

Q1

Rheinmetall AG

Interim report as of March 31, 2006



RHEINMETALL

The Rheinmetall Group in figures

Rheinmetall Group indicators € million

	Q1/2004	Q1/2005	Q1/2006
Net sales	821	756	852
Order intake	884	1,003	843
Order backlog (Mar. 31)	3,076	2,978	2,904
EBITDA	76	72	74
EBIT	32	33	34
EBT	14	21	23
Net income	12	13	17
Cash flow	59	54	60
Net financial debt	388	332	293
Net interest expense	(18)	(12)	(11)
Capital expenditures	36	38	40
Depreciation/amortization	44	39	40
Total equity	743	796	890
Total assets	3,214	3,079	3,380
EBIT margin	3.9%	4.4%	4.0%
Earnings per common share (€)	0.28	0.31	0.45
Market capitalization (Mar. 31)	1,126	1,476	2,304
Headcount (Mar. 31)	18,705	18,270	18,964

Highlights

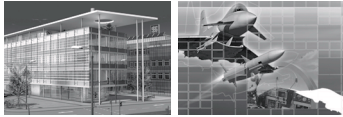
The Rheinmetall Group started successfully into fiscal 2006 and, with its two sectors Automotive and Defence performing well, continues the previous year's progress. Rheinmetall's strategic focus on growth and earnings is endorsed by the business trend in Q1/2006.

- Group sales showing a clear rise of 13 percent
- At €34 million, EBIT slightly above the previous year
- Group net income climbing from €13 million to €17 million
- EpS gaining from €0.31 to €0.45

Given this development, Rheinmetall reconfirms its full-year prediction for 2006 and again expects a consolidation of the level of earnings achieved.

News flashes Q1/2006

January 2006



■ Rheinmetall showcases itself at the German Corporate Conference of Crédit Agricole Chevreux and also participates in the Investors Conference of Dresdner Kleinwort Wasserstein in New York.

■ Pierburg do Brasil builds at its Nova Odessa site a 4,000 m² production shop with adjacent offices while additionally fortifying its production base with a die-casting shop of its own.

■ Germany's Federal Labor Agency awards Rheinmetall Landsysteme and Rheinmetall Waffe Munition at the Unterlüss location a certificate in acknowledgment of its youth advancement efforts, thus endorsing the outstanding commitment of both these companies.

■ The groundbreaking ceremony at Neckarsulm to mark construction commencement of the new Customer and Engineering Center intended to sharpen to auto industry customers the profile of the Group companies clustered at this location.

■ Following industrial and customer teams from Britain, Italy, and Spain, German pilots from the 73rd fighter squadron are now completing on simulators built by Rheinmetall Defence Electronics their first training phase as future Eurofighter instructors of the German Air Force.

February 2006



■ Mercedes-Benz's R-Class uses Kolbenschmidt Pierburg technology. Pierburg, KS Pistons und KS Plain Bearings are all supplying ultramodern products installed into the newly engineered Grand Sport Tourer series—a six-seater with ample space that merges the hallmarks of a variety of auto genres.

■ In Dresden, Saxony's Minister-President Milbradt commissions the world's biggest capacitor bank costing around €10 million, the centerpiece of the new High Magnetic Field Laboratory of the Rossendorf Research Center (FZR). This ultramodern capacitive energy supply system was developed jointly with experts from Rheinmetall Waffe Munition.

■ At the new Mexico location, around 300 employees manufacture gasoline and diesel engine pistons for cars and commercial vehicle OEMs. For KS Pistons, KS de México represents an extension of production capacities while amplifying this company's NAFTA presence.

■ The German Vice-Head of the European Defence Agency (founded in 2004) talks to numerous members of the Bundestag and the Bundeswehr at the parliamentary evening staged in Berlin about the Agency's key tasks aimed at achieving among other things enhanced efficiency in the areas of need definition, research, procurement, and industrial policies through arms cooperation within the European Union.

March 2006



■ At an Analysts Meeting held in Unterlüss, Defence presents its four divisions and its operating business.

■ Pierburg merges its materials and component testing units along with dimensional measuring at a new Central Measuring Laboratory. Besides expertise, this center combines all the important measuring capabilities to allow together with the state-of-the-art chemical laboratory, a holistic approach when handling testing and experimental assignments.

■ Rheinmetall presents the figures for a successful fiscal year 2005 at the Annual Accounts Press and Analysts conferences.

■ A new lifetime data box from Oerlikon Contraves, Germany, allows long-term records of a variety of environmental influences impacting on the life expectancy of ammunition. Containing information on the usability and residual life of ammunition, this box furnishes the basics for modern ammunition life-cycle management.

■ Vocational school teachers from five German states attending a coordinated Advanced Training event for teachers staged by Motor Service International at Dormagen, are briefed on the newest developments in fuel and air supply systems, emission control, engine cooling and vacuum production on gasoline and diesel engines.

Rheinmetall stock

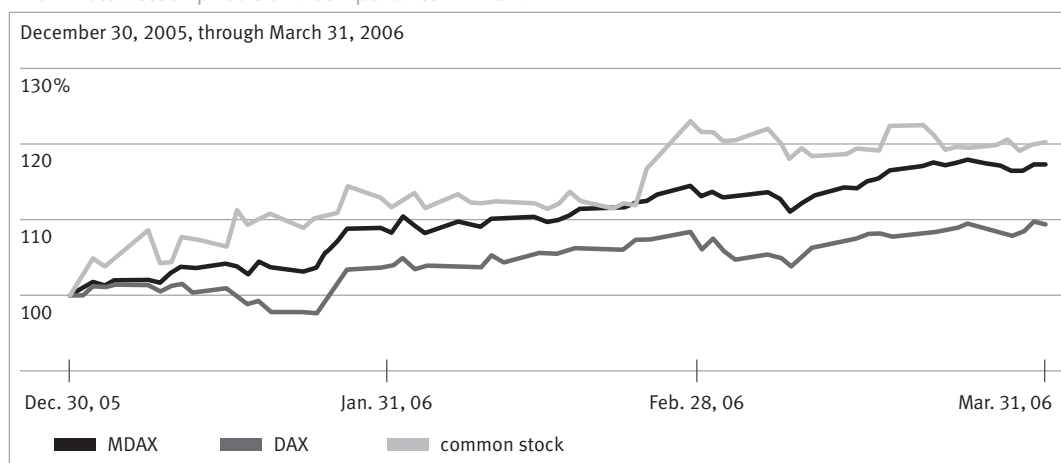
Price surging by 20 percent in Q1/2006. Market capitalization soaring to over €2.3 billion. Buoyed by a bullish German stock market and optimistic analyst studies, Rheinmetall stock prices in the first three months of 2006 resumed their year-earlier high-ride. Whereas in the months January through March 2006, the DAX, Germany's prime stock index, climbed 10.4 percent to 5,970 points, the mid-cap MDAX, which includes Rheinmetall, leaped 18.6 percent over year-end 2005 to 8,670.

In their reports on the 2005 annual accounts several financial institutes had published studies that predicted prices well over €70 for Rheinmetall stock. In response, the price closed Q1/2006 with a gain of 20 percent to €64.00. At the end of February, it had even scaled a new all-time high of €66. In a year-on-year comparison, the surge was 56 percent as of March 31, 2006.

Parallel to this price performance, the Group's market capitalization had likewise jumped to just over €2.3 billion as of March 31, 2006 (up from around €1.5 billion). The stock's average Xetra trading volume in Q1/2006 was 159,000 shares (up from 86,500).

The latest figures published by Deutsche Börse AG at the end of March 2006, rank Rheinmetall at positions 11 and 23 for market capitalization and trading volume among the 50 MDAX equities, respectively.

Rheinmetall stock price trend compared to DAX and MDAX

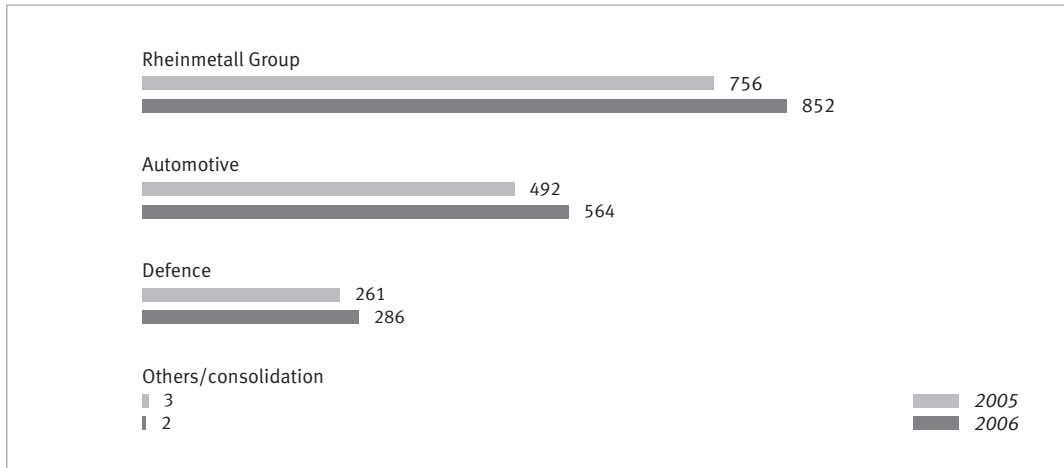


Rheinmetall Group

Business volume revved up

Solid organic growth. In the first quarter of 2006, Rheinmetall again held its ground most successfully in a partly difficult business scenario and propelled its total volume of business. Despite rising challenges on the automotive and defence markets, the two sectors improved their sales.

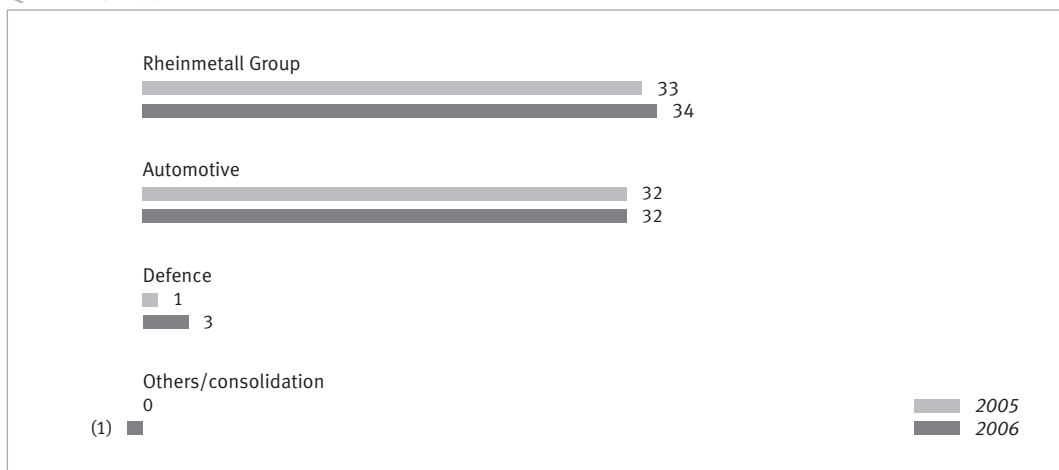
Q1 sales € million



From January through March 2006, the Rheinmetall Group generated sales of €852 million, following €756 million one year earlier, equivalent to a 13-percent growth.

Automotive outperformed the previous year's level by 15 percent in a regionally mixed but in all favorable industry setting. The Defence sector showed sales growth of 10 percent in a, for invoice-timing reasons, usually weak first quarter of the year.

Q1 EBIT € million



Sustained progress at a high level. For the first three months of 2006 and at €34 million, the Rheinmetall Group's EBIT was slightly above that of 2005.

The €1 million gain in EBIT combined with a net interest expense down by €1 million to lift EBT from €21 million to €23 million. Due to a lower tax load ratio, the Group's net income advanced by €4 million to €17 million, this leading to a clear improvement in EpS, which in Q1/2006 surged to €0.45 following €0.31 in Q1/2005.

Prospects: confident as to 2006. Based on the sales and earnings performance of the first three months of the current year, Rheinmetall again expects for fiscal 2006 a stabilization of the previous year's earnings level.

Automotive sector

Good start into 2006

Auto industry progressing. From January through March 2006, the global production of cars and light commercial vehicles climbed by about 4 percent over the corresponding prior-year figure. Against the background of a slight production growth in the triad markets of Western Europe, North America and Japan, this uptrend is mainly based on the steep rise in auto production in Southeast Asia, South America, and Eastern Europe.

Sales again outpacing market growth. In Q1/2006, the Automotive sector generated sales of €564 million, hence 15 percent above the like-for-like 2005 period and clearly above market growth. All divisions shared in this sales rise.

High earnings stabilized. By March 31, 2006, the Automotive sector generated an EBIT of altogether €32 million, with all divisions contributing a profit. The marked sales rise helped to outweigh income-eroding factors and re-achieve the high year-earlier level. At 5.7 percent, the Q1 EBIT margin is short of the previous year's 6.5 percent. Apart from climbing commodity and energy prices, this is also the result of worsening currency parity in Brazil.

Prospects: Automotive continuing to benefit from trends in carmaking. Automotive's product portfolio, with its special focus on reducing resources consumption and emissions, on diesel engines as well as on the use of lightweight materials, opens up good opportunities for the sector's continuous organic growth.

Assuming ongoing steady demand, Automotive again expects a sales upswing. This development, combined with a strong operating performance, supports the sector's solid earnings.

Automotive indicators € million

	Q1/2005	Q1/2006
Net sales	492	564
Order intake	510	560
Order backlog (Mar. 31)	331	337
Headcount (Mar. 31)	11,432	12,022
EBITDA	61	63
EBIT	32	32
EBT	28	27
EBIT margin	6.5%	5.7%
Capital expenditures	32	32
Depreciation/amortization	29	31

Defence sector

Sales and EBIT up

Modernizing the military. The rewritten threat scenarios have triggered new defence policy challenges which, in turn, have meant a worldwide need to revamp the armed forces. A growing share of defence budgets is being invested to meet military needs for improved mobility, reconnaissance and better protection of the soldiers as well as efficiency-enhancing systems networking. Rheinmetall Defence had early on anticipated the market changes and has consequently benefited from this development in the first three months of 2006.

Unabated organic growth trend. In an invoicing-related regularly weak first quarter, Defence generated sales of €286 million (up 10 percent). At €282 million, order intake slightly outperformed expectations for Q1. In the previous year's quarter, significant megaorders such as for the pre-series Puma infantry fighting vehicle had been booked.

Earnings strengthened—Q1 EBIT above the prior year's. In the period under review, Defence raised its Q1 EBIT by €2 million to €3 million. The first-quarter EBIT margin mounted from 0.4 a year ago to 1.0 percent. This highly commendable performance is attributable to added sales and a more competitive cost structure.

Prospects: high order backlog guaranteeing growth. Given its presently high book-to-bill ratio, Defence expects for this fiscal year rising sales and sees good opportunities to consolidate the performance and re-achieve the earnings of 2005.

Defence indicators € million

	Q1/2005	Q1/2006
Net sales	261	286
Order intake	490	282
Order backlog (Mar. 31)	2,647	2,567
Headcount (Mar. 31)	6,731	6,815
EBITDA	10	12
EBIT	1	3
EBT	(3)	0
EBIT margin	0.4%	1.0%
Capital expenditures	6	8
Depreciation/amortization	9	9

Consolidated balance sheet as of March 31, 2006

Assets € million

	12/31/2005	3/31/2005	3/31/2006
Intangible assets	417	403	418
Tangible assets	1,052	1,008	1,053
Investment properties	13	24	13
Investees carried at equity	64	32	65
Noncurrent financial assets	7	18	7
Sundry noncurrent assets	5	6	5
Deferred tax assets	61	63	66
Total noncurrent assets	1,619	1,554	1,627
Inventories	638	694	683
less prepayments received	(32)	(25)	(40)
	606	669	643
Trade receivables	481	439	490
Current financial assets	26	8	21
Sundry current receivables and assets	271	311	324
Income tax assets	12	10	8
Cash and cash equivalents	408	88	267
Total current assets	1,804	1,525	1,753
Total assets	3,423	3,079	3,380

Equity & liabilities € million

	12/31/2005	3/31/2005	3/31/2006
Capital stock	92	92	92
Additional paid-in capital	208	208	208
Other reserves	449	456	562
Net income after minority interests	113	12	16
Treasury stock	(34)	(22)	(34)
Rheinmetall AG stockholders' equity	828	746	844
Minority interests	47	50	46
Total equity	875	796	890
Pension accruals	514	490	517
Other noncurrent accruals	107	112	88
Noncurrent financial debts	397	379	394
Sundry noncurrent liabilities	8	7	6
Deferred tax liabilities	15	21	19
Total noncurrent liabilities and accruals	1,041	1,009	1,024
Current accruals	290	305	326
Current financial debts	162	41	166
Trade payables	399	356	382
Sundry current liabilities	598	517	527
Income tax liabilities	58	55	65
Total current liabilities and accruals	1,507	1,274	1,466
Total equity & liabilities	3,423	3,079	3,380

Consolidated income statement for the 3 months (Q1) ended March 31, 2006

€ million

	Q1/2005	Q1/2006
Net sales	756	852
Net inventory changes, other work and material capitalized	29	48
Total operating performance	785	900
Other operating income	23	18
Cost of materials	(372)	(465)
Personnel expenses	(245)	(260)
Amortization/depreciation	(39)	(40)
Other operating expenses	(119)	(119)
Operating result	33	34
Net interest expense ¹⁾	(12)	(11)
Net investment income and other financial results ²⁾	0	0
Net financial result	(12)	(11)
Earnings before taxes (EBT)	21	23
Income taxes	(8)	(6)
Net income	13	17
thereof		
<i>minority interests</i>	1	1
<i>Rheinmetall AG stockholders</i>	12	16

¹⁾ incl. €14 million interest expense (down from €15 million)

²⁾ incl. €1 million from investees carried at equity (up from €0 million)

Consolidated statement of cash flows for Q1/2006

€ million

	Q1/2005	Q1/2006
Cash and cash equivalents at Jan. 1	258	408
Net income	13	17
Amortization/depreciation of intangibles/tangibles	39	40
Change in pension accruals	2	3
Cash flow	54	60
Changes in working capital and other items	(191)	(158)
Net cash used in operating activities	(137)	(98)
Cash outflow for additions to tangibles and intangibles	(38)	(40)
Cash inflow from the disposal of tangibles and intangibles	9	1
Cash outflow for additions to consolidated subsidiaries and noncurrent financial assets	(6)	(9)
Cash inflow from the disposal of consolidated subsidiaries and noncurrent financial assets	2	3
Net cash used in investing activities	(33)	(45)
Sundry profit distribution	(1)	--
Change in financial debts	--	1
Net cash (used in)/provided by financing activities	(1)	1
Net change in cash and cash equivalents	(171)	(142)
Parity-related change in cash and cash equivalents	1	1
Total change in cash and cash equivalents	(170)	(141)
Cash and cash equivalents at March 31	88	267

Statement of changes in equity

€ million

	Capital stock	Additional paid-in capital	Other reserves	Group earnings after minority interests	Treasury stock	Stockholders' equity	Minority interests	Total equity
Balance at 1/1/2005	92	208	355	96	(22)	729	50	779
Dividend payments	--	--	--	--	--	--	(1)	(1)
Currency translation differences	--	--	5	--	--	5	--	5
Accumulated other comprehensive income (OCI)	--	--	96	(96)	--	--	--	--
Group net income	--	--	--	12	--	12	1	13
Balance at 3/31/2005	92	208	456	12	(22)	746	50	796
Balance at 1/1/2006	92	208	449	113	(34)	828	47	875
Currency translation differences	--	--	(1)	--	--	(1)	--	(1)
Consolidation group changes	--	--	--	--	--	--	(2)	(2)
Accumulated OCI	--	--	114	(113)	--	1	--	1
Group net income	--	--	--	16	--	16	1	17
Balance at 3/31/2006	92	208	562	16	(34)	844	46	890

Further disclosures

	12/31/2005	Additions	Disposals	12/31/2006
Fully consolidated companies	90	--	--	90
thereof in Germany	48	--	--	48
thereof abroad	42	--	--	42
Investees carried at equity	14	--	--	14
thereof in Germany	7	--	--	7
thereof abroad	7	--	--	7

Primary accounting bases. The present interim report has been prepared in accordance with those International Financial Reporting Standards (IFRS) and Interpretations (IFRIC) approved and released by the International Accounting Standards Board (IASB) whose application was mandatory as of the balance sheet date.

For further information about the accounting methods and policies, reference is made to the consolidated financial statements as of December 31, 2005, which also underlie this interim report.

Financial diary

May 9, 2006	Annual stockholders' meeting
May 9, 2006	Q1/2006 report
May 10, 2006	Teleconference with financial analysts
August 8, 2006	Q2/2006 report, teleconference with financial analysts
November 8, 2006	Q3/2006 report, teleconference with financial analysts

Imprint

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This interim report contains statements and forecasts referring to the Rheinmetall 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.

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