Rheinmetall AG

Interim report as of June 30, 2002

EBIT 11 percent higher to €51 million

Organic growth raising sales by 7 percent

Order backlog up 9 percent to €4.0 billion

Q2

RHEINMETALL

Interim report as of June 30, 2002

EBIT 11 percent higher to €51 million

Our Q1/2002 report stated that, despite the unfavorable economic environment, Rheinmetall with its Clear Directions strategy was continuing on course. This report on Q2/2002 reflects the further progress being made by the Group.

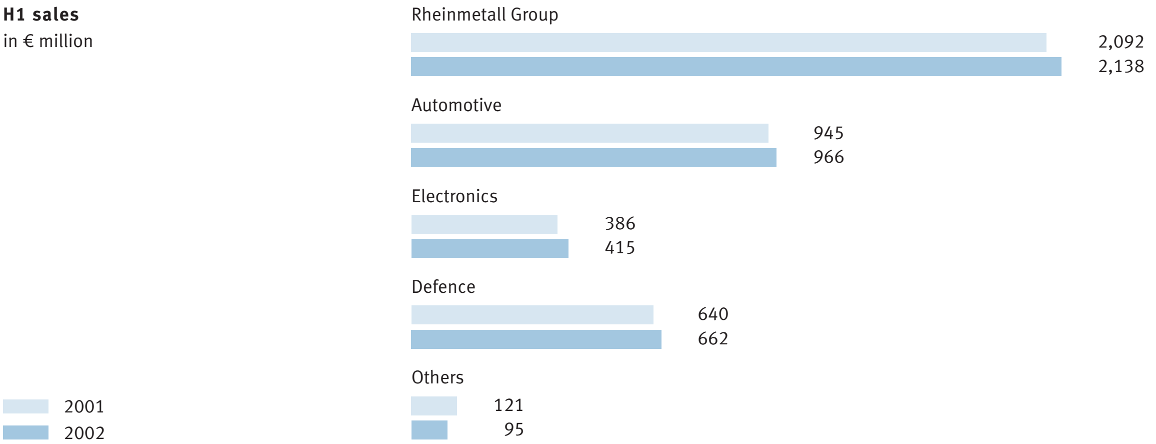
Sales in H1/2002 showed an organic 7-percent growth over H1/2001. Earnings improved further, despite the fact that once again the Rheinmetall Defence equipment business for invoice timing reasons will only bear fruit in the latter part of the year.

The order situation within the Rheinmetall Group is generally good, with order intake and order backlog gaining over the comparable year-earlier period by 2 and 9 percent, respectively. A commanding role in this growth has been played by the Defence sector through significant orders placed abroad by NATO member states. Thus, this sector took a significant step forward toward achieving its medium-term goal to push up the non-German share of business from around 45 percent today to 60 percent.

For 2002 and despite the economy-related burdens, Rheinmetall is aiming to close the year with earnings up over 2001.

Sales up across all sectors

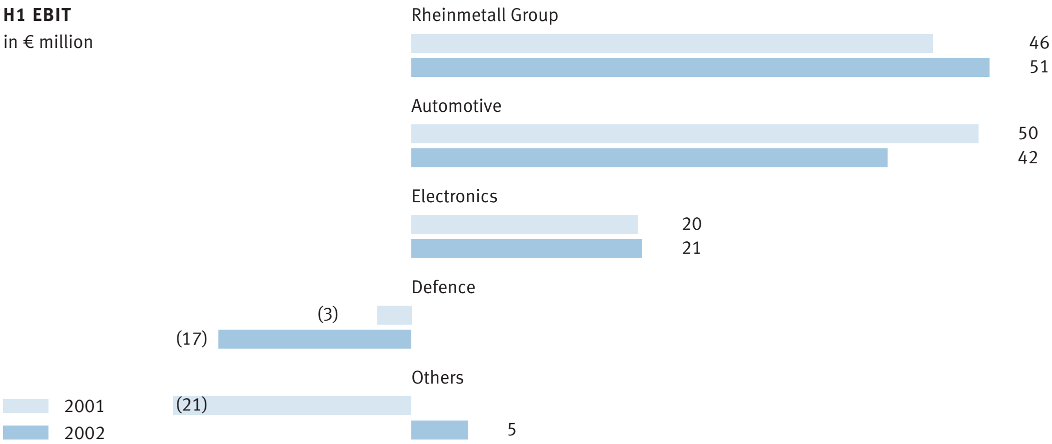
H1 sales
in € million



H1 sales

In the first half of 2002, the Rheinmetall Group generated sales of €2,138 million, up 2 percent compared with H1/2001. Adjusted for changes to the consolidation group, the improvement was as much as 7 percent. All sectors contributed to this organic increase.

Earnings again up



H1 results of operations

The Rheinmetall Group's EBIT for H1/2002 climbed to €51 million (up from €46 million). The Electronics sector upped its earnings while Automotive, as expected, failed to match the good year-earlier figure due to weaker automobile demand worldwide. As in previous years and because of the sales cycle symptomatic of the public sector, Defence showed a negative EBIT for the period. Since according to IAS, the obligatory accounting for longer-term manufacturing contracts on the basis of their percentage of completion (PoC) is not applicable to ammunition and development contracts, the prorated profit contributions will only be recognized in the latter part of the fiscal year. Restructuring expenses are another major factor accounting for this sector's higher red EBIT compared with H1/2001. The sharp EBIT gain of €26 million posted by the holding company, financial investees and service enterprises subsumed under Others is primarily due to the Jagenberg Group which in H1/2002 showed an EBIT improvement by €21 million, albeit still slightly negative.

Rheinmetall Group indicators
€ million

	H1/2001	H1/2002
Net sales	2,092	2,138
EBITDA	183	188
EBIT	46	51
EBT	(7)	2
EBIT margin	2.2%	2.4%
EpS (before goodwill amortization) *	€(0.23)	€(0.06)
Cash flow	121	128
Capital expenditures	132	130
Depreciation/amortization	137	137
Order intake	1,993	2,030
Order backlog (6-30)	3,682	4,018
Headcount (6-30)	29,578	27,885

* weighted average of common and preferred stock

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The sectors

Kolbenschmidt Pierburg AG
Automotive

Automotive indicators € million	H1/2001	H1/2002
Net sales	945	966
EBITDA	127	119
EBIT	50	42
EBT	29	24
EBIT margin	5.3%	4.3%
Capital expenditures	90	81
Depreciation/amortization	77	77
Order intake	894	919
Order backlog (6-30)	268	279
Headcount (6-30)	12,074	11,712

Despite a more difficult market environment with auto sales down in many parts of Western Europe as well as in North and South America, Automotive (Kolbenschmidt Pierburg AG) succeeded in raising its H1/2002 sales to €966 million. Adjusted for sales by the MotorEngineering division, included in H1/2001 but excluded from the consolidation group since January 1, 2002, the organic growth for H1/2002 was 4 percent. With sales up by 8 percent, Air Supply & Pumps was well over the H1/2001 figure. Pistons, Aluminum Technology, and Motor Service likewise raised their sales revenues while Plain Bearings fell just short of the year-earlier level due to the hostile market environment and project start-up delays.

As expected and with an EBIT of €42 million, Automotive failed to repeat the H1/2001 performance of €50 million. H1/2002 earnings by Air Supply & Pumps mounted steeply especially due to added business in Germany and Spain plus the turnaround at the American subsidiary while Pistons and Plain Bearings posted lower earnings on account of declining sales and of restructuring expenses. Also, Aluminum Technology's EBT suffered heavily from unexpectedly high production rejects in the course of starting up the low-pressure castings.

Automotive's additions to tangible and intangible assets during H1/2002 amounted to €81 million, down 10 percent. For the year as a whole, capital outlays are expected to be much lower than in 2001.

The workforce decline of 362 is mainly due to restructuring at the US plants, the economic influences, and the shedding of the MotorEngineering division.

For fiscal 2002, the Automotive sector is aiming at a net income to match the high level of 2001, which considering the uncertain economic scenario and Aluminum Technology's specific start-up problems, may be regarded as being very ambitious.

Aditron AG
Electronics

The situation in the markets of relevance to the Electronics sector (Aditron AG) varied. Whereas industrial electronics business had to contend with a difficult economic environment, demand for security equipment (Heimann Systems) continued to boom. As a consequence, Heimann Systems in H1/2002 showed a clear gain in sales and order intake while the remaining divisions fell slightly short of the high year-earlier levels.

In H1/2002, Electronics raised its sales by 8 percent to €415 million, up 14 percent over the like-for-like H1/2001 volume.

Electronics indicators € million	H1/2001	H1/2002
Net sales	386	415
EBITDA	34	36
EBIT	20	21
EBT	13	16
EBIT margin	5.1%	5.1%
Capital expenditures	12	15
Depreciation/amortization	14	15
Order intake	400	438
Order backlog (6-30)	273	310
Headcount (6-30)	5,441	5,120

With the results of operations again enhanced at Heimann Systems, Aditron's EBIT in H1/2002 climbed €1 million to €21 million. Whereas the H1/2001 EBIT included a €1 million gain from the disposal of a subsidiary, the H1/2002 EBIT is burdened by a €2 million write-down of securities.

Even though Heimann Systems hired an additional 174 employees in order to boost capacities, the overall workforce at Electronics dropped by 321, mainly in the wake of restructuring programs at Hirschmann and Preh.

For all of fiscal 2002, the Electronics sector will deliver a performance up over the previous period's.

Rheinmetall DeTec AG
Defence

Amid a generally difficult market environment, the Defence sector (Rheinmetall DeTec AG) managed to raise its order backlog to €3.4 billion, order intake advancing 14 percent over H1/2001.

The first six months are a period of generally weaker sales yet despite this, Rheinmetall DeTec improved revenues by 3 percent to €662 million, with Land Systems, Defence Electronics, and Air Defence Systems all posting sales growth. Weapon & Ammunition, in contrast, recorded lower sales.

Defence indicators € million	H1/2001	H1/2002
Net sales	640	662
EBITDA	28	16
EBIT	(3)	(17)
EBT	(13)	(28)
EBIT margin	(0.5)%	(2.5)%
Capital expenditures	20	22
Depreciation/amortization	31	33
Order intake	478	544
Order backlog (6-30)	2,911	3,353
Headcount (6-30)	9,031	9,176

Weaker earnings compared with H1/2001 is mainly due to restructuring expenses in Weapon & Ammunition.

For all of 2002, this sector endeavors to show a performance superior to that of 2001.

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Consolidated income statement

Consolidated income statement for the 6 months ended June 30, 2002 (H1)

€ million	H1/2001	H1/2002
Net sales	**2,092**	**2,138**
Net inventory changes, other work and material capitalized	114	29
Total operating performance	**2,206**	**2,167**
Other operating income	86	92
Cost of materials	(1,028)	(982)
Personnel expenses	(748)	(733)
Amortization/depreciation	(137)	(137)
Other operating expenses	(332)	(354)
Operating result	**47**	**53**
Net interest expense	(53)	(49)
Net investment income and other financial results	(1)	(2)
Net financial result	**(54)**	**(51)**
Earnings before taxes (EBT)	**(7)**	**2**
Income taxes	(14)	(10)
Group net loss	**(21)**	**(8)**
Minority interests	2	(5)
Group earnings (after minority interests)	**(19)**	**(13)**

Consolidated income statement for the 3 months ended June 30, 2002 (Q2)

€ million	Q2/2001	Q2/2002
Net sales	**1,115**	**1,114**
Net inventory changes, other work and material capitalized	15	(18)
Total operating performance	**1,130**	**1,096**
Other operating income	46	51
Cost of materials	(533)	(497)
Personnel expenses	(369)	(368)
Amortization/depreciation	(68)	(69)
Other operating expenses	(171)	(185)
Operating result	**35**	**28**
Net interest expense	(30)	(23)
Net investment income and other financial results	1	(4)
Net financial result	**(29)**	**(27)**
Earnings before taxes (EBT)	**6**	**1**
Income taxes	(8)	(1)
Group net loss	**(2)**	**0**
Minority interests	—	(4)
Group earnings (after minority interests)	**(2)**	**(4)**

Consolidated balance sheet as of June 30, 2002

Assets

€ million	12-31-2001	6-30-2002
Fixed assets		
Intangible assets	328	402
thereof goodwill	*301*	*365*
Tangible assets	1,501	1,469
Financial assets	56	50
	1,885	**1,921**
Current assets		
Inventories	1,058	1,097
less prepayments received	(39)	(69)
Trade receivables	723	704
All other receivables and sundry assets	308	421
Cash & cash equivalents	223	100
	2,273	**2,253**
Income tax assets	**50**	**59**
Prepaid expenses & deferred charges	**10**	**15**
	4,218	**4,248**

Equity & liabilities

€ million	12-31-2001	6-30-2002
Total equity		
Stockholders' equity (Rheinmetall AG)		
Capital stock	92	92
Additional paid-in capital	208	208
Other reserves	129	118
Group earnings (after minority interests)	21	(13)
	450	**405**
Minority interests	267	225
	717	**630**
Accruals		
Pension accruals	673	671
Other	576	540
	1,249	**1,211**
Liabilities		
Financial debts	908	1,000
Trade payables	456	414
All other liabilities	775	850
	2,139	**2,264**
Income tax liabilities	**53**	**71**
Deferred income	**60**	**72**
	4,218	**4,248**

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Consolidated statement of cash flows for the 6 months ended June 30, 2002 (H1)

€ million	H1/2001	H1/2002
Cash & cash equivalents at Jan. 1 (BoP)	**242**	**223**
Group net loss	(21)	(8)
Amortization/depreciation of fixed assets	137	137
Change in pension accruals	5	(1)
Cash flow	**121**	**128**
Changes in working capital and other items	(275)	(208)
Net cash used in operating activities	**(154)**	**(80)**
Cash outflow for tangible and intangible assets	(132)	(130)
Cash inflow from the disposal of tangible and intangible assets	2	15
Cash outflow for additions to consolidated subsidiaries and financial assets	(96)	(6)
Cash inflow from the disposal of consolidated subsidiaries and financial assets	5	10
Net cash used in investing activities	**(221)**	**(111)**
Capital paid in	—	—
Dividend paid out by Rheinmetall AG	(24)	(17)
Other profit distribution	(17)	(6)
Change in financial debts	276	92
Net cash provided by financing activities	**235**	**69**
Cash-based change in cash & cash equivalents	**(140)**	**(122)**
Parity-related change in cash & cash equivalents	—	(1)
Total net change in cash & cash equivalents	**(140)**	**(123)**
Cash & cash equivalents at June 30 (EoP)	**102**	**100**

In H1/2002, the Rheinmetall Group substantially reduced the net cash used in operating activities, from €154 million in H1/2001 to €80 million in the 6-month period under review: the program initiated to downscale the working capital has started to impact favorably. The unchanged negative balance of (i.e., a net outflow of funds for) operating activities is quite normal for any Defence (and thus Rheinmetall) first half-year due to Defence's low business volume combined with the start-up of work on longer-term contracts, which accumulates working capital.

For all of 2002, Rheinmetall expects operating activities to provide a net cash inflow which fully covers the fiscal year's capital expenditures and exceeds the prior-year level.

Statement of changes in equity for H1/2002 € million	Capital stock	Additional paid-in capital	Other reserves	Group earnings after minority interests	Stockholders' equity (Rheinmetall AG)	Minority interests	Total equity
Balance at Jan. 1, 2002	**92**	**208**	**129**	**21**	**450**	**267**	**717**
Capital contributions							
Dividend payments			(17)		(17)	(6)	(23)
Exchange differences			(20)		(20)	(6)	(26)
Consolidation group changes						(32)	(32)
Other comprehensive income			26	(21)	5	(3)	2
Group earnings				(13)	(13)	5	(8)
Balance at June 30, 2002	**92**	**208**	**118**	**(13)**	**405**	**225**	**630**

Consolidation group	12-31-2001	Additions	Disposals	6-30-2002
Fully consolidated companies	177	3	3	177
thereof in Germany	93	1	2	92
thereof abroad	84	2	1	85
Investees carried at equity	16			16
thereof in Germany	7			7
thereof abroad	9			9

Primary accounting bases

The present consolidated semiannual financial statements have been prepared in accordance with such International Accounting Standards (IAS) approved and released by the International Accounting Standards Board (IASB) as were prescribed to be applied as of quarter-end, as well as with the applicable Interpretations of the Standing Interpretations Committee (SIC).

The accounting and valuation principles, as well as the explanations and disclosures in this semiannual report are based on the same, consistently applied methods that also underlie the consolidated financial statements for the fiscal year ended December 31, 2001, to which we make reference for further details.

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Financial diary

September 3, 2002	Teleconference with financial analysts on H1
November 28, 2002	Publication of 9-month figures
November 29, 2002	Teleconference with financial analysts on the 9-month figures
April 10, 2003	Annual accounts press conference and meeting with financial analysts on fiscal 2002
May 27, 2003	Annual stockholders' meeting, Berlin

Investor Relations:
Franz-Bernd Reich
Phone: (+49-211) 473-4718
Fax: (+49-211) 473-4157
franz-bernd.reich@rheinmetall-ag.com

RHEINMETALL

Rheinmetall AG

Rheinmetall Allee 1
40476 Düsseldorf

Mail: Postfach 10 42 61
40033 Düsseldorf, Germany

Phone (+49-211) 473-4718
Fax (+49-211) 473-4157

www.rheinmetall.com