income tax, solidarity surtax thereon and municipal trade income tax). Deferred taxation rates outside of Germany range between 21 and 40 percent, comparing with the year-earlier range of 25 to 38 percent.

Enacted on December 22, 2003, the so-called Basket II of bills and acts (inter alia, amending municipal trade taxation) has changed the system of the tax treatment of losses in Germany. As from January 1, 2004, only a maximum 60 percent of a tax loss carryover from prior years may be offset against a corporation's taxable income (a base of €1 million of income remaining offsettable without limitation or restriction). This rule applies analogously to losses carried over for municipal trade tax purposes.

As from January 1, 2004, a full 5 percent of the capital gain or dividend income must be added as non-deductible business expenses to taxable income.

In the year under review, the amended legislation did not impact on deferred tax assets or liabilities. The deferred tax liabilities for the €11 million temporary differences of shares in group companies and associated affiliates (down from €15 million) were not recognized since Rheinmetall can control the reversal of such differences and the reversal is not probable in the foreseeable future.

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 participant 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. Payments 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 their settlement amounts. Noncurrent accruals are shown, if the effect of discounting is significant, at the settlement amount discounted as of balance sheet date. The settlement amount also accounts for identifiable future cost increases.

Liabilities

Pursuant to IAS 39, liabilities are measured at amortized cost, which as a rule equals the settlement or repayment amount.

Payables under capital leases are recognized at the present value of future lease payments.

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, gains or income from sale & leaseback transactions, etc.

Public grants not earmarked for capital expenditures, as well as subsidies for expenses are recognized as deferred income in line with the options of IAS 20 and realized when the corresponding expenses are incurred.

Notes (Group)
Accounting principles

Contingent liabilities/assets

Contingent liabilities are possible or existing obligations arising from past events or indicating that an outflow of resources is unlikely.

Contingent assets are possible assets whose existence hinges on the occurrence (or otherwise) of one or several future events not wholly controllable by a company.

Contingent liabilities and assets are disclosed in the notes at their probable settlement amounts.

Income and expenses

Net sales 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.

Financial derivatives

Companies of the Rheinmetall Group use financial derivatives solely to hedge future fair values and cash flows.

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

Changes in the fair value of financial derivatives are principally recognized in net income immediately 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 inflows/outflows, changes in the financial derivative's fair value are recognized under *all 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.

The ineffective portion of a hedge is recognized in net income.

Notes to the consolidated balance sheet

(6)
Intangible assets

In the year under review, non-contracted R&D expenses of €152 million were incurred (down from €189 million).

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

Thereof, development costs of €13 million met the capitalization criteria according to IFRS (up from €10 million).

R&D costs *€ million*

	2003	**2004**
Research costs and noncapitalized development costs	179	139
Amortization of capitalized development costs	4	2
Total R&D costs expensed	**183**	**141**

In line with IFRS 3, goodwill capitalized on or before December 31, 2003, is stated at amortized cost. Therefore, as of January 1, 2004, the accumulated amortization was directly deducted from the gross book value of goodwill. The pre-2004 badwill from capital consolidation was offset against retained earnings.

€ million

	Gross value at 12/31/2003	Amortization accumulated by 12/31/2003	Net value at 12/31/2003	Offset against equity	**Gross value at 1/1/2004**
Goodwill	509	(164)	345	--	345
Badwill from consolidation	(15)	10	(5)	5	--

Goodwill as of December 31, 2004, totaled €353 million and breaks down into €103 million (up from €97 million) for the entire Automotive sector and €47 million (down from €48 million) for the Automotive divisions, as well as €203 million (up from €194 million) for the Defence divisions, the latter, in turn, into €90 million (up from €86 million) for Air Defence Systems, €67 million (virtually unchanged) for Defence Electronics, and €39 million (virtually unchanged) for Land Systems.

Amortization of intangibles totaled €13 million (down from €47 million, which had included €24 million of goodwill amortization and €7 million for write-down).

(7)
Tangible assets

Depreciation includes write-down at €4 million (down from €10 million), of which €2 million (virtually unchanged) was charged to land and buildings, another €1 million (down from €7 million) to production plant and machinery, and €1 million to other plant, factory and office equipment (virtually unchanged).

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. Valuation of the land situated in Germany and abroad, which had been revalued on the basis of independent appraisal reports prepared as of December 31, 2002, was updated in 2004 and stepped up the essential land's net carrying amounts as of December 31, 2004, by €99 million (down from €102 million). Regarding the development of the revaluation reserve, see the comments on total equity in Note (13).

Notes (Group)
Notes to the consolidated balance sheet

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 €42 million (down from €51 million). In the year under review, rental income of €4 million (unchanged) was earned which contrasts with direct operating expenses of a €7 million (up from €4 million).

The disposal of €7 million of tangible assets (down from €37 million) is restricted by land charges, similar encumbrances and the assignment as security. Moreover, standard commercial liens totaling €76 million (down from €105 million) rest on assets which are held under capital leases and are 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:

Capitalized leased tangible assets *€ million*

	12/31/2003			**12/31/2004**		
	Capital leases	Consolidation of special-purpose leasing firms	Total	Capital leases	Consolidation of special-purpose leasing firms	Total
Land and buildings	26	56	82	8	54	62
Production plant and machinery	23	--	23	14	--	14
	49	**56**	**105**	**22**	**54**	**76**

€16 million of the decrease in capital-leased land and buildings is attributable to the retirement of two properties.

As a rule, leases for realty or personalty include a purchase option. The remaining lease terms vary between 1 and 17 years.

Depending on market conditions and contracting date, the interest rates underlying leases range from 5.3 to 8.0 percent. The future lease payments under capital leases, the interest portions included therein, and the present values of future lease payments, which are recognized as financial debts, are shown in the table below:

Capital leases *€ million*

	2003				**2004**			
	2004	2005–2008	after 2008	Total	2005	2006–2009	after 2009	Total
Lease payments	12	28	31	71	7	14	15	36
Discount	(3)	(8)	(8)	(19)	(2)	(4)	(4)	(10)
Present values	**9**	**20**	**23**	**52**	**5**	**10**	**11**	**26**

The cash inflow from subleasing tangible assets totaled €5 million in 2004 (down from €7 million). During the noncancelable lease term of the subleased tangible assets, a future cash inflow of an aggregate €12 million (down from €16 million) is expected.

(8)
Financial assets

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

Joint ventures *€ million*

		2003	**2004**
Assets [1]	(12/31)	35	32
thereof noncurrent		*21*	*17*
Equity	(12/31)	23	21
Debt [2]	(12/31)	12	11
thereof noncurrent		*5*	*5*
Income		50	50
Expenses		42	44
Net income		8	7

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

Associated affiliates *€ million*

		2003	**2004**
Assets [1]	(12/31)	33	62
Equity	(12/31)	2	2
Debt [2]	(12/31)	31	61
Net sales		50	60
Net income		0	0

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

Except for €1 million, which is carried at cost (virtually unchanged), securities of €4 million (down from €6 million) have been stated at fair value. Liens of €6 million (up from €5 million) rest on securities to protect employees from insolvency risks, the sale of these securities being hence restricted. These securities break down into €3 million of long-term (virtually unchanged), and €3 million (up from €2 million) of short-term securities. All remaining securities are readily available for sale.

In accordance with IAS 39, the other long-term loans of €5 million (up from €3 million) are carried at amortized cost.

Notes (Group)
Notes to the consolidated balance sheet

(9)
Inventories

Inventories € million	12/31/2003	12/31/2004
Raw materials and supplies	205	188
Work in process	253	231
Finished products	70	67
Merchandise	58	44
Prepayments made	130	123
	716	**653**
less prepayments received	(27)	(28)
	689	**625**

The book value of inventories stated at the lower NRV totals €147 million (down from €184 million). Write-down in fiscal 2004 totaled €11 million (up from €8 million). In the year under review, €3 million (up from €2 million) of inventories previously written down was written up as NRV had risen. Inventories do not collateralize any liabilities.

(10)
Receivables and sundry assets

Receivables and sundry assets € million	12/31/2003	thereof due after 1 year	12/31/2004	thereof due after 1 year
Trade receivables	490	26	387	24
All other receivables and sundry assets				
receivables from manufacturing contracts	159	9	175	57
sundry assets	141	12	123	7
	300	21	298	64
	790	**47**	**685**	**88**

Breakdown of receivables from manufacturing contracts:

PoC receivables € million	12/31/2003	12/31/2004
Production cost incurred	177	188
plus markup (less losses)	45	51
	222	**239**
less prepayments received	(63)	(64)
	159	**175**

Breakdown of sundry assets:

Sundry assets *€ million*	12/31/2003	**12/31/2004**
Short-term securities	2	3
Other receivables		
non-income taxes	31	21
purchase price balances (sale of realty/shares)	13	19
prepayments made	21	24
financial derivatives	17	11
Miscellaneous current assets	57	45
	141	**123**

The disclosed book values of the monetary assets covered by these items (including securities and receivables from financial derivatives) approximate their fair values.

No accounts were due from nonconsolidated subsidiaries, whether in 2004 or 2003. Accounts due from joint ventures and associated affiliates totaled €2 million (down from €13 million).

Under an ABS program, the Rheinmetall Group sells trade receivables on a revolving basis up to a maximum volume of €175 million (up from €127 million). According to IAS 39, sold receivables are treated as disposed of and derecognized since the residual recourse risks are now insignificant for Rheinmetall. As of December 31, 2004, the principal of receivables sold came to €167 million (up from €103 million).

(11)
Cash and cash equivalents

Cash and cash equivalents *€ million*	12/31/2003	**12/31/2004**
Cash on hand and in bank (incl. checks)	336	258

Disposal of cash & cash equivalents is not restricted (unchanged).

(12)
Income tax assets

Income tax assets *€ million*	12/31/2003	**12/31/2004**
Deferred tax assets	64	48
Income tax due from the tax office	7	5
	71	**53**

Deferred taxes are allocable to the following balance sheet lines:

Notes (Group)
Notes to the consolidated balance sheet

Deferred taxes *€ million*

	12/31/2003 [1]		12/31/2004	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryovers and tax credits	73	5	75	--
Fixed assets	25	91	13	77
Inventories and receivables	36	30	19	27
Pension accruals	35	1	28	1
Other accruals	30	--	33	2
Liabilities	27	25	8	14
Sundry	(11)	29	(10)	9
	215	**181**	**166**	**130**
Offset	(151)	(151)	(118)	(118)
	64	**30**	**48**	**12**
thereof not affecting net income		44		41

[1] *values reclassified*

Apart from the capitalized deferred tax assets from loss carryovers and tax credits, further tax loss carryovers and tax credits exist in Germany and abroad at €378 million (down from €404 million) which are not utilizable or whose deferred tax assets were adjusted by write-down. Thereof, €106 million (up from €103 million) is allocable to loss carryovers for corporate income tax purposes, €1 million (down from €18 million) referring to those for municipal trade tax purposes, another €265 million (down from €276 million) to non-German tax loss carryovers, plus €6 million to tax credits (down from €7 million). The German loss carryovers are not subject to expiration whereas the foreign ones as a rule are (about one-third expiring within the next five years).

€39 million (down from €41 million) of the deferred taxes not recognized in net income is allocable to the revaluation of realty, another €2 million (down from €3 million) to hedges.

According to the German Tax Reduction Act of October 23, 2000, the transition 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 potential for deferred tax assets or liabilities amounts to less than €2 million in either case.

(13)
Total equity

Rheinmetall AG's capital stock amounts to an unchanged €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 €2.56 of the capital stock.

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

The caption *all other reserves* comprises earnings retained by the Rheinmetall Group at €332 million (up from €288 million), as well as the *accumulated other comprehensive income (OCI)* which breaks down into unrealized losses of €40 million from currency translation (down from €41 million) and reserves of €63 million from the remeasurement to fair value and other valuation gains (down from €65 million).

A breakdown and analysis of the OCI from fair and other valuation are shown below:

OCI: reserves from fair and other valuation *€ million*

	Realty revaluation reserve	Hedge reserve	Securities available for sale	Reserves from fair and other valuation
Jan. 1, 2003	**66**	**--**	**(1)**	**65**
Change in fair values	(4)	7	2	5
Disposals	(10)	--	--	(10)
Deferred taxes	5	(3)	(1)	1
Minority interests	4	--	--	4
Dec. 31, 2003	**61**	**4**	**--**	**65**
Change in fair values	(3)	(2)	--	(5)
Deferred taxes	2	1	--	3
Dec. 31, 2004	**60**	**3**	**--**	**63**

Breakdown of the realty revaluation reserve:

Remeasurement of realty to fair value *€ million*

	12/31/2003	**12/31/2004**
Revaluation of realty within tangible assets	102	99
Deferred taxes	(41)	(39)
	61	**60**

In fiscal 2004, the Executive Board exercised the authority conferred by the annual stockholders' meeting on May 11, 2004, to repurchase Rheinmetall stock. Altogether treasury stock corresponding to 1.6 percent of the capital stock (589,578 shares) was repurchased at a cost of €22 million, which was deducted from equity by one-line capital adjustment.

The separate financial statements of Rheinmetall AG close the fiscal year with net earnings of €27 million (down from €66 million), €27 million (up from €24 million) thereof being earmarked for the distribution of a cash dividend. The proposed cash dividends amount to €0.74 and €0.80 per share of common and preferred stock, respectively (up from €0.64 and €0.70, respectively).

The minority interests mainly refer to the Automotive sector at €18 million (down from €20 million), and to Defence at €32 million (down from €36 million).

(14)
Accruals

Accruals *€ million*

	12/31/2003	**12/31/2004**
Accruals for pensions and similar obligations	530	487
Other accruals	443	417
	973	**904**

Starting from fiscal 2004, the obligations for yet unbilled costs and invoices outstanding, in 2003 accrued at €46 million, are recognized as liabilities.

The opening balances of the analysis of accruals were restated accordingly.

Notes (Group)
Notes to the consolidated balance sheet

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 obligations primarily encompass pensions, both basic and supplementary. The individual, confirmed, pension obligations entitle employees to benefits that vary according to country and company and, as a rule, are measured according to service years and employee pay. Moreover, at the German subsidiaries, a performance-related pension obligation was incurred 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 subsidiaries are also included in the pension accruals recognized hereunder.

The company pension system consists of both defined-contribution and defined-benefit plans. Under the DCPs, Rheinmetall incurs no obligation other than the payment of contributions to earmarked pension funds. These pension expenses are shown within personnel expenses and need not be provided for. In the year under review, a total €61 million (down from €78 million) was paid to DCPs, specifically the Statutory Social Security Insurance in Germany. Among those DCPs where material sums are involved, the earmarked pension funds of the Swiss subsidiaries, whose employees pay in supplementary contributions, were overfunded as of both December 31, 2004 and 2003. 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 its defined benefit plans, Rheinmetall is obligated to meet its confirmed benefit obligations to active and former employees.

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

Assumptions underlying pension accruals *percent*

	12/31/2003		**12/31/2004**	
	Germany	USA	Germany	USA
Discount rate	5.50	6.00	4.75	5.60
Pay rise (general)	3.00	4.00	3.00	4.00
Pay raises (fixed sums)	1.25	--	0.50–1.25	--
Pension uptrend	1.25	--	1.25	--
Expected return on plan assets	--	9.00	--	8.50

Due to the lower capital market interest rate level, the discount rate for German pension obligations was reduced by 0.75 percentage points.

The non-German DBO primarily refer to benefit obligations incurred by US subsidiaries, most of which are plan-funded.

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

Pension accruals *€ million*

	2003			**2004**		
	Germany	Abroad	Total	Germany	Abroad	Total
Analysis: present value of the DBO						
Present value of the DBO at 1/1	619	157	776	506	128	634
Consolidation group changes	(131)	--	(131)	(38)	--	(38)
Currency translation differences	--	(23)	(23)	--	(9)	(9)
Service cost	13	2	15	11	2	13
Interest cost	32	8	40	25	7	32
Pension payments	(30)	(15)	(45)	(25)	(15)	(40)
Plan curtailments/settlements	--	(1)	(1)	--	--	--
Past service revenue	--	(1)	(1)	--	--	--
Actuarial (gains)/losses	3	1	4	48	4	52
Present value of the DBO at 12/31	**506**	**128**	**634**	**527**	**117**	**644**
Analysis: plan assets						
Fair value of plan assets at 1/1	--	54	54	--	58	58
Currency translation differences	--	(9)	(9)	--	(5)	(5)
Expected return on plan assets	--	4	4	--	5	5
Contributions paid to plans	--	17	17	--	21	21
Pensions paid by plans	--	(14)	(14)	--	(13)	(13)
Actuarial gains/(losses)	--	6	6	--	(1)	(1)
Fair value of plan assets at 12/31	**--**	**58**	**58**	**--**	**65**	**65**
Plan-unfunded pension obligations at 12/31	**506**	**70**	**576**	**527**	**52**	**579**
Unrecognized actuarial gains/(losses)	(21)	(28)	(49)	(66)	(29)	(95)
Unrecognized past service revenue	--	3	3	--	3	3
Pension accrual as of 12/31	**485**	**45**	**530**	**461**	**26**	**487**

As of December 31, 2004, the present value of plan-funded pension obligations amounted to €104 million (down from €114 million). The unrecognized actuarial losses of €95 million (up from €49 million) are largely attributable to previous 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 €4 million (down from €11 million) before the exchange-related (currency translation) losses recognized in equity only. 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.

Notes (Group)
Notes to the consolidated balance sheet

Breakdown of pension expense:

Pension expense *€ million*

	2003			**2004**		
	Germany	Abroad	Total	Germany	Abroad	Total
Service cost	13	2	15	11	2	**13**
Amortized actuarial gains and losses	--	3	3	--	2	**2**
Past service revenue	--	(1)	(1)	--	(1)	**(1)**
Effects of plan settlements/curtailments	--	(1)	(1)	--	--	**--**
Compounding of expected pension obligations	32	8	40	25	7	**32**
Expected return on plan assets	--	(4)	(4)	--	(5)	**(5)**
Total	**45**	**7**	**52**	**36**	**5**	**41**

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

Accruals analysis *€ million*

	1/1/ 2004	Utilized	Added/ newly provided	Com- pounded	Released	Change in consoli- dation group	Currency differ- ences/ sundry	**12/31/ 2004**
Pension accruals	**530**	**48**	**15**	**27**	**1**	**(35)**	**(1)**	**487**
Prior year	*660*	*48*	*18*	*36*	*2*	*(126)*	*(8)*	*530*
Other accruals								
Warranties	59	8	17	--	11	(5)	3	55
Identifiable losses	38	11	9	--	3	(3)	1	31
Yet unbilled costs	54	30	38	--	4	--	(2)	56
Restructuring	75	27	20	1	5	(3)	(1)	60
Personnel	121	69	82	--	3	(8)	1	124
Remaining accruals	96	42	56	--	8	(7)	(4)	91
	443	**187**	**222**	**1**	**34**	**(26)**	**(2)**	**417**

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

The remaining accruals cover at €8 million legal, consultancy and audit fees (down from €15 million), at €10 million contractual penalties (up from €5 million), at €9 million bonuses, discounts and rebates (virtually unchanged), and at €7 million environmental risks (down from €8 million).

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

Cash outflows from other accruals *€ million*

	2003			**2004**		
	‹1 year	1–5 years	›5 years	‹1 year	1–5 years	›5 years
Warranties	42	16	1	38	17	--
Identifiable losses	25	6	7	22	9	--
Yet unbilled costs	52	2	--	53	3	--
Restructuring	28	43	4	14	45	1
Personnel	91	19	11	93	20	11
Remaining accruals	70	20	6	63	24	4
	308	**106**	**29**	**283**	**118**	**16**

(15)
Liabilities

Liabilities *€ million*

	12/31/2003	thereof due in ‹1 year	thereof due after ›5 years	**12/31/2004**	thereof due in ‹1 year	thereof due after ›5 years
Financial debts						
bonds	348	--	--	316	--	--
due to banks	122	36	30	32	15	1
under leases	90	10	33	59	6	20
other	6	1	3	5	--	4
	566	**47**	**66**	**412**	**21**	**25**
Trade payables	**455**	**455**	**--**	**385**	**380**	**--**
All other liabilities						
prepayments received on orders	175	59	54	153	77	--
payables under manufacturing contracts	190	17	1	154	13	14
sundry liabilities	255	250	--	240	233	--
	620	**326**	**55**	**547**	**323**	**14**

As from January 1, 2004, obligations for yet unbilled costs and invoices outstanding have been included in sundry liabilities, the prior-year comparative has been restated.

The bond issue floated in 2001 matures on May 31, 2006. In 2004, Rheinmetall repurchased €33 million (at par) of the bond issue.

Notes (Group)
Notes to the consolidated balance sheet

The financial debts under leases comprise accounts due to the banks of, and owed by, consolidated special-purpose leasing firms at €33 million (down from €38 million).

€8 million of financial debts (down from €52 million) is collateralized by land charges and similar encumbrances, as is another €33 million (down from €38 million) borrowed to finance the realty owned by consolidated special-purpose leasing firms and encumbered with land charges of €12 million (virtually unchanged) whose consolidation is mandatory pursuant to IAS 27 in conjunction with SIC 12.

Breakdown of payables under manufacturing contracts:

PoC payables *€ million*

	12/31/2003	**12/31/2004**
Prepayments received	229	222
less production cost incurred	(35)	(61)
less markups (plus losses)	(4)	(7)
	190	**154**

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

Sundry liabilities *€ million*

	12/31/2003	**12/31/2004**
Yet unbilled costs	46	67
Liabilities for social security	27	26
Due to board members and employees	25	8
Non-income taxes	50	28
Monies in transit from debt collection	43	69
Financial derivatives	5	5
Miscellaneous	59	37
	255	**240**

Trade payables include trade notes payable of €10 million (up from €9 million). An aggregate €2 million (down from €3 million) is due to joint ventures and associated affiliates. Besides the payables for financial derivatives, the carrying amounts of trade payables and of all other liabilities approximate their fair values.

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 *€ million*

Interest terms	Rate (%)	Currency	Maturing in	Book value 12/31/2003	Fair value 12/31/2003	Book value **12/31/2004**	Fair value **12/31/2004**
fixed	6.125	€	2006	348	371 [1]	316	332

[1] *Prior-year value adjusted*

Due to banks *€ million*

Interest terms	Weighted rate (%)	Currency	Maturing in	Book value 12/31/2003	Fair value 12/31/2003	Book value 12/31/2004	Fair value 12/31/2004
fixed	2.6	€	2004	16	16	--	--
fixed	2.4	Sfr	2004	4	4	--	--
fixed	7.9	US$	2005	31	36	--	--
fixed	3.8	€	2005	2	3	2	2
fixed	6.0	Can$	2005	--	--	2	2
fixed	1.0	¥	2006	3	3	2	2
fixed	5.1	€	2006/2007	10	10	8	9
fixed	5.0	€	2008	4	4	2	2
fixed	3.0	US$	2008	1	1	1	1
fixed	5.6	€	2009–2011	5	5	5	5
fixed	4.9	€	2013	3	3	2	2
fixed	5.4	€	2020	24	25	--	--
				103	**110**	**24**	**25**
variable		€	2004/2005	3	3	7	7
variable		Rs	2005	--	--	1	1
variable		Dkr	2006/2007	16	16	--	--
				19	**19**	**8**	**8**

Payable under leases *€ million*

Interest terms	Weighted rate (%)	Currency	Maturing in	Book value 12/31/2003	Fair value 12/31/2003	Book value 12/31/2004	Fair value 12/31/2004
fixed	5.9	€	2004–2006	12	13	5	6
fixed	5.3	€	2008/2009	31	33	26	28
fixed	6.6	€	2010–2012	9	10	5	6
fixed	5.8	€	2015	6	7	--	--
fixed	6.2	Sfr	2015	9	11	--	--
fixed	8.0	€	2020	11	13	11	13
fixed	6.4	€	2021/2022	12	13	12	13
				90	**100**	**59**	**66**

Other financial debts *€ million*

Interest terms	Weighted rate (%)	Currency	Maturing in	Book value 12/31/2003	Fair value 12/31/2003	Book value 12/31/2004	Fair value 12/31/2004
fixed	5.0	€	2006	1	1	--	--
fixed	7.5	€	2009	3	3	3	4
variable		€	sdry. ≤ 2014	2	2	2	2
				6	**6**	**5**	**6**

Notes (Group)
Notes to the consolidated balance sheet

(16)
Income tax liabilities

Income tax liabilities *€ million*	12/31/2003	**12/31/2004**
Deferred tax liabilities	30	12
Current income tax liabilities	50	50
	80	**62**

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

(17)
Deferred income

Deferred income *€ million*	12/31/2003	**12/31/2004**
Deferred gains from sale & leaseback transactions	5	--
Deferred grants	7	8
Other	5	3
	17	**11**

Notes to the consolidated income statement

(18)
Net sales

Net sales € million	2003	2004
Net sales (excl. PoC)	4,142	3,339
Revenues according to PoC	106	74
	4,248	**3,413**

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

Net inventory changes, other work and material capitalized € million	2003	2004
Change in inventories of finished products and work in process	(3)	4
Other work and material capitalized	29	23
	26	**27**

(20)
Other operating income

Other operating income € million	2003	2004
Gains from fixed-asset disposal	74	28
Income from the release of accruals	56	34
Income from write-up/reversal of bad-debt allowances	11	5
Income from compensation and refunds	14	3
Sundry rental income	12	13
Income from grants and subsidies	7	5
Income from canteens and ancillary operations	3	2
Income from credit notes for prior years	7	8
Income from prototype and tooling costs refunded	6	7
Other secondary income	59	36
	249	**141**

€16 million of the gains from fixed-asset disposal originated from the divestment of subsidiaries (down from €47 million).

(21)
Cost of materials

Cost of materials € million	2003	2004
Cost of raw materials, supplies, and merchandise purchased	1,760	1,425
Cost of services purchased	254	216
	2,014	**1,641**

Notes (Group)
Notes to the consolidated income statement

(22) Personnel expenses

Personnel expenses € million	2003	2004
Wages and salaries	1,098	822
Social security taxes and related employee benefits	146	113
Pension expense	95	75
	1,339	**1,010**

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

Annual average headcount	2003	2004
Automotive	11,545	11,442
Defence	8,418	6,992
Electronics	3,452	402
Jagenberg/EMG (financial investees)	1,621	76
Others/holding company	164	133
	25,200	**19,045**

(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 €4 million (down from €17 million).

(24) Other operating expenses

Other operating expenses € million	2003	2004
Losses on fixed-asset disposal	34	12
Exit plans, termination benefits, preretirement part-time work	42	21
Selling expenses, commissions	105	88
Maintenance and repair (M&R)	92	81
Promotion and advertising	19	12
Other general administration	168	129
Rents (incl. incidentals)	59	49
Payroll incidentals	30	24
Facility cleaning, security/vigilance	12	11
Outsourced services	11	7
Legal, consultancy and audit fees	43	30
Write-down of receivables	12	4
Non-income taxes	13	12
Additional provisions	58	51
All other	24	29
	722	**560**

The losses on fixed-asset disposal refer at €7 million to the disposal of subsidiaries (down from €23 million).

(25)
Net interest expense

Net interest expense *€ million*	2003	2004
Interest income		
expected return on plan assets	4	5
other interest and similar income	11	6
	15	**11**
Interest expense		
from capital leases	(7)	(3)
compounding of pension obligations	(40)	(32)
compounding of noncurrent other accruals	(1)	(1)
other interest and similar expenses	(51)	(46)
	(99)	**(82)**
	(84)	**(71)**

(26)
Net investment income and other financial results

Net investment income and other financial results *€ million*	2003	2004
Income from investments		
net income from joint ventures and associated affiliates	9	7
gains from the disposal of joint ventures and associated affiliates	--	8
	9	**15**
Other financial results		
net currency gain/(loss)	(6)	3
guaranty commissions	(3)	(2)
net gain from financial derivatives	1	2
sundry	(3)	(3)
	(11)	**0**
Net investment income and other financial results	**(2)**	**15**

(27)
Income taxes

Income taxes *€ million*	2003	2004
Current income tax expense	51	43
Nonperiod income tax expense	--	5
Deferred taxes	1	(3)
	52	**45**

Notes (Group)
Notes to the consolidated income statement

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.

Income tax expense reconciliation *€ million*

	2003	**2004**
EBT	120	146
Expected income tax expense (tax rate of 40%)	**48**	**58**
Differences from foreign tax rates	(7)	(4)
Effects of loss carryovers and write-down of deferred taxes	13	(3)
Write-up of deferred tax assets	(13)	(5)
Tax-exempt income and nondeductible expenses	(10)	(6)
Nondeductible goodwill amortization	13	--
Other	8	5
Effective tax expense	**52**	**45**
Effective tax rate in %	**43**	**31**

(28)
Minority interests

Minority interests in profit came to an unchanged €5 million.

(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 net earnings. Neither as of December 31, 2004 nor 2003, were any shares, options or equivalent 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. The weighted average number of shares accounts for the repurchased shares of treasury stock of €22 million (up from nil).

Earnings per share (EpS) *€ million*

	2003	**2004**
Group earnings (after minority interests)	63	96
Excess dividend (preferred over common = €0.06 per share)	(1)	(1)
Group net earnings after elimination of excess dividend	62	95
Number of common shares	18.00 million	18.00 million
Number of preferred shares	18.00 million	17.95 million
Earnings per common share	€1.72	€2.64
Earnings per preferred share	€1.78	€2.70

(30)
Adjusted EBIT

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

Adjusted EBIT *€ million*

	2003	**2004**
Accounting EBIT	**204**	**217**
Nonrecurring expenses, losses, income, gains related to		
shareholdings	(26)	(23)
realty	(7)	4
restructuring	52	26
Adjusted EBIT	**223**	**224**

Notes (Group)
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 consolidation group changes are eliminated, parity changes, if impacting on cash and cash equivalents, being shown in a separate line. The net cash provided by operating activities included a cash inflow from interest of €7 million (down from €11 million) and a cash outflow for interest of €50 million (down from €54 million). Income taxes paid came to €46 million (up from €40 million). The dividends received from associated affiliates and investees amounted to €7 million (up from €2 million).

The cash outflow for acquiring consolidated subsidiaries totaled €21 million (down from €144 million) and substantially concerned the purchase of further shares in Kolbenschmidt Pierburg AG. A cash inflow of €91 million (down from €114 million) was produced by the disposal of consolidated subsidiaries, viz. Hirschmann Electronics GmbH & Co. KG, the Heidel Group, and EuroCom Industries A/S (ECI). The acquisitions and disposals were substantially settled in cash. For purchase price details, see the explanations in Note (2) to the consolidation group.

No cash or cash equivalents were taken over in the M&A transactions (down from €28 million) while €10 million (down from €53 million) in cash and cash equivalents was disposed of in divestments.

The decrease in financial debts from €566 million as of December 31, 2003, to €412 million as of year-end 2004 refers at €30 million to noncash and deconsolidation transactions (up from €10 million).

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

Note to the segment reports

(32)
Segment reports

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

The Others/consolidation column includes, apart from the Group's parent (Rheinmetall AG), the divestees Hirschmann Electronics GmbH & Co. KG (previously Electronics sector) and EuroCom Industries A/S (ECI), as well as intragroup service and other nonsegment companies, plus consolidation transactions.

The Rheinmetall Group publishes two segment report formats. In the segment report according to IFRS, directly allocable transactions and group-level valuations have been assigned to the appropriate segment.

Contrary to this reporting format, the Rheinmetall Group is managed and controlled according to different indicators and, therefore, while the accounting policies and methods applied to the IFRS-based consolidated financial statements have been retained, has published a second report in a format that reflects its management and controlling structure. In this format, goodwill amortization/write-down and effects of the revaluation of operating realty (neither of which are included in the financial statements of the subgroups or segments) are indicated in the Others/consolidation column.

The intersegment transfers are principally priced as if at arm's length.

IFRS segment report

Sales generated by non-German Defence companies are reported according to country of destination.

Self-explanatory, segment EBIT means the segment's earnings before interest and income taxes.

Segment assets and liabilities include the operating assets (excluding cash, cash equivalents and income tax assets) and liabilities (excluding financial debts and income tax liabilities).

The segment capital expenditures refer to tangible and intangible assets (incl. goodwill) and, therefore, depreciation and amortization also comprise goodwill amortization/write-down.

Segment report by management structure

The balance sheet lines are reported in line with the Rheinmetall Group's shareholder value concept.

Net financial debts reflect financial debts less cash and cash equivalents. Capital employed (CE) 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 (according to management structure) divided by average capital employed (average of the balances at December 31, 2003 and 2004).

EBITDA means earnings before interest, taxes, depreciation and amortization. Income from the release of badwill from capital consolidation was in 2003 included in EBITDA. EBIT is calculated according to management structure. The EBIT margin equals EBIT (according to management structure) divided by total segment sales.

Capital expenditures reflect the additions to tangible and intangible assets.

Notes (Group)
Supplementary disclosures

(33)
Discontinued operations

The Heidel Group parented by Eurometaal Holding Deutschland GmbH and held by Defence, the remaining Electronics operations (Hirschmann), as well as the companies of financial investee EMG (EuroCom Industries A/S) no longer belong in the Rheinmetall Group's core business. The divestment resolutions were adopted by the Executive Board as follows:

- Heidel Group: November 2001
- Hirschmann Group: June 2003/February 2004
- Financial investee EMG: October 2003

Heidel, Hirschmann and EuroCom Industries A/S (ECI) were disposed of in H1/2004.

No further divestments have been contemplated to date.

Hirschmann Electronics GmbH & Co. KG and EuroCom Industries A/S (ECI) are 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:

Balance sheet data *€ million*

	Heidel		Hirschmann		EMG/ECI		Jagenberg		**Total**	
Balance sheet data at Dec. 31	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**
Fixed assets	9	--	53	--	7	--	--	--	69	--
Current assets (excl. cash/cash equivalents)	36	--	91	--	52	--	--	--	179	--
Cash and cash equivalents	2	--	20	--	31	--	--	--	53	--
Income tax assets, prepaid expenses & deferred charges	--	--	13	--	2	--	--	--	15	--
Pension accruals	--	--	37	--	1	--	--	--	38	--
Other accruals	6	--	23	--	1	--	--	--	30	--
Financial debts	15	--	4	--	42	--	--	--	61	--
Trade payables and all other liabilities	10	--	89	--	12	--	--	--	111	--
Income tax liabilities and deferred income	1	--	14	--	8	--	--	--	23	--

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

Income statement and cash flow data *€ million*

	Heidel		Hirschmann [1]		EMG/ECI [2]		Jagenberg		**Total**	
	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**	2003	**2004**
Net sales	101	3	501	68	216	12	64	--	882	83
Operating result	2	--	42	--	72	1	(32)	--	84	1
EBT	1	--	37	--	69	1	(33)	--	74	1
Income taxes	--	--	4	--	6	2	(10)	--	--	2
Net income/(loss)	**1**	**--**	**33**	**--**	**63**	**(1)**	**(23)**	**--**	**74**	**(1)**
Net gain/(loss) from disposal	--	--	24	(7)	21	11	(23)	--	22	4
Net cash (used in)/ provided by operating activities	7	--	22	(8)	(2)	--	(50)	--	(23)	(8)
Net cash (used in)/ provided by investing activities	(3)	--	21	(3)	24	--	9	--	51	(3)
Net cash (used in)/ provided by financing activities	(35)	(1)	(42)	--	(14)	--	34	--	(57)	(1)
Change in cash & cash equivalents	**(31)**	**(1)**	**1**	**(11)**	**8**	**--**	**(7)**	**--**	**(29)**	**(12)**

[1] 2003 incl. Preh
[2] 2004 only ECI

(34)
Contingent liabilities and assets

Contingent liabilities and assets *€ million*

	2003	**2004**
Contingent liabilities		
under bonds and guarantees (incl. for drafts, notes and checks)	48	20
under warranty and indemnity agreements	41	43
	89	**63**

A joint and several liability exists for the debts assigned under the split-up of Bremen-based STN Atlas Elektronik GmbH, to ATLAS Elektronik GmbH, Bremen, at a non-specifiable amount.

In the judicial review proceedings pending since 1998, the share exchange ratio determined during the Kolbenschmidt Pierburg merger (Rheinmetall Beteiligungen) is examined for fair valuation. The expert appointed by the Heilbronn Regional Court has meantime submitted on the basis of provisional figures an interim report that arrives at significantly different values for the companies merged in January 1998. However, after perusing and scrutinizing this interim report, Kolbenschmidt Pierburg AG sees no reason for departing from the originally determined value relations as these were determined by two independent accounting and auditing firms when the merger was transacted and then endorsed by a court-appointed merger accounting specialist. Kolbenschmidt Pierburg assumes that the values determined by three independent experts will prevail in a final review and re-examination. No further disclosures are made lest the outcome of the proceedings should be biased.

Moreover, a performance bond exists at an unchanged €98 million in favor of a nonconsolidated Rheinmetall investee; however, in the relationship of the investee's shareholders inter se, Rheinmetall's liability is limited to 14 percent.

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

(35)
Other financial obligations

As of December 31, 2004, the commitments to purchase tangible and intangible assets for capital expenditure projects totaled €24 million (up from €10 million). In addition, obligations under other agreements and contracts exist at €7 million (down from €38 million).

In the year under review, rents of €46 million (down from €55 million) were expensed as paid under operating leases for the entire computer hardware/software and other assets.

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

Cash outflows under operating leases *€ million*

	2003				**2004**			
	2004	2005–2008	after 2008	**Total**	2005	2006–2009	after 2009	**Total**
Buildings	22	66	66	**154**	20	58	53	**131**
Other leases	17	32	--	**49**	17	31	--	**48**
	39	98	66	**203**	37	89	53	**179**

Notes (Group)
Supplementary disclosures

(36)
Stock appreciation rights (SARs)

For 1998 to 2001, 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.

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 programs

SAR program	Exercisable after	Base price €	Number issued	thereof exercised/paid out/forfeited up to 12/31/2003	thereof forfeited in 2004	thereof exercised in 2004	SARs as of 12/31/2004
Rheinmetall stock							
1998	end-2001	18.09	310,000	270,000	10,000	27,500	2,500
1999	end-2002	12.95	871,500	851,000	3,000	17,500	0
2000	end-2003	9.24	912,000	867,500	--	41,000	3,500
2001	end-2004	16.50	864,000	839,000	--	2,500	22,500
			2,957,500	2,827,500	13,000	88,500	28,500

Obligations under SARs are measured at fair value pro rata temporis by using an option price model, and distributed over the qualifying period. An accrual of an unchanged €1 million provides for the obligations incurred up to December 31, 2004.

(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 financial instruments, including besides credit facilities granted by financial institutes on a bilateral or syndicated basis, also a commercial paper (CP) program, an asset-backed securities (ABS) program, and a bond issue.

Counterparty risk

The Rheinmetall Group supplies mostly 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. Corporate policies and standards specify the framework for a proper A/R management system.

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.

Commodity price risk

The Rheinmetall Group is exposed to price volatility risks from commodity buying, such as metals. By agreeing with customers on materials cost escalator clauses, the major part of these risks from rising metal prices is eliminated. In addition, Rheinmetall continuously explores further risk avoidance or containment options, such as long-term fixed-price sourcing or the use of financial derivatives.

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, as well as currency options and swaps. These hedges are contracted at corporate sector level. In certain cases—especially within Automotive—natural hedging options exist, too.

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.

As of December 31, 2004, the currency and interest rate hedges tabled below existed, their notional volumes being shown non-netted and thus reflecting the total amounts of each and every such contract. Being marked to the market at December 31, the fair values of financial derivatives correspond to prices in arm's length transactions.

Notes (Group)
Supplementary disclosures

Hedges *€ million*

	Notional volume		Maturing after 1 year		Fair market values	
	12/31/2003	**12/31/2004**	12/31/2003	**12/31/2004**	12/31/2003	**12/31/2004**
Currency hedges						
Currency forwards	245	268	31	61	13	5
Other	31	54	--	2	1	--
	276	**322**	**31**	**63**	**14**	**5**
Interest rate hedges						
Options	125	160	--	160	--	1
Swaps	24	25	24	11	(2)	--
	149	**185**	**24**	**171**	**(2)**	**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 are not so accounted for unless they satisfy the stringent IFRS hedge accounting criteria. Consequently, the volume of cash flow hedges contracted is immaterial.

(38)
Other details of related-party transactions

The volume of services provided by or to material related companies is broken down below:

Volume of services provided to/by related companies *€ million*

	Volume of services rendered		Volume of services utilized	
	2003	**2004**	2003	**2004**
GIWS Gesellschaft für intelligente Wirksysteme mbH	18	23	--	--
Microlog Logistische Dienstleistungen GmbH	--	--	5	--
PSM Project, System & Management GmbH	11	25	--	--
OY Finnish Defence Power Systems AB	--	4	--	--
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd.	--	1	--	--
Pierburg Instruments GmbH	1	--	--	--
Kolbenschmidt Shanghai Piston Co. Ltd.	--	2	2	2
	30	**55**	**7**	**2**

All of these trade transactions are conducted on terms and conditions as if at arm's length. There were no reportable transactions with individuals related to the Rheinmetall Group.

(39)
Supervisory and Executive Boards

Supervisory Board

Supervisory Board fees amounted to €0.8 million in fiscal 2004 (down from €0.9 million). Neither was any further compensation paid, nor were any other benefits granted, to Supervisory Board members for personally rendered advisory, agency or other 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 €5.6 million in the year under review (down from €12.5 million), breaking down into €1.5 million of fixed remuneration (down from €1.7 million) and €1.9 million of profit shares (down from €3.0 million), plus compensation in kind at €0.1 million (unchanged). The latter was substantially paid noncash in the form of company car use and grants for social security insurance. In addition, the Executive Board members received a total bonus of €2.1 million under an incentive program for 2004 that is based on the value added to the Rheinmetall Group's shareholder value (down from €4.8 million).
A total €1.7 million was paid to former Executive Board members and their surviving dependants (down from €2.2 million). Pension obligations to former Management or Executive Board members and their surviving dependants exist at a total €12.3 million (down from €12.6 million).

Shareholdings

As of December 31, 2004, none of Rheinmetall AG's Supervisory or Executive Board members held any legally reportable shares in the Company.

(40)
Corporate Governance Code

In December 2004, Rheinmetall AG published on the Internet at www.rheinmetall.de, and thus made available long term to its stockholders, the declaration of conformity according to the German Corporate Governance Code pursuant to Art. 161 AktG.

Regarding the listed subsidiary included in the consolidated financial statements of Rheinmetall AG, viz. Kolbenschmidt Pierburg AG, the declaration of conformity under the terms of Art. 161 AktG has been published since January 2005 on the Internet at www.kolbenschmidt.de.

Düsseldorf, March 7, 2005

The Executive Board

Eberhardt   Dr. Kleinert   Dr. Müller

Notes (Group)
Major Group companies

Fully consolidated companies

	Interest held %	Equity as of 12/31/2004 [1] € million	Net sales 2004 [1] € million
Rheinmetall AG, Düsseldorf	**--**	**444**	**0**
Kolbenschmidt Pierburg AG, Düsseldorf	**96.80**	**331**	**0**
Pierburg GmbH, Neuss	96.80	112	482
Carbureibar S.A., Abadiano, Spain	96.80	30	153
Pierburg S.à r.l., Basse-Ham (Thionville), France	96.80	27	124
Pierburg Inc., Fountain Inn (Greenville), USA	96.80	9	34
Pierburg S.p.A., Lanciano, Italy	96.80	19	124
KS Kolbenschmidt GmbH, Neckarsulm	96.80	179	220
KS Pistões Ltda., Nova Odessa, Brazil	96.80	45	99
Karl Schmidt Unisia Inc., Marinette, USA	89.05	16	205
Société Mosellane de Pistons S.A.S., Basse-Ham (Thionville), France	96.80	22	51
Metal a.s., Ústí, Czech Republic	91.96	22	38
KS Gleitlager GmbH, St. Leon-Rot	96.80	20	150
KS Aluminium-Technologie AG, Neckarsulm	96.80	20	183
MSI Motor Service International GmbH, Neckarsulm	96.80	20	106
Rheinmetall DeTec AG, Düsseldorf	**100.00**	**223**	**43**
Rheinmetall Landsysteme GmbH, Kiel	100.00	30	324
Rheinmetall Defence Electronics GmbH, Bremen	100.00	55	354
Oerlikon Contraves Inc., St.-Jean-sur-Richelieu, Canada	100.00	20	35
Oerlikon Contraves AG, Zurich, Switzerland	100.00	90	212
Oerlikon Contraves Pyrotec AG, Zurich, Switzerland	100.00	21	40
Oerlikon Contraves S.p.A., Rome, Italy	100.00	35	54
Oerlikon Contraves GmbH, Stockach	100.00	13	39
Rheinmetall Waffe Munition GmbH, Ratingen	100.00	101	271
Nitrochemie Aschau GmbH, Aschau	55.00	23	62
Nitrochemie Wimmis AG, Wimmis, Switzerland	55.00	34	30

[1] *acc. to IFRS*

Companies carried at equity

	Interest held %	Equity as of 12/31/2004 [1] € million	Net sales 2004 [1] € million
Joint ventures			
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., Shanghai, China	48.40	21	66
Kolbenschmidt Shanghai Piston Co. Ltd., Shanghai, China	48.40	21	29
Associated affiliate			
GIWS Gesellschaft für Intelligente Wirksysteme mbH, Nürnberg [2]	50.00	1	114

[1] *acc. to IFRS*
[2] *local financial statements*

Auditor's report and opinion

Rheinmetall AG, Düsseldorf

Independent group auditor's report and opinion

We have audited the consolidated financial statements prepared by Rheinmetall Aktiengesellschaft and consisting of balance sheet, income statement, statement of changes in equity, cash flow statement and notes, for the fiscal year ended December 31, 2004. The consolidated financial statements and their preparation in accordance with the International Financial Reporting Standards of the IASB (IFRS) 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 IFRS.

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. When planning the audit procedures, knowledge and understanding of the group's business, its economic and legal environment as well as sources of potential errors are given due consideration. 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 IFRS, 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, 2004, 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, 2004, satisfy the requirements for exempting the Company from preparing consolidated financial statements and a group management report in accordance with German law.

Düsseldorf, March 8, 2005

PwC Deutsche Revision
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Pape)	(Bovensiepen)
Wirtschaftsprüfer	Wirtschaftsprüfer

Balance sheet of Rheinmetall AG as of December 31, 2004 (acc. to German GAAP*)

ASSETS € million	12/31/2003	12/31/2004
Fixed assets		
Intangible assets	0.001	0.005
Tangible assets	32.325	30.716
Financial assets	490.476	425.863
	522.802	**456.584**
Current assets		
Receivables and sundry assets		
Due from subsidiaries	330.432	319.455
Sundry assets	18.353	18.247
Securities	--	21.811
Cash on hand and in bank	172.963	118.549
	521.748	**478.062**
Prepaid expenses & deferred charges	**0.789**	**2.468**
Total assets	**1.045.339**	**937.114**

EQUITY & LIABILITIES € million	12/31/2003	12/31/2004
Capital stock	92.160	92.160
Additional paid-in capital	208.262	208.262
Reserves retained from earnings	46.080	83.155
Net earnings	65.666	27.252
Stockholders' equity	**412.168**	**410.829**
Untaxed/special reserves	**3.560**	**3.472**
Accruals		
Accruals for pensions and similar obligations	20.952	21.263
All other accruals	46.524	38.538
	67.476	**59.801**
Liabilities		
Bonds	350.000	317.000
Trade payables	0.622	0.604
Due to subsidiaries	173.716	124.803
Sundry liabilities	37.797	20.604
	562.135	**463.011**
Deferred income	--	**0.001**
Total stockholders' equity & liabilities	**1.045.339**	**937.114**

*German Commercial Code ("HGB")

Income statement of Rheinmetall AG for fiscal 2004 (acc. to German GAAP*)

€ million	2003	2004
Income from investments	142.815	47.852
Net interest expense	(14.554)	(16.742)
Net financial result	**128.261**	**31.110**
Other operating income	51.554	38.352
Personnel expenses	(27.322)	(16.685)
Amortization of intangible and depreciation of tangible assets	(1.706)	(1.547)
Other operating expenses	(31.205)	(28.449)
EBT	**119.582**	**22.781**
Income taxes	(7.915)	0
Net income	**111.667**	**22.781**
Transfer from reserves retained from earnings	0	26.282
Transfer to reserves retained from earnings	(46.001)	(21.811)
Net earnings	**65.666**	**27.252**

*German Commercial Code (“HGB”)

The separate financial statements of Rheinmetall AG, on which PwC Deutsche Revision Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Düsseldorf branch, issued its unqualified auditor’s opinion, were prepared in accordance with German GAAP (HGB regulations).

Supervisory Board of Rheinmetall AG

Supervisory Board

Klaus Greinert
Mannheim

Chairman

Chairman of the Röchling Family Council

DeTeWe–Deutsche Telephonwerke AG & Co. KG
DURAVIT AG
(chairman)
DURAVIT S.A.
Rheinmetall DeTec AG
(as from 3/1/2004, chairman as from 3/16/2004)
Advisory board chairman of Gebr. Röchling KG
Advisory board chairman of Röchling Immobilien GmbH
Shareholder committee of Röchling Industrie Verwaltung GmbH
(chairman as from 5/15/2004)

Joachim Stöber *
Biebergemünd

Vice-Chairman

Secretary to the Metalworkers Union’s General Secretariat

GEA AG
(vice-chairman)
Pierburg GmbH
Rheinmetall DeTec AG
(as from 5/3/2004)
(vice-chairman)

Dr. Eckhard Cordes
Stuttgart

Executive board member of DaimlerChrysler AG

Deutsche BP AG
DaimlerChrysler China Ltd.
Mercedes AMG GmbH
Mercedes Ilmor Ltd.
McLaren Group Ltd.

Dr. Ludwig Dammer *
Düsseldorf

Head of Strategic Production Planning,
Pierburg GmbH

Kolbenschmidt Pierburg AG

Dr. Andreas Georgi
Glashütten

Executive board member of Dresdner Bank AG

Allianz Dresdner Global Investors Deutschland GmbH
Asea Brown Boveri AG
Deutsche Schiffsbank AG
(vice-chairman)
Deutscher Investment-Trust
Gesellschaft für Wertpapieranlagen mbH
Dresdner Bank Luxembourg S.A.
(vice-president)
Dresdner Bank (Schweiz) AG
(president)
Dresdner Mezzanine Verwaltungs GmbH
(vice-chairman)
Eurohypo Aktiengesellschaft
Felix Schoeller Holding GmbH & Co. KG
Reuschel & Co. KG
(vice-chairman)
RWE Dea AG

Hans-Peter Haug *
Schlaitdorf
(up to 3/24/2004)

Works council chairman
of Hirschmann Electronics GmbH & Co. KG

Dr. Bernd Michael Hönle
Weisenheim am Sand

Management board member
of Röchling Industrie Verwaltung GmbH

BEA Holding AG
DeTeWe–Deutsche Telephonwerke Beteiligungs AG
Francotyp-Postalia Beteiligungs AG
Kolbenschmidt Pierburg AG
PFEIFFER & MAY Grosshandel AG
Rheinmetall DeTec AG
Seeber Beteiligungs AG

* employee representative

Reinhard Kiel *
Frankfurt/Main
(up to 5/31/2004)

Secretary to the German Metalworkers Union's
General Secretariat

Rheinmetall DeTec AG
(vice-chairman up to 5/3/2004)

Heinrich Kmett *
Fahrenbach/Robern

Works council chairman of
Kolbenschmidt Pierburg AG
KS Kolbenschmidt GmbH
MSI Motor Service International GmbH

Kolbenschmidt Pierburg AG

Dr. Rudolf Luz *
Neckarsulm
(as from 6/1/2004)

1st delegate of the Metalworkers Union Heilbronn-Neckarsulm

Kolbenschmidt Pierburg AG
(vice-chairman)

Bechtle AG

Wolfgang Müller *
Bad Rappenau
(as from 3/25/2004)

Works council chairman of
KS Aluminium-Technologie AG

KS Aluminium-Technologie GmbH

KS ATAG GmbH

Johannes Frhr. v. Salmuth
London, UK

Dipl.-Vwt.

Supervisory board of Aluminium-Werke Wutöschingen AG & Co.
Röchling Family Council
Advisory Board Gebr. Röchling KG
Shareholder committee of Röchling Industrie Verwaltung GmbH

Dr. Dieter Schadt
Mülheim/Ruhr
(as from 1/22/2004)

Former CEO of Franz Haniel & Cie. GmbH

Delton AG
Esso Deutschland GmbH
ExxonMobil Central Europe Holding GmbH
LSG Lufthansa Service Holding AG
Advisory board of Gebr. Röchling KG
Shareholder committee of Röchling Industrie Verwaltung GmbH
RWE Umwelt AG
TAKKT AG

Wolfgang Tretbar *
Nettetal

Works council chairman of Pierburg GmbH,
Nettetal plant

Dr. Sabine Thürmel
Grünwald

Computer scientist

DeTeWe – Deutsche Telephonwerke Beteiligungs AG
Advisory board of Gebr. Röchling KG
Shareholder committee of Röchling Industrie Verwaltung GmbH

Harald Töpfer *
Kassel
(as from 2/9/2004)

Works council chairman of Rheinmetall Landsysteme GmbH,
Kassel operation

Rheinmetall Landsysteme GmbH

Peter Winter *
Achim

Works council member of Rheinmetall Defence Electronics GmbH

Prof. Dr. Dirk Zumkeller
München

Full professor of Transport & Transit Systems,
Technical University of Karlsruhe

Advisory board of Gebr. Röchling KG
Shareholder committee of Röchling Industrie Verwaltung GmbH
Kolbenschmidt Pierburg AG

Executive Board members and senior executive officers

Executive Board

Klaus Eberhardt
Düsseldorf

Chairman
Director of Industrial Relations

Defence
CEO of Rheinmetall DeTec AG
(as from 3/1/2004)

Membership in supervisory boards

Kolbenschmidt Pierburg AG
(chairman)

Nitrochemie AG
(as from 3/24/2004, president as from 3/24/2004)

Nitrochemie Wimmis AG
(as from 3/24/2004, president as from 3/24/2004)

Oerlikon Contraves AG
(as from 3/26/2004, president as from 3/27/2004)

Rheinmetall Defence Electronics GmbH
(as from 3/1/2004, chairman as from 3/16/2004)

Rheinmetall DeTec AG
(chairman up to 2/29/2004)

Rheinmetall Landsysteme GmbH
(as from 3/1/2004, chairman as from 8/3/2004)

Rheinmetall W & M GmbH
(3/1 to 5/11/2004)

Rheinmetall Waffe Munition GmbH
(as from 11/4/2004, chairman as from 12/2/2004)

Dr. Gerd Kleinert
Gottmadingen

Automotive
CEO of Kolbenschmidt Pierburg AG

Membership in supervisory boards

Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd.
(Vice chairman)

KS Aluminium-Technologie AG
(chairman)

KS ATAG GmbH
(as from 3/22/2004, chairman as from 11/8/2004)

KS Gleitlager GmbH
(chairman)

KS Kolbenschmidt GmbH
(chairman)

KS International Investment Corp.

KS Piston Shanghai Co. Ltd.
(as from 6/23/2004)

Läpple AG
(as from 12/10/2004)

Läpple Holding AG
(as from 12/10/2004)

Pierburg GmbH
(chairman)

Dr. Ernst-Otto Krämer
Meerbusch
(up to 2/29/2004)

Defence
CEO of Rheinmetall DeTec AG
(up to 2/29/2004)

Membership in supervisory boards

GIWS Gesellschaft für intelligente Wirksysteme mbH
(up to 2/29/2004)

Michelin Reifenwerke

Nitrochemie AG
(president up to 2/29/2004)

Nitrochemie Wimmis AG
(president up to 2/29/2004)

Oerlikon Contraves AG
(president up to 2/29/2004)

Rheinmetall Defence Electronics GmbH
(chairman up to 2/29/2004)

Rheinmetall Landsysteme GmbH
(chairman up to 2/29/2004)

Rheinmetall W&M GmbH
(chairman up to 2/29/2004)

Dr. Herbert Müller
Essen

Finance & Controlling (CFO)

Membership in supervisory boards

Kolbenschmidt Pierburg AG

Rheinmetall DeTec AG

Senior Executive Officers

Dr. Andreas Beyer
Sindelfingen

Law, Internal Auditing, M&A

Membership in supervisory boards

Bachofen + Meier AG

Jagenberg AG

Kolbenschmidt Pierburg AG

Pierburg GmbH

Ingo Hecke
Meerbusch

Human Resources and Senior Management

Senior executive officer of Rheinmetall DeTec AG
(as from 5/1/2004)

Membership in supervisory boards

Rheinmetall Defence Electronics GmbH
(as from 3/1/2004)

Rheinmetall Landsysteme GmbH
(as from 8/26/2004)

Rheinmetall Waffe Munition GmbH
(as from 11/4/2004)

Financial glossary

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 →stakeholders 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.
Cash flow (gross, but after taxes)	Net income/net loss plus amortization/depreciation and changes in accruals for pensions and similar obligations. This indicator shows a company's ability to internally fund its expenditures and processes and to distribute cash dividends.
Corporate governance	Responsible management and control of a company. The German Corporate Governance Code has compiled certain standards to facilitate comparisons of governance structures between internationally operating German companies. All German listed corporations are required by the law to annually issue a declaration on the extent of past and/or present compliance with the Code's recommendations.
DCF method	The discounted-cash flow method is mainly used to determine the value of a company's equity. In the two-step gross approach, firstly the value of a company as a whole is calculated as the total present value of all future free cash flows, on the assumption that the company has no financial debts and based on the company's current finance structure. Secondly, the company's total debt at fair value is deducted from the total value of the debt-free company.
Deferred taxes	Balance sheet line to disclose temporary differences between tax bases and financial accounting values in order to report tax expense in line with pretax accounting income.
Earnings per share (EpS)	Earnings 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.
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	Ratio of EBIT to net sales; the percentage is 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.
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.
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.
Interest rate swap	Swaps interest payments between two parties, such as variable for fixed rates or vice versa.
International Accounting Standards Board (IASB)	Private-law organization that issues the →International Financial Reporting Standards (IFRS). At its inception in 2001, the IASB adopted the entire set of International Accounting Standards (IAS) published by its predecessor, the IASC.
International Financial Reporting Interpretations Committee (IFRIC)	Once approved by the →IASB, the IFRIC Interpretations resolve potentially contentious accounting issues and, when declared effective, are binding on all IFRS users.

Financial glossary

International Financial Reporting Standards (IFRS)	Standards developed by the →IASB primarily to represent financial information for decision-making purposes that is addressed to a broad range of users, mainly investors.
Investment ratio	Ratio of additions to tangible and intangible assets (excl. goodwill) to net sales.
MDAX®	This German mid-cap index covers 50 midsize companies (in terms of order book sales and market capitalization) of the prime standard from classical sectors.
Net financial debts	All interest-bearing liabilities (such as bonds, accounts due to banks) less cash & cash equivalents. This figure provides information about a company's net indebtedness.
Net leverage	Ratio of →net financial debts to equity: the lower this ratio is the less depends a company on debt.
Net fair value	The amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal (therefore a.k.a. fair value less costs to sell).
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.
Preferred stock	Entitles to a higher dividend than common stock but is (mostly) nonvoting.
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.
Recoverable amount	Corresponds to the higher of an asset's →net fair value (NFV) or →value in use.

ROCE (return on capital employed)	Rheinmetall determines this performance indicator as the ratio of →EBIT to 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 income tax assets.
Segment liabilities	All liabilities less financial debts and income tax liabilities.
Stakeholders	Parties that contribute to corporate performance and put demands on the company in various ways; they mainly include stockholders, banks, lenders, customers, employees, government agencies.
Syndicated loan	Credit facility provided to a company not only by one but several banks (banking syndicate).
Value added	Value added to assets used in production. The Rheinmetall Group derives added value from income statement data by deducting from the entire annual economic output the year's input, such as cost of materials or amortization/depreciation.
Value in use	The present value of the future cash flows expected to arise from an asset's continuing use and its disposal at the end of its useful life.
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.

IMPRINT

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Rheinmetall's homepage at **www.rheinmetall.com** contains detailed business information about the Rheinmetall Group and its subsidiaries, present trends, 15-minute stock price updates, press releases, and ad hoc notifications. In fact, investor information is a regular fixture of this website from where all the relevant details may be downloaded.

Our annual report is downloadable from **www.rheinmetall.com** in both English and German, the latter version prevailing in any case of doubt, or may be obtained directly from the Company.

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