Annual Report Rheinmetall AG

2007

Rheinmetall in figures

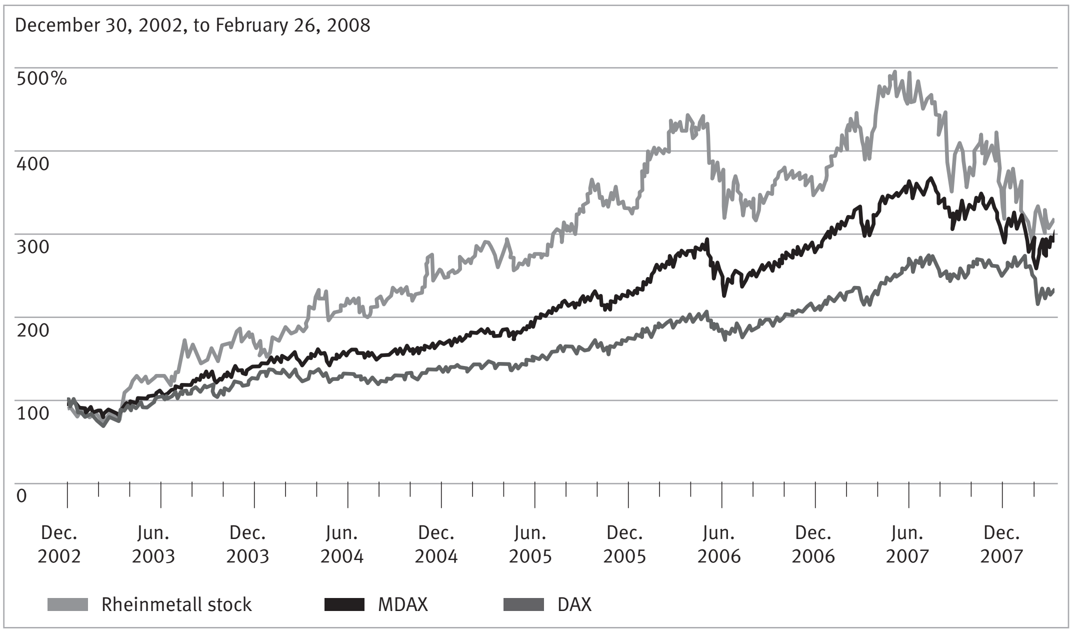
Rheinmetall Group indicators

		2003	2004	2005	2006	2007
Sales	*€ million*	4,248	3,413	3,454	3,626	4,005
Order intake	*€ million*	4,128	3,147	3,625	3,899	4,040
Order backlog (Dec. 31)	*€ million*	3,143	2,741	2,907	3,183	3,239
EBITDA	*€ million*	446	385	382	366	438
EBIT	*€ million*	204	217	225	215	270
EBT	*€ million*	120	146	170	164	213
Net income	*€ million*	68	101	118	123	150
Cash flow [1)]	*€ million*	308	264	277	308	352
Capital expenditures	*€ million*	203	183	198	186	202
Amortization/depreciation	*€ million*	211	168	157	151	168
Total equity	*€ million*	731	779	875	937	1,057
Total assets	*€ million*	3,442	3,100	3,423	3,389	3,445
EBIT margin	*in %*	4.8	6.4	6.5	5.9	6.7
ROCE [2)]	*in %*	12.3	14.9	15.2	12.5	14.5
Stock price, annual high	€	28.90	41.85	55.00	66.41	74.12
Stock price, annual closing	€	23.01	39.25	53.26	57.48	54.38
Stock price, annual low	€	12.45	23.40	38.40	47.80	48.04
Earnings per share (EpS)	€	1.72	2.64	3.19	3.41	4.15
Dividend per share	€	0.64	0.74	0.90	1.00	1.30
Employees (Dec. 31)		20,888	18,283	18,548	18,799	19,185

1) *As from 2006, net interest result reclassified into financing activities*

2) *As from 2006, CE incl. accumulated goodwill write-down*

Rheinmetall stock price trend in comparison to DAX and MDAX



An overview of the Rheinmetall Group

Corporate sector Automotive – Kolbenschmidt Pierburg AG

KS Kolbenschmidt

Passenger car pistons
Commercial vehicle pistons
Large-bore pistons
Piston systems

Locations

Germany
France
Czech Republic
USA
Mexico
Brazil
Japan
India (assoc. affiliate)
China (joint venture)

Pierburg

Air management
Actuators
Emission reduction
Solenoid valves

Locations

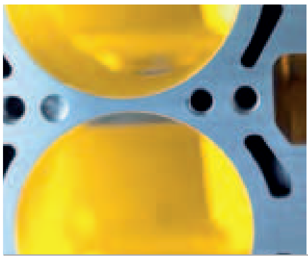
Germany
Spain
Czech Republic
USA
India

Pierburg Pump Technology

Oil pumps
Vacuum pumps
Recirculating water and coolant pumps

Locations

Germany
Great Britain
France
Italy
Mexico
Brazil



KS Aluminium-Technologie

Pressure die-cast engine blocks
Low-pressure die-cast engine blocks
Net machining

Locations

Germany
China (joint venture)

KS Gleitlager

Metallic plain bearings
Permaglide®
Continuous castings
Large bearings

Locations

Germany
USA
Brazil

Motor Service

Aftermarket components

Locations

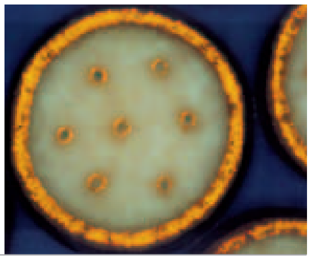
Germany
France
Turkey
Brazil
China

Corporate sector Defence – Rheinmetall Defence

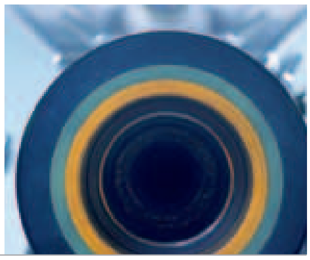
Land Systems	Locations
Armoured vehicles Turrets and weapon stations Support vehicles Command and functional vehicles Services/Logistics	Germany

Weapon and Munitions	Locations
Direct fire Indirect fire Infantry Protection systems Plant engineering	Germany Switzerland Austria USA

Propellants	Locations
Propellant systems Civil chemistry	Germany Switzerland

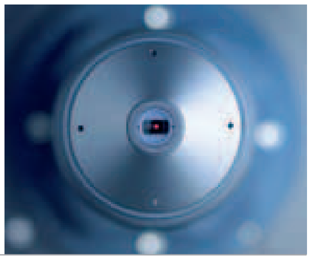


Air Defence	Locations
Ground based air defence Naval air defence Services	Switzerland Italy Canada Singapore Malaysia



C4ISTAR	Locations
Reconnaissance Command Fire control Airborne systems	Germany

Simulation and Training	Locations
Flight simulation Land simulation Maritime and process simulation	Germany



Internationalization—People and Markets. It is the people and the products that shape the profile, reputation and distinctiveness of a company. Being present in a market, living and working there, understanding and fulfilling the needs of our customers—this is our philosophy. The way we think and act in the various countries is a factor that lends the Rheinmetall Group its international competence.

We observe national and international markets and competitive scenarios and explore growth opportunities surfacing in the relevant economic regions of Europe, America, and Asia. With the aid of regional and segmental analyses we assess and evaluate technology, market and industry trends and their implications for our worldwide operations.

With application-driven R&D focused on our core capabilities and by reaching out internationally we aspire to uncover new growth areas, access promising neighboring market segments in line with our strategy and by converging and focusing our resources, substantially extend market shares in the various product groups.

We have sown the seeds for expansion into new markets and for our operations to branch out regionally. Rheinmetall is braced for new challenges—across borders and beyond frontiers.

Contents

News flashes 2007

Q1/2007

■ Ward's Auto World, one of the most important automobile magazines in the USA, elects its ten best engines of 2007. Nine of the award-winners feature state-of-the-art engine technology supplied by the Kolbenschmidt Pierburg Group.

■ Pierburg makes its presence felt at the Symposium on International Automotive Technology 2007 held in Pune, one of India's key automotive centers. Supported by Pierburg India, the division displays an extensive product range at the trade exhibition while demonstrating its R&D know-how in workshops held at three of India's top vehicle manufacturers.

■ Motor Service expands its logistics center built in Neuenstadt in 2005 from its current 7,000 m^2 to 18,500 m^2 and consolidates its incoming goods, assembly and shipping activities as well as its finished goods warehouse at this location. At the same time, construction work starts on a new office building, which is due to be moved into after mid-2008.

■ The Swiss Army places an order for the supply of twelve Kodiak armoured engineer vehicles, which are based on the components of the tried-and-tested Leopard 2 battle tank. In addition to its role as a heavy-duty combat engineer vehicle—whether in military scenarios or disaster relief operations—the new-generation Kodiak can be used to breach lanes through minefields and ensure the safety of forces on difficult missions.

■ With the acquisition of a 51-percent majority in Bonn-based Chempro GmbH and its first stake in ADS Gesellschaft für aktive Schutzsysteme mbH based in Lohmar, Rheinmetall is expanding its position as a supplier of land forces systems.

■ Based on the Rheinmetall Asrad short-range air defence system, Rheinmetall Defence Electronics designs, develops and produces missile launchers for the new multi-purpose combat vehicle (MPCV), which is suitable for air defence purposes and for engaging surface targets. The collaborator on this project is the French company MBDA. An initial system, close to the production stage, is to be unveiled in 2009.

Q2/2007

■ The renowned Society of Automotive Engineers (SAE) holds one of the key automotive technology conferences in Detroit. The Automotive sector showcases technologies and innovations designed to reduce pollutant emissions and fuel consumption, improve engine performance and efficiency and minimize engine noise and vibrations.

■ Under the motto "Single-Source Technology" KS Aluminum Technology opens the new production shop for the casting and net-machining of engine blocks at its Neckarsulm site at a ceremony attended by some 300 guests from politics, the business community and public authorities.

■ The extraordinary stockholders' meeting of Kolbenschmidt Pierburg AG resolves to transfer the shares held by minority stockholders to the principal stockholder Rheinmetall.

■ Rollout for one of the Finnish army's key armament projects: Rheinmetall Defence Electronics hands over to the commanders of the Karelian Brigade the symbolic key for the Asrad-R, a state-of-the-art air defence system for intercepting guided missiles.

■ Rheinmetall Defence secures from the Swedish Defence Matériel Administration an order to supply Birdie 118 infrared aircraft decoys for protecting Swedish air force helicopters on foreign missions against infrared-guided surface-to-air and air-to-air missiles.

■ The German Defence Ministry commissions Rheinmetall Defence to supply another three Multi Ammunition Softkill Systems (MASS) for German navy frigates. By 2009, the F123-class frigates Brandenburg, Bayern and Mecklenburg-Vorpommern are each to be equipped with a four-launcher configuration of the naval protection system.

Q3/2007


■ In Nova Odessa, Brazil, on the site of the existing pistons factory, Kolbenschmidt Pierburg commissions a further plant for producing pistons destined for the South American aftermarket.

■ Pierburg's US company receives the award from the North American Die Casting Association in the aluminum die-casting category of less than 1 lb. for its outstanding performance in the design of a die-cast aluminum housing serving as the base for two motorized EGR valves for the International Truck and Engine Corporation.

■ At the 62nd International Motor Show, Frankfurt/Main, Kolbenschmidt Pierburg once again exhibits ultramodern automotive components, highlights from its systems and new products from the divisions. This year's focal points: fuel savings, CO_2 and emission reduction.

■ With the takeover of Zaugg Elektronik AG, an internationally renowned Swiss manufacturer of safety fuze systems for military use, Rheinmetall Defence adds another element to its spectrum of capabilities as all-in supplier of medium- and large-caliber ammunition.

■ The Federal Office of Defence Technology and Procurement awards Rheinmetall Defence the contract for another 85 vehicle target kits of the Agdus simulator family. This passive target system is used for lightly armoured and unarmoured vehicle systems in successful live combat simulation.

■ The Zurich, Switzerland, location of Oerlikon Contraves sees the rollout of the 35-mm Millennium naval gun engineered for C-RAM (rockets, artillery and mortar combat) and all future air defence missions.

Q4/2007


■ The trustees of the Rheinmetall Foundation award grants to four up-and-coming scientists for their outstanding contribution to automotive, electrical and control engineering.

■ At Equip Auto 2007, numerous visitors from all over the world view the exhibits on Motor Service's stand, including a V8 aluminum engine block manufactured by KS Aluminium-Technologie AG with Pierburg components or an engine which demonstrates the European On-Board-Diagnosis system in practice.

■ At the Tokyo Motor Show, Asia's most important automotive fair, Kolbenschmidt Pierburg showcases highlights from its R&D departments. In addition, the Automotive sector's complete product range is presented for the first time at two special Tech Shows staged at Nissan and Mazda.

■ The procurement of 405 Puma units by the German armed forces clears the final parliamentary hurdle with approval from the German Bundestag's Budget Committee. Germany's armed forces will receive in the Puma infantry fighting vehicle (IFV) an ultramodern system tailored to its current and future deployment needs and offering soldiers the highest level of protection coupled with tactical and strategic mobility.

■ For the second time since 2005, Rheinmetall Defence presents the latest networked developments and products to the assembled national and international experts at its Unterlüss test site. At the two-day Rheinmetall Live 2007 event, the around 300 high-ranking domestic and foreign guests witness the presentation of new products offering greater protection for soldiers on international missions.

Letter from the Executive Board

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

Our company looks back on a successful 2007. With our fundamental strategic decision to achieve long-term, value-driven growth through internationalization and innovation, we are making solid progress as once again endorsed by the relevant business indicators. Group sales climbed 10 percent from €3,626 million to €4,005 million. We generated an EBIT of €270 million (up from €215 million). Net income rose by 22 percent to €150 million while EpS jumped from €3.41 to €4.15. Rheinmetall pursues a consistent dividend policy, one that allows stockholders to share in the Group's success through rising dividends and so Executive and Supervisory Boards will propose to the annual general meeting of May 6, 2008, to raise the dividend by 30 cents to €1.30 per eligible share.

Both sectors contributed to the rising sales and earnings. Kolbenschmidt Pierburg is benefiting from long-term international auto industry trends such as fuel consumption reduction and emission control as required by international standards coupled with powerful engines and an unabated preference for diesel engine vehicles. Sales increased a good 3 percent to €2,249 million and EBIT improved by around 6 percent from €113 million to €120 million.

With its system capabilities, the Defence sector addresses the central requirements of the international armed forces for new equipment, especially regarding maximum protection for soldiers in combat conditions. Rheinmetall Defence generated sales of €1,757 million, up by 22 percent. Its order intake added up to €1,804 million, a rise of a good 6 percent. Earnings advanced by €49 million or 44 percent to €160 million.

In the shape of its two corporate sectors, Automotive and Defence, Rheinmetall possesses a sound and solid structure. Nonetheless, the success of our strategy is also tightly linked to such values as customer focus, innovative resources and partnerships.

We will not rest on our laurels of yesteryear but press ahead with our efforts to enhance shareholder value. We are solidly positioned for exploiting national and international potentials, selectively expanding the product portfolio and branching out internationally. Still commanding high priority is the long-term internationalization of our business.

Besides organic growth we are looking to acquisitions and strategic alliances for strengthening our positions and harnessing synergies from a market and technology aspect. By buying new technologies and cooperating with other companies we are accessing additional markets and customers in existing areas of business. Illustrating our expansion plans in 2007 are the majority stake acquired in Chempro, the technology leader for protection systems, the acquisition of the Switch fuze manufacturer Zaugg, the takeover of the pump business of Dana Corporation in Mexico, the alliance with Japan's Nippon Piston Ring, with significant steps in the early part of 2008 being the planned takeover of Denel Munitions in South Africa and the Dutch tank builder Stork PWV. These are transactions that open up fresh growth prospects for Rheinmetall.

In 2008 we will press ahead with our growth strategy by expanding and further developing our corporate sectors. According to present estimates, both Automotive and Defence will achieve organic sales growth. As to EBIT, we are eying a bandwidth of €280 million to €290 million.

On behalf of the Executive Board my thanks to our employees for their outstanding efforts in fiscal 2007. Our thanks also to our stakeholders—customers, stockholders, business partners—for their confidence and support.

Klaus Eberhardt

“The long-term internationalization of our business continues to enjoy high priority.”
Klaus Eberhardt, Rheinmetall CEO

Report of the Supervisory Board

Cooperation in 2007 between Supervisory Board and Executive Board. The Supervisory Board regularly provided advice to and diligently oversaw the Executive Board regarding the management and conduct of Rheinmetall's business in accordance with the functions and obligations incumbent on the Supervisory Board under law, the bylaws, the German Corporate Governance Code and the Supervisory Board rules of procedure. The Supervisory Board dealt in detail with the business trend, earnings and financial position, as well as the prospects and strategic further development of the corporate sectors, the Rheinmetall Group's long-term positioning, as well as with significant individual measures. At the five Supervisory Board meetings in 2007 and through detailed written reports, the Executive Board timely briefed the Supervisory Board in depth on the business policy and trend, economic situation and financial position, as well as on current risks and risk management. Actions and transactions of the Executive Board requiring approval were duly reviewed and Supervisory Board approval granted. Between Supervisory Board meeting dates, the CEO met with the Supervisory Board Chairman periodically to update him on major trends, extraordinary events, matters up for decision, and significant projects. All members attended the Supervisory Board meetings, except those on September 20 and December 7, 2007, where one and two Supervisory Board members, respectively, were prevented due to other important business.

Focal points of consultations and reviews. Key items on the agenda of March 20, 2007 annual accounts meeting of the Supervisory Board were not only Rheinmetall AG's separate and consolidated financial statements 2006, but also the draft proposals to be submitted to the annual general meeting on May 8, 2007. After thorough deliberation, the Supervisory Board approved the squeeze-out of the minority stockholders of, and the execution of a profit & loss transfer agreement with, Kolbenschmidt Pierburg AG, as well as the use of Rheinmetall treasury stock as proposed by the Executive Board. The latter explained the concept for Pierburg's locations and the planned change in Defence's organizational structure, besides reporting on the takeover of a majority in Bonn-based Chempro GmbH, as well as on the stepwise acquisition of shares in ADS Gesellschaft für aktive Schutzsysteme mbH, Lohmar.

At its meeting on May 7, 2007, the Supervisory Board obtained information about the current business trend and Q1/2007 accounts. The Supervisory Board approved the disposal of Pierburg GmbH's Neuss property as proposed by the Executive Board. At its annual accounts meeting, the Supervisory Board had delegated to its Audit Committee the approval of (i) the amount of cash compensation to be paid, as proposed by the Executive Board on the basis of the share value appraisal, to the squeezed-out minority stockholders of Kolbenschmidt Pierburg AG, and (ii) the compensation and settlement claims under the P&L transfer agreement with Kolbenschmidt Pierburg AG. The Audit Committee briefed the Supervisory Board on the resolutions adopted April 27, 2007. In addition, the Supervisory Board prepared at its May 7, 2007 meeting for the annual general meeting the next day.

After the annual general meeting, the newly elected Supervisory Board convened for its constituent meeting at which Klaus Greinert and Joachim Stöber were elected Supervisory Board Chairman and Vice-Chairman, respectively. Moreover, in accordance with the law and the Supervisory Board rules of procedure, the further stockholder and employer representatives were elected for parity-staffing the Personnel, Audit and Slate Submittal Committees.

On September 21, 2007, the Executive Board updated the Supervisory Board on M&A transactions, both implemented and contemplated, as well as the divestment of telerob Gesellschaft für Fernhantierungstechnik mbH, Ostfildern, besides discussing performance and business trends by August 2007.

On the agenda of the meeting on December 7, 2007, were the projected annual accounts 2007 and the corporate plan for 2008–2010, including financial, investment and HR issues. Additionally reported and explained were any budget variances and deviations from defined targets in 2007 and their reasons, whereupon the Supervisory Board satisfied itself of the validity of supporting documents presented. The Executive Board's assumptions for the corporate plan were discussed in depth. The Rheinmetall Group's investment master budget for 2008 was approved. The Supervisory Board further discussed corporate governance issues and reviewed the efficiency of its own work. Workflows within the Supervisory Board, the provision of information by the Executive Board, as well as inter-board collaboration and committee work, were all dealt with and assessed to be good.

Committee activities. Unchanged, the Supervisory Board is assisted by three parity-staffed committees formed from among its members for efficient performance of its duties. At four meetings, the Personnel Committee conferred on matters such as the structure and magnitude of Executive Board member remuneration and the targets to be achieved by the Executive Board. The Slate Submittal Committee, formed under the terms of Art. 27(3) German Codetermination Act ("MitbestG"), had no reason to convene in the year under review.

The Audit Committee met three times in 2007, inter alia, to determine the cash compensation to be paid to the squeezed-out minority stockholders of Kolbenschmidt Pierburg AG as well as the compensation and settlement claims under the P&L transfer agreement with Kolbenschmidt Pierburg AG, and to review the separate and consolidated financial statements 2006, deal with accounting and risk management issues, the cooperation with the statutory auditor, and guidelines for compliance with corporate governance rules. The Supervisory Board Chairman reported to the plenary Supervisory Board on the gist of issues handled at Audit Committee meetings.

Corporate governance and declaration of conformity. At its December 7, 2007 meeting, the Supervisory Board deliberated in detail on corporate governance issues and, together with the Executive Board, endorsed the annual declaration of conformity under the terms of Art. 161 German Stock Corporation Act ("AktG"). The full declaration (with additional details) has been published on page 126 in the Corporate Governance section of this annual report and made available long term to the Company's stockholders on the Company's website at www.rheinmetall.com.

Supervisory Board membership. According to the provisions of the Stock Corporation Act and the Codetermination Act 1976, the term of office of all members of the (until then unchanged) Supervisory Board expired at the close of the AGM of May 8, 2007. On March 28, 2007, the new employee representatives on the Supervisory Board were elected. Accordingly, the workforce has since been represented by five employee delegates, one delegate for managerial staff, and two union representatives. Dr. Ludwig Dammer, Heinrich Kmett, Dr. Rudolf Luz, Wolfgang Müller, Joachim Stöber, Harald Töpfer, Wolfgang Tretbar, and Peter Winter were all reelected. The annual general meeting of May 8, 2007, adopted the Executive Board proposals and reelected the following stockholder representatives on the Supervisory Board: Dr. Eckhard Cordes, Dr. Andreas Georgi, Klaus Greinert, Dr. Peter Mihatsch, DDr. Peter Mitterbauer, Henning von Ondarza, Prof. Dr. Frank Richter, plus as newly elected member, Reinhard Sitzmann to succeed Dr. Dieter Schadt. The term of the Supervisory Board commenced upon the close of the AGM 2007 and will expire at the close of the annual general meeting which votes on the official approval of board member acts and omissions for fiscal 2011.

As of December 31, 2007, Dr. Eckhard Cordes stepped down and, as ordered by the Düsseldorf Local Court on February 28, 2008, was succeeded by Dr. Siegfried Goll as alternate up to the forthcoming AGM on May 6, 2008. The Supervisory Board thanks Dr. Dieter Schadt and Dr. Eckhard Cordes for their valuable input and commitment based on mutual trust.

Report of the Supervisory Board

Financial statements 2007. The separate financial statements prepared by the Executive Board as of December 31, 2007, in accordance with German accounting standards (including Rheinmetall AG's management report), as well as the consolidated financial statements formulated on the basis of Art. 315a German Commercial Code ("HGB") in conformity with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU), together with the group management report, were all audited (including the accounting) by PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Düsseldorf branch, in accordance with legislative provisions. The statutory auditor, which had been elected by the annual stockholders' meeting on May 8, 2007, and engaged by the Supervisory Board to audit the separate and consolidated financial statements, issued its unqualified opinions thereon. The Company's and the Group's annual accounts documentation, the profit appropriation proposal, as well as the related statutory audit reports had been submitted to all Supervisory Board members early enough to ensure thorough and careful scrutiny.

The March 11, 2008 preparatory meeting of the Audit Committee, and the March 18, 2008 annual accounts meeting of the Supervisory Board, were both attended by the annual audit report signatories who provided details of the scope, focal areas and conclusions of their audit as well as additional information.

The audit under the terms of Art. 91(2) AktG concluded that an efficient early risk identification system (ERIS) in accordance with the law existed that is suitable to identify in good time any developments that might jeopardize the Company's continued existence as a going concern. The auditor has confirmed that the methods defined by the Company for the management, identification and monitoring of risks incurred are suitable for these purposes and that the management reports on Rheinmetall AG and the Group present a true, fair and reasonable view of the risks and rewards of Rheinmetall's future development.

Following the final results of its own review and on the basis of the Audit Committee's report and recommendation, the Supervisory Board concurred with the statutory auditor's conclusions and approved the separate and consolidated financial statements for fiscal 2007.

The separate financial statements for 2007 are thus adopted under the terms of Art. 172 AktG. Furthermore, the Supervisory Board agrees with the management reports on Rheinmetall AG and the Group, including the assessment of Rheinmetall's further development, as well as with the Executive Board's proposal for the appropriation of net earnings, which is based on a cash dividend of €1.30 per share.

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 extends its thanks to the Executive Board, the other corporate officers, as well as all the employees for their dedicated efforts and their close personal and successful commitment in the period.

Düsseldorf, March 18, 2008
For the Supervisory Board

Klaus Greinert
Chairman

Spain

The Automotive sector employs a 350-strong workforce in Abadiano near Bilbao, in Spain's Basque region. The Pierburg S.A. subsidiary based there has chiefly produced exhaust gas recirculation valves, as used in all modern diesel vehicles, since the early 1990s.

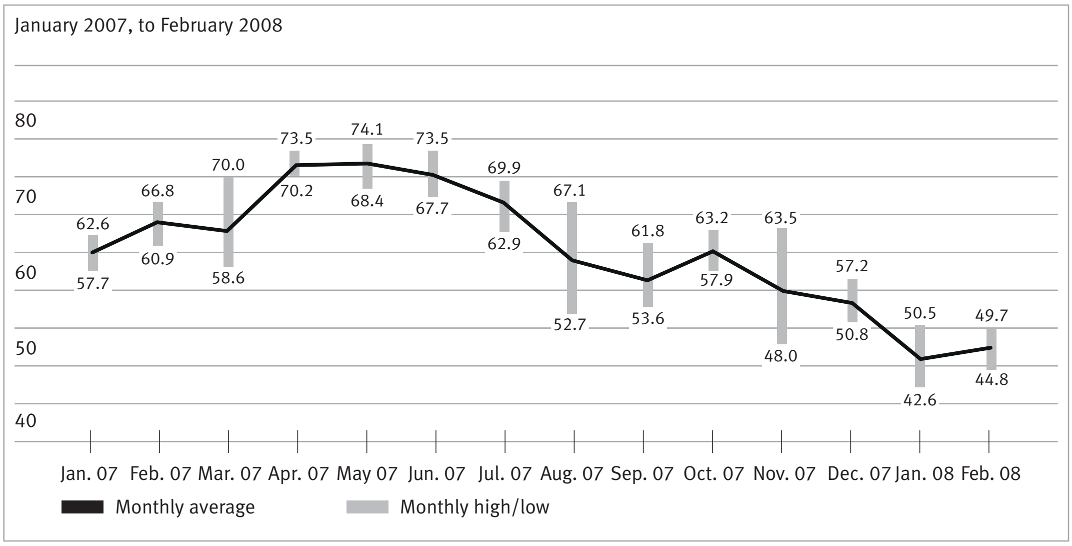
Rheinmetall on the capital markets

Broad finance basis. The Rheinmetall Group regards the capital markets as an important funding platform for its worldwide operations. With 36 million common shares, a €325 million bond issue, as well as various bilateral and multilateral agreements, the Group is widely represented on the domestic and international capital markets.

Stock market year. 2007 was a tempestuous period for the German stock market. In the first half of the year, the DAX and MDAX indexes bounded to all-time highs of 8,106 and 11,378. Then, the US subprime mortgage market crisis sent prices tumbling worldwide starting from July 2007, in some cases steeply. The DAX closed the year at 8,067, still a 22-percent gain over year-end 2006. In contrast, the MDAX (which includes Rheinmetall) lost sharply in the latter half to close 2007 at 9,864, a mere 5-percent 12-month gain.

Rheinmetall stock price. In the early months of 2007, the price of Rheinmetall stock again advanced, as it had over the preceding four years, to a new all-time high of €74.12 at close of trading on May 2, 2007, after which until around mid-July it vacillated in a corridor of between €68 and €73. Thereafter in the wake of the general market trend, the price dipped sharply, ranging between €50 and €60, with intermittent excursions above and below this bandwidth. The annual low of €48.04 was reached on November 21, 2007. The Xetra 2007 closing price on December 28 amounted to €54.38 (down from €57.48 twelve months before).

Rheinmetall stock market trend with monthly averages, highs and lows



Within a scenario of deep-rooted recession scares, 2008 started out amid a dramatic mood of uncertainty sweeping the world's stock markets and, in the course of January, DAX and MDAX stocks in part lost a quarter of their year-end 2007 values. On January 23, 2007, the DAX fell to 6,439, the MDAX denting the 8,000 barrier on January 21, 2008, by dropping to 7,941. Neither was Rheinmetall stock able to disengage itself from the tumbling markets. Mid-January 2008, the price fell below €43 for periods but then rallied to close February 27, 2008, at €48.63.

MDAX rankings. In 2007, Rheinmetall again defended its position as a strong MDAX equity. In terms of market capitalization the stock retained its 17th position in Deutsche Börse's rankings. With an unchanged 36 million shares and 100 percent free float, market capitalization was almost €2 billion at year-end 2007. In the second essential MDAX criterion, trading volume, there was a sharp improvement, the daily average surging from around 185,000 in 2006 to 300,000 shares last year. The resulting rise in the stock's liquidity, seen as an important investment criterion by institutional investors, lifted trading volume ranking from position 24 to 22.

Diversity and international ownership structure. A survey and analysis of institutional stockholders held in November 2007 indicated a broad and diversified structure with a majority 66 percent European, 21 percent North American, and just under 3 percent being held by Rheinmetall AG itself as treasury stock.

Reportable stockholding changes. Investors informed Rheinmetall AG in 2007 about reportable changes in voting stakes in accordance with Sec. 21 German Securities Trading Act ("WpHG"), whereupon Rheinmetall AG published the notifications pursuant to Art. 26 WpHG. Refer to the notes (in German language) to the separate financial statements of Rheinmetall AG for details. Ongoing reports are found on the Company's homepage.

Investor relations. An ongoing and forthright dialog with stockholders, prospective investors, and financial analysts is the prime target of the Rheinmetall Group's investor relations efforts, thus laying the groundwork for a fair and realistic capital market assessment of Rheinmetall stock.

Conferences, road shows, one-on-one discussions. For the cultivation of such contacts in fiscal 2007, Rheinmetall organized some 370 talks with investors and analysts, most of these in the course of altogether 12 investor and analyst conferences and 17 road shows. The venues included the major financial centers in Europe and North America such as (on a number of occasions) London, Frankfurt/Main, Paris, Zurich, Milano, and New York as well as Scandinavia and Canada. Added to these were numerous one-on-one discussions during investor visits and teleconferences. In the course of these, management, mostly with the attendance of an Executive Board member, provided a proactive and in-depth update on the business situation, corporate strategy, and future prospects of the Group. These detailed briefings helped raise interest in Rheinmetall AG on the part of the capital market and, in the final resort, in the aforementioned increase in stock market trading. A further spin-off from these efforts is added attention by international brokers in the form of active equity analyst coverage.

Analyst coverage. Business at Rheinmetall AG is meanwhile regularly reported on by 18 equity analysts including two newcomers in fiscal 2007, Credit Suisse and Cazenove, that commenced coverage by publishing extensive studies. In this the analysts are performing an important function in the information of investors regarding current events and trends. Honest and forthright communication with all institutes is a key component of investor relations at Rheinmetall.

Rheinmetall on the capital markets

Attractive dividend. The Supervisory and Executive Boards will propose to the annual general meeting on May 6, 2008, to distribute a cash dividend of €1.30 per share. The repurchased treasury stock does not rank for dividend. €1.00 had been paid for 2006 per common share, and hence Rheinmetall is consistently pursuing its investor-friendly path of previous years by thus lifting its dividend.

Treasury stock. In 2007, too, Rheinmetall AG exercised its stock repurchase authority. As of December 31, 2007, Rheinmetall AG held 1,051,417 shares of treasury stock (up from 986,364 a year ago), stepping up the treasury stock percentage from 2.7 to 2.9 percent of the capital stock. In early 2008, the Company repurchased further shares and crossed on January 10, 2008, the reportable 3-percent threshold. By February 22, 2008, Rheinmetall AG held 1,476,090 treasury shares, equivalent to 4.1003 percent of the capital stock.

Liquidity safeguards and funding. Of paramount strategic importance to the Rheinmetall Group is to ensure the solvency of all its units at all times. To this end and on the basis of the Group's medium-term plan and rolling, regularly updated, short-term budgets, business trends and the associated risks are analyzed and suitable actions taken as and when needed. Rheinmetall attaches top priority to its independence of specific sources of finance or financial instruments. Therefore, the Group maintains various borrower-lender relations with German and foreign banks and insurers of prime standing, besides being an established counterparty on international money and capital markets.

Rating grade of the Rheinmetall Group. The internationally renowned rating agencies Standard & Poor's and Moody's have rated the Rheinmetall Group investment grade since 2000. Long-term success on money and capital markets hinges on the rating grade. The credit watch status issued by Standard & Poor's in March 2007 was withdrawn in November 2007, changing the long-term grade back to BBB (outlook negative).

Agency	Long-term	Outlook	Short-term	Outlook
Standard & Poor's	BBB	negative	A3	stable
Moody's	Baa2	stable	Prime-2	stable

Debt instruments. Rheinmetall meets its Group's long-term finance requirements by issuing bonds which are regularly well received by the international capital markets. In fiscal 2005, Rheinmetall floated a new €325 million fixed 3.50-percent bond issue to mature June 21, 2010.

Syndicated credit facility and CP program. As second strategic source of long-term finance, a firmly committed €400 million syndicated facility is available to Rheinmetall. This facility (expiring in 2011) has been granted by a syndicate of prime domestic and international banks and, together with the €500 million commercial paper (CP) program, in existence unchanged since 2002, ensures the availability of all short-term financial resources needed during the year. The syndicated credit facility backs up the €500 million CP program which, for short-term direct borrowing, enables Rheinmetall, on a low-cost basis and independent of banks, to directly float short-term unsecured bonds with a maximum maturity of 364 days on the international money markets.

ABS program. A further funding tool for the Rheinmetall Group's access to the capital market is its asset-backed securities (ABS) program for a maximum volume of €170 million. Under this agreement, which has a fixed term expiring 2009 and renewed automatically unless one of the parties gives notice of termination, twelve European group companies sell their trade receivables every month without recourse and utilized the maximum program volume as of December 31, 2007.

Bilateral credit agreements. Over and above its strategic facilities, Rheinmetall can draw on several firmly committed, bilateral credit agreements with additional financial institutions outside the group of banks which granted the syndicated facility. These supplementary credit agreements enable Rheinmetall not only to meet its short-term finance requirements but also and in particular, to cover the Group's needs for guaranty bonds in connection with day-to-day operations, mainly Defence's.

Diversified sources of funds. Rheinmetall can use a wide array of established and innovative equity and debt instruments and, therefore, regarding its business strategy, the Group considers itself well-braced for current and future cash requirements.

Economic environment

Economic momentum in 2007 somewhat sapped by financial market turmoils. According to the most important economic research institutes, 2007 was another year of vigorous global growth although the capital-market turmoils, sharply rising prices for energy, commodities, and agricultural produce clouded the climate in the latter half of the year. Still, in its end of January published World Economic Update the IMF did estimate a global growth of 4.9 percent for all of 2007.

This upturn was chiefly driven by the unabated expansion of the newly emerging nations with, according to OECD estimates, China and India posting rates of 11.4 and 8.8 percent, respectively. With a GDP growth of 5.5 percent the C&E European nations showed robust growth, too; in best domestic shape within this region was the Russian economy with a GDP up by 7 percent. More mixed, in contrast, were the economies of the major traditional industrial nations. With a growth rate of 2.6 percent, the eurozone was again vigorous while for Germany the Federal Statistics Office published a rate of 2.5 percent. From mid-year, the US economy was faltering appreciably due to the subprime mortgage crisis and following the prior-year 3.4 percent, this nation's 2007 growth rate is estimated by the OECD at only 2.2 percent. Between August 2007 and end of January 2008, the Fed in its attempt to counteract the credit-market crisis had lowered the prime rate in five slices, from 5.25 to 3 percent. The OECD's growth estimate for Japan is around 1.9 percent.

Auto production again burgeoning. 2007 saw another upswing in world production of cars and light commercial vehicles of up to 3.5 t. According to figures so far available, production totaled around 68 million, up by 5 percent. Whereas output by Western Europe, Japan and NAFTA inched up just slightly, the remaining countries of the world reported a dynamic 13-percent gain. Largely accounting for this contrast was the unabated trend for production capacities to be relocated to low-wage countries along with accelerated demand for motor vehicles on the part of these nations themselves. Production in Europe is calculated at just under 21 million vehicles, an advance of 6 percent, of which Western Europe posted a moderate rise of nigh 3 percent to around 17 million vehicles. Relatively steep gains were reported by Germany, Spain, Italy and Great Britain while production again slipped in France. At 18 percent, C&E Europe maintained its robust growth rate. Auto output in NAFTA reached 15 million units, down 1.5 percent, with the USA, the world's largest auto market, the biggest loser. Despite weak domestic demand, solid exports pushed up production slightly to 11 million vehicles in Japan. China raised its production 19 percent to almost 7 million units, India showing another strong gain of over 16 percent to almost 2 million. Auto production in South America was likewise dynamic, rising 16 percent to 3.5 million units in 2007.

The Automotive sector was again fueled by the basic auto manufacturing trends toward less consumption and lower emissions combined, at the same time, with rising engine performance. Lightweight materials such as aluminum and magnesium plus products converging mechanical and electronic technologies were in keen demand. Diesel engines were once more popular. Lower consumption and reduction emissions meant that over 50 percent of all newly registered vehicles in Western Europe featured diesel engines in 2007. This is a trend from which Kolbenschmidt Pierburg as market and technology pacemaker for diesel engine parts strongly benefits.

France

With an annual production volume of some 2.5 million vehicles, France is one of Europe's most important automobile markets. In the north-eastern town of Thionville, the Automotive sector manufactures mechanical water pumps as well as pistons for car engines—chiefly for French auto makers but also for other car plants in Europe. The Motor Service division maintains a presence in the French capital with its own subsidiary.

Economic environment

Transformation of the armed forces remains growth motor for defence technology. Adapting armed forces' equipment globally to the new threats and real military mission scenarios remains the chief growth motor in the market for defence industry products and services of relevance to the Defence sector. In the UK, for example, a key preliminary decision has been taken in favor of the Future Rapid Effect System (FRES) program worth £14 billion in all.

In Germany, important programs aimed at modernizing the German armed forces have been integrated into procurement planning. The German defence budget funding available for matériel procurement rose in 2007 to some €6.4 billion, representing 26.2 percent (up from 25.2) of the total budget. Future projects will focus chiefly on improving the protection of soldiers in the field with special emphasis both nationally and internationally on armoured vehicles as well as passive and active protection systems. This will also include new equipment for infantry soldiers as well as modernized air defence systems designed to combat the current threats posed by very small aerial targets. Additional sales opportunities are also arising for the industry from the government sale of defence technology hardware, which has to be repaired and often modernized before delivery.

It is assumed that global defence spending will have far exceeded the US$1 trillion mark in 2007. Crucial factors driving this trend included the increasing number of intra-state military conflicts, the shift in the global distribution of power toward Asia, and the stronger focus on combating international terrorism. At the same time, any rise or fall in defence spending is largely unrelated to the prevailing economic climate. Rather, defence budgets are being increasingly influenced by the armed forces' modernization needs based on missions abroad, which are usually closely linked to the obligations on the part of individual countries to international alliances such as NATO, the UN or the EU. US defence spending again accounted for about half of this global figure, soaring to some $570 billion, a new all-time high, primarily owing to the Iraq conflict. Based on the size of their defence budgets, the UK, China and Russia are the next three biggest military nations, albeit well behind the USA. The military spending figures available for the UK of some €44 billion document the great gap with the USA. Germany's defence budget edged up in 2007 from just under €24 billion to €24.4 billion.

This incremental expenditure owing to transformation requirements is being partially funded by the outsourcing of military tasks from the private sector, affecting such areas as repair logistics for the army, fleets of vehicles and clothing. In addition, crews of the multirole NH90 helicopter have been instructed at training centers run by industry since 2005, a project in which Rheinmetall is also playing a major part.

Italy

Rheinmetall has a workforce of around 800 in Italy. At Rheinmetall Italia S.p.A., Rome, and Milano-Lainate, 350 people work for the Defence sector chiefly on air defence, radar, and weapon systems for the Italian armed forces and export. Automotive has a workforce of 470 in Italy manufacturing oil and vacuum pumps at Lanciano and Livorno.

Business trend Rheinmetall Group

Rheinmetall Group indicators *€ million*

	2006	2007
Net sales	3,626	4,005
Order intake	3,899	4,040
Order backlog (Dec. 31)	3,183	3,239
Employees (Dec. 31)	18,799	19,185
EBIT	215	270
EBT	164	213
Average capital employed	1,725	1,862
EBIT margin (in %)	5.9	6.7
ROCE (in %)	12.5	14.5
When applying the adjusted EBIT as defined in Note (32) to the consolidated financial statements, the rebased indicators read as follows:		
Adjusted EBIT *€ million*	222	269
Adjusted EBIT margin *in %*	6.1	6.7
Adjusted ROCE *in %*	12.9	14.4

Another rise in sales. During the past fiscal year the Rheinmetall Group generated sales of €4,005 million, up a good 10 percent from the prior-year €3,626 million. Automotive contributed 56 and Rheinmetall Defence the remaining 44 percent.

Sales by corporate sector *€ million*

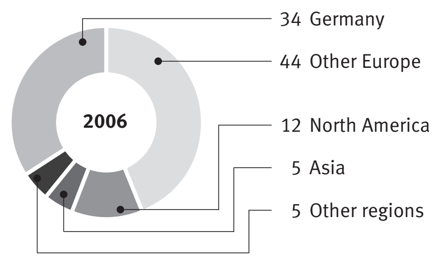
	2006	Share of total sales	2007	Share of total sales
Automotive	2,181	60%	2,249	56%
Defence	1,445	40%	1,757	44%
Rheinmetall Group	3,626	100%	4,005	100%

Automotive's sales in 2007 added up to €2,249 million, an increase of €68 million or around 3 percent. After allowing for primary and secondary exchange rate factors that eroded sales, the organic growth amounted to a good 4 percent. The Kolbenschmidt Pierburg Group thus clearly outpaced auto production as reported by the especially important markets of Western Europe and NAFTA.

Rheinmetall Defence lifted sales by around 22 percent to €1,757 million, with major contributions coming from the Land Systems, Air Defence, and Weapon and Munitions divisions.

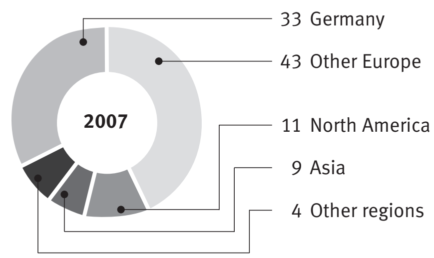
Exports by the Rheinmetall Group were slightly up from 66 to 67 percent. Besides Germany, the chief geographical markets were Europe, followed by North America and Asia. Automotive once gain generated 68 percent of its sales abroad while at Defence, the share rose 2 percentage points to 65 percent.

Sales by region in 2006 *in %*



Based on Rheinmetall Group sales of €3,626 million

Sales by region in 2007 *in %*



Based on Rheinmetall Group sales of €4,005 million

Mounting order intake. For the period ended December 31, 2007, the Rheinmetall Group reported an order intake climbing from €3,899 million in 2006 to €4,040 million. New orders booked by Automotive rose 1.5 percent to €2,236 million by Defence 6 percent to €1,804 million.

At €3,239 million, order backlog at year-end 2007 at the Rheinmetall Group was up by around 2 percent, Defence recording a rise from €2,819 million to €2,868 million, including megaprojects extending over several years.

Operational profitability raised. Rheinmetall's EBIT for 2007 jumped by €55 million to €270 million. At Defence, the improvement was a pronounced increase of €49 million to €160 million thanks to added sales and the turnaround at Air Defence. At €120 million, Automotive upped its prior-year performance by €7 million despite US burdens and ongoing high energy and commodity prices. All divisions at both sectors closed the year in the black, this improved performance resulting from groupwide cost-reduction programs and efficiency enhancements, operational restructuring, the forward-driven product strategy aimed at growth markets, and selective internationalization efforts.

EBIT by corporate sector *€ million*

	2006	2007
Automotive	113	120
Defence	111	160
Others/consolidation	(9)	(10)
Rheinmetall Group	**215**	**270**

Business trend Rheinmetall Group

Adjusted EBIT *€ million*

	2006	2007
EBIT	215	270
Nonrecurring losses/gains from		
shareholdings	(7)	(12)
real estate	(6)	(6)
restructuring programs	20	17
Adjusted EBIT	**222**	**269**

Group net income upgraded. With net interest expense climbing €6 million and a tax load ratio of 30 percent, the Group's net for 2007 came to €150 million, thus outgrowing the prior year's by €27 million or 22 percent. Deducting minority interests in profit of €5 million brings earnings per share (EpS) to €4.15 (up from €3.41).

Group net income *€ million*

	2006	2007
EBIT	**215**	**270**
Net interest expense	(51)	(57)
EBT	**164**	**213**
Income taxes	(41)	(63)
Group net income	**123**	**150**
Minority interests	3	5
Group earnings (after minority interests)	120	145
Earnings per share (€)	**3.41**	**4.15**

Asset and capital structure. In the year under review, the Rheinmetall Group's total assets inched up 2 percent to €3,445 million, the ratio of noncurrent to current assets remaining unchanged.

Equity mounted by €120 million to €1,057 million, which meant another improvement of the equity ratio to 31 percent (up by 3 percentage points).

The Rheinmetall Group's noncurrent liabilities of €1,047 million substantially remained at the prior-year level while current liabilities slipped by €64 million or 5 percent. Net financial debt totaled €236 million (up from €205 million). Net leverage (i.e., the ratio of net financial debt to equity) was an unchanged 22 percent.

Asset and capital structure *€ million*

	12/31/2006	%	12/31/2007	%
Noncurrent assets	1,652	49	1,685	49
Current assets	1,737	51	1,760	51
Total assets	**3,389**	100	**3,445**	100
Total equity	937	28	1,057	31
Noncurrent liabilities	1,047	31	1,047	30
Current liabilities	1,405	41	1,341	39
Total capital	**3,389**	100	**3,445**	100

Value again added. In fiscal 2007, the value added by the Rheinmetall Group moved up to €1,359 million. While the Group's total operating performance (TOP) came to €4,200 million (up from €3,935 million), the ratio of value added to total operating performance was at 32 percent virtually maintained at the previous year's magnitude of 33 percent. The value added per capita (rounded) edged up to €71,000 (from €69,000).

The workforce received 79 percent of the value added, the lion's share; the Treasury's slice inched up to 6 percent. The interest payable to lenders/banks climbed in 2007 to 5 percent. At €45 million, stockholders receive 3 percent. The residual 7 percent (unchanged) of value added, equivalent to €97 million (up from €89 million), remains within the Rheinmetall Group.

Source and use of value added *€ million*

	2006		2007	
Source				
Group's TOP	3,935		4,200	
Input	(2,490)		(2,673)	
Amortization/depreciation	(151)		(168)	
Value added	**1,294**		**1,359**	
Use		%		%
Employees	1,060	82	1,070	79
Treasury	51	4	81	6
Lenders/banks	59	4	66	5
Stockholders	35	3	45	3
Rheinmetall	89	7	97	7
Value added	**1,294**	**100**	**1,359**	**100**

Rheinmetall Group
Capital expenditures

Expenditures targeted to securing competitive lead. Rheinmetall's expenditure program in 2007 was dictated by the enactment of organic growth strategies, with funds allocated to areas with growth opportunities, possibilities for sustainably strengthening profitability, sharpening the competitive edge, and consolidating technological competence. Alongside technological developments funds were directed at capacities for addressing rising production volumes. Rheinmetall's additions in 2007 to tangible and intangible assets (excluding goodwill) amounted to €202 million (up from €186 million). In terms of total group sales this is equivalent to 5.0 percent. Amortization and depreciation for the period came to €168 million (up from €151 million).

Capital expenditures by sector *€ million*

	2006	2007
Automotive	142	148
Defence	43	53
Others/consolidation	1	1
Rheinmetall Group	**186**	**202**

Major items of expenditure in 2007 are set out individually for the two sectors Automotive and Defence.

Spending at Automotive at a stable level. The Kolbenschmidt Pierburg Group spent €148 million in 2007, up by a good 4 percent and equivalent to 6.6 percent of its sales (up from 6.5).

Numerous new contracts were booked by the Kolbenschmidt Pierburg divisions and in order to cope with this rush of orders capacity expansion expenditures were incurred both in and outside Germany.

In Germany expenditures by Pierburg centered on raising solenoid manufacturing capacities and by Pierburg Pump Technology, on extending water pump production and on a new assembly line for coolant pumps. New steel-piston contracts booked by KS Pistons required the installation of additional assembly lines.

Spending by KS Plain Bearings focused on capacities for new zero-lead products. At KS Aluminum Technology investments targeted the completion of buildings along with the necessary infrastructure for extending the net machining of engine blocks.

The Automotive sector also invested at its non-German locations. The Pierburg division incurred the first of its infrastructure expenditures as groundwork for the establishment of an industrial park at Pune, India. The production facilities planned will be shared jointly by the Kolbenschmidt Pierburg divisions. Besides the expenditures in the USA and Brazil for setting up EGR system capacities, Pierburg built a second production shop at its Czech plant. This same division prepared production start-ups for coolers, a joint effort between the division's German and Spanish companies.

In France, Pierburg Pump Technology started work on setting up a new line for future series-production water and vacuum pumps. Also on the expenditure bill: a vacuum pump line in Italy to cope with rising customer orders.

Czech Republic

Car production in C&E European countries is already undergoing rapid growth. Rheinmetall's Automotive sector currently employs a workforce of some 1,200 in the Czech town of Ústí nad Labem. More than ten years ago Kolbenschmidt Pierburg purchased the existing piston manufacturing plant there, which has now been substantially expanded. The Pierburg division also has located some of its production capacity at this site over the past two years. The Czech Republic, like other NATO states in C&E Europe, is an important future market for Rheinmetall Defence.

Rheinmetall Group
Capital expenditures

On the site of the existing industrial park in Brazil, KS Pistons commissioned a further plant for manufacturing pistons destined for the South American aftermarket, besides investing in expansions to its Czech and Mexican facilities.

KS Plain Bearings moved into a larger production plant at Fountain Inn, South Carolina.

Rising capital spending at Rheinmetall Defence. In the period under review, the Defence sector increased its expenditures by €10 million to €53 million (up from €43 million in 2006). As a share of the corporate sector's sales, this is 3.0 percent and thus unchanged on the previous year.

In addition to expanding and modernizing the existing IT infrastructure, especially in R&D and sales, the focus was on replacement and rationalization expenditures for industrial plant and machinery as well as factory and office equipment.

Notable individual projects at Land Systems included the development work started in 2005 on the GeFaS armoured vehicle system, a modular combat vehicle, and on the modular medium-caliber P105 turret.

Spending at Air Defence centered on measures to improve the infrastructure and on additional machinery and equipment for a major contract at the Zurich location. There was additional investment in further component-manufacturing industrial plant and machinery for various products. Replacement expenditures at the Malaysian plant focused on PCB production.

Weapon and Munitions acquired the industrial property and trademark rights for an innovative and globally unique low-signature weapon system. With this technology Rheinmetall Defence is enhancing its product portfolio with a system which thanks to its low signature when fired offers armed forces the advantage of engaging targets without revealing their own position. Production capacity for 40-mm shells was expanded at the Unterlüss and Trittau locations through investment in industrial plant and tools.

At its Aschau location, Propellants continued the long-term investment project launched three years ago and aimed at improving the quality of polybasic propellant powder production while also investing in new laboratory equipment. The modernization of the presses was completed in 2007 and other investments concerned roller overhaul. The renovation of the nitrating plant for the production of nitroglycerin as well as expansion of the nitrocellulose plant for the processing of roller linters at the Wimmis location were also concluded.

Greece

One of the Defence sector's key foreign markets is the NATO state Greece, where Rheinmetall Defence generated sales of €105 million in fiscal 2007. New orders were placed for command and mobile testing systems. The Athens-based Rheinmetall Hellas S.A. subsidiary markets the whole Rheinmetall Defence product range to Greek customers.

Rheinmetall Group
Research and development

Innovations—a launch pad for sustainable success. As a technology group, Rheinmetall thrives on innovations. Advanced, user-focus products tailored to specific requirements are essential ingredients for ongoing success and a sustainable competitive lead. And this is why the Group has for years now invested heavily in R&D in order to further improve products, systems, processes and manufacturing methods and access neighboring fields of business.

In fiscal 2007 groupwide R&D expenditures accounted for €179 million (up from €169 million), including €156 million (up from €151 million) directly expensed and another €23 million (up from €18 million) capitalized as development costs. The ratio of R&D expenditures to sales was 4.5 percent in 2007 (down from 4.7).

R&D expenditures by corporate sector *€ million*

	2006	% of sales	**2007**	% of sales
Automotive	115	5.3	126	5.6
Defence	54	3.7	53	3.0
Rheinmetall Group	**169**	**4.7**	**179**	**4.5**

The **Automotive sector** commenced and continued a large number of projects of which the most significant are listed below.

Market trends define key development targets. Upgrading fuel efficiency, curbing CO_2 and other harmful emissions while also reducing component costs were in fiscal 2007 once again priority R&D objectives at Pierburg. Worked continued on the development of a new generation of electrically actuated throttle bodies for diesel and gas engines and new applications were marketed for these products. Electric actuators were adapted to the rising requirements of onboard diagnosis and launched onto the market in a variety of configurations for both new applications and as replacement for vacuum-controlled systems. Further applications have resulted for position-controlled electric exhaust-gas flaps for which Pierburg has booked its first series-production contract.

Within the context leading up to the introduction of tighter Euro 5 standards, attention centered on a new kind of exhaust-gas recirculation/cooler module scheduled for series production in 2008. Several customers placed orders for the engineering of a new integrated intake manifold combining alongside the normal manifold functions, a complete exhaust gas recirculation system including an exhaust gas cooler. Such an integrated, interface-free system offers cost advantages by bundling a variety of functions, allows a sharp reduction in weight, footprint and failure rate over conventional assemblies comprising subdivided functions and individual components.

Another R&D emphasis was a second-generation electric motor-driven EGR system due to come on stream in 2008. With a view to meeting Euro 5 and 6 emission levels, diesel engine EGR modules comprising cooler and cooler bypass units were developed for series production and shipments to the first customers in 2008.

EGR is of growing significance on commercial vehicles. Euro 6 will call for EGR rates of 25 percent and more controlled by specially designed exhaust-gas flaps with little pressure loss. In view of the higher durability requirements these will be actuated with a new kind of electric motor. In order to fulfill the needs of a broad array of commercial vehicle engines, developers have in mind a modular construction of various flaps in a variety of diameters and numbers. The system's viability was illustrated in 2007 during a non-stop engine test.

Turkey

Automotive's Motor Service division has been represented in Istanbul with its own trading company since 1996. In addition, the KS Kolbenschmidt division maintains a licensing arrangement with a Turkish piston manufacturer.

Rheinmetall Group
Research and development

Exhaust gas flaps perform a variety of functions such as noise absorption on luxury limousines. On the low-pressure EGR systems required for Euro 6 compliance, these flaps regulate the exhaust backpressure. Series production is scheduled for 2008.

The first evolution stage of a diaphragm-free divert-air valve was designed for series production. An integrated pneumatic actuator combining in a single module the electric switchover valve and a vacuum unit will shortly come on stream. Work continued on hydraulic valves (ON/OFF and proportional) for controlling variable oil pumps.

Emission and CO_2 reduction through innovative pump engineering. Pierburg Pump Technology directed its attention at variable vane-type oil pumps which allow fuel savings of up to 4 percent. The available range was extended to embrace commercial vehicle applications. Besides recirculating water pumps for improved vehicle heating and cooling effect after engine switch-off, electric coolant pumps for the main cooling system were developed and manufactured in series. Existing drawbacks accompanying conventional coolant pumps in terms of footprint, weight, longevity and noise will be significantly reduced by further development work on an external bearing. In the case of vacuum pumps, R&D efforts focused on function and cost improvements in diesel engine applications as well as on the rising demands posed by gasoline applications increasingly using vacuum pumps.

Power density enhancement, consumption and emission reductions. Gasoline engine trends are moving in the direction of greater power density through charging, downsizing, direct injection, and variable valve timing. Through the use of LiteKS technology specially developed for this purpose and in most series-production applications, combined with NanofriKS, a low-friction shaft coating, the pistons satisfy ultimate criteria regarding strength as well as mass and friction reduction. Also refined was HispeKS, a bore geometry employed on gasoline engine pistons with exposure to heavy piston pin/hub loads. The design of the coolant passages and the related casting process for car turbocharged diesel engine pistons with advanced variable geometry coolant passages (DynamiKS) was likewise optimized while the engineering concept for all-steel commercial vehicle pistons was again improved in a variety of versions. Such pistons are suitable for the engine pressures of up to 250 bar if the units are to comply with future emission limits. Further developed materials for ultimate thermal and mechanical loads developed by car diesel and commercial vehicle engines were readied for series production. Gasoline engine piston materials were examined for compatibility with higher loads in the hub and crown areas.

Zero-lead materials for growth. R&D activities at KS Plain Bearings were directed at preparations for the series-production start-up and processes for the newly developed zero-lead sliding materials as well as expanding the spectrum of materials for new applications. The innovative combinations of sintered steel/bronze and plated steel/aluminum as substitutes for the leaded materials used hitherto, proceeded to the stage of industrialization in upstream material phases and parts production. Upstream improvements were carried out on both cast steel/bronze materials and sintered steel/plastic composites. In the area of engine bearings development work started on a lead-free electrodeposited layer whose required high adhesion strength on the lead-free base material plus tribological properties pose vast engineering challenges. Permaglide's new steel/plastic composite with much higher corrosion resistance for the bronze and sliding layer, is being used on vehicle bodies.

New materials and modular die-casting options. Developers at KS Aluminum Technology in 2007 explored options for further lightweight constructions, strength gains, enhanced wear resistance and the compatibility of proven cylinder surface technology and alternative fuels. New and ongoing developments in low-pressure permanent-mold castings for luxury car engine aluminum blocks were directed at improving process robustness, enhancing cost efficiency and upgrading specific material properties. On the basis of options readied for series production, R&D input is paying off in terms of cost-efficient pressure die-cast aluminum engine blocks now in demand, especially for small high-duty engines. The division's self-portrait at the 2007 Frankfurt Motor Show emphasized its innovative "die-casting modular concept."

In order to safeguard its competitive edge and fortify its foremost market positions, customer-commissioned development work at **Defence** is continuously supplemented by the sector's internally financed activities of which particularly relevant ones are listed below.

Targeted advancement of systems expertise in force protection. Increasing military operations abroad, including peacekeeping missions and the deployment of rapid reaction forces in crisis regions, are presenting new challenges for the armed forces of the 21st century. In spite of extensive political, military and technological efforts, the threats posed by foreign missions have not diminished. Rapidly available solutions are being demanded from the defence technology industry in response to current threats. With its state-of-the art products and innovative systems Rheinmetall Defence is geared to the expanded range of requirements set by armed forces nationally and internationally.

In order to protect troops in the field as well as stationary facilities and property, Rheinmetall Defence has developed its modular Protective Shield concept. Consisting of efficiently networked command, reconnaissance, surveillance, and impact systems, it can be flexibly integrated into various deployment scenarios. In 2007, Rheinmetall Defence again demonstrated its force protection concepts at a live demonstration event held at the Unterlüss testing site. Based on a broad range of products and force protection technologies existing capabilities for managing realistic threat situations were presented in dynamic scenarios.

The focus was on showcasing command capability and on conducting networked operations with various deployment systems on the basis of situational options with real-time capability. In addition, the mobile-platform deployment was illustrated of reconnaissance and monitoring devices, both on the ground and in the air, manned and unmanned, and in conjunction with new impact systems. Within the active Camp Protection System, the capabilities for large-area reconnaissance and long-distance protection against the threat of missile fire from speedily erected positions in unfathomable terrain formations were expertly demonstrated.

Armoured vehicle systems for missions. The Defence sector worked increasingly on the implementation of new modular and light vehicle concepts. The GeFaS armoured vehicle system project, started in 2005, aims at developing and constructing a modular vehicle system offering troops the greatest possible protection during assignments and on whose platform a variety of mission-related items of equipment can be integrated. Construction of a demonstrator vehicle started at the end of 2007. With a new protection concept as well as a diesel-electric drive system technological milestones have been achieved with GeFaS which provide convincing answers to the requirements of the armed forces' expanded range of tasks arising from foreign missions.

Rheinmetall Group
Research and development

Similar security concepts lie at the heart of the armoured command and multipurpose vehicles (GFF) being developed within the Wisent project as a modular range of transport vehicles offering maximum protection. Protection against small arms fire, mines and improvised explosive devices (IEDs) is concentrated on the three-man driver's cab as well as the armoured, removable and autonomously usable container for command and multipurpose missions.

In a bid to meet European demand for medium-caliber turret systems, efforts to develop and build a demonstrator for a new modular medium-caliber P105 turret got underway. Thanks to its flexibility with regard to crew, protection, weapon system and optronics, the turret system is geared to various customer needs. The prototype for the manned turret version was completed.

Unmanned use of vehicle platforms. The primary military objective of robotics programs is to create a "stand-off" capability for soldiers and security forces aimed at preventing duel and exposed threat situations. Rheinmetall Defence is working on new approaches allowing conventionally driven vehicles also to be deployed on an unmanned basis. The currently available robotics technology solutions as well as possible levels of autonomy are being tested in the Trobot (Tactical Robot) technology carrier system, a highly mobile 8 x 8 vehicle platform in the lightweight class. The vehicle can be equipped with a variety of different mission modules for transport and reconnaissance and for detecting and analyzing NBC hazards.

Close-range systems capable of engaging extremely small targets. Air Defence's key activities included further development of the Skyshield air defence system, building on the capability to effectively engage extremely small targets such as missiles, artillery shells and mortars (C-RAM). Newly developed fire control algorithms, improved setup procedures, more precise guns, and more sensitive sensors for guaranteeing fast and clear target allocation, as well as integration into a command system represented important partial steps during the year under review.

An additional focus of activity was life-cycle support for the products and systems introduced, with naval reference equipment accounting for a proportion of capital spending. In the field of radar sensors, the scope was examined for further developing the tactical and highly sensitive 3-D search radar in the X band, aimed at detecting very small targets over longish ranges, which is to be deployed as a search sensor in the new-generation SysFla air defence system. In order to complete the division's naval air defence capabilities, development work continued on X-band tracking radar so that extremely small targets can be engaged by naval guns with pinpoint accuracy.

Innovative armaments for future deployment systems. In 2007, the Weapon and Munitions division carried out further R&D work on the production of caseless ammunition for the RMK 30 recoilless automatic cannon, a new weapon system for light carrier vehicles. For large-caliber weapons, new mounting options were examined for direct and indirect fire from a weapon system. A study started in 2006 into modern mortar ammunition was continued with the aim of developing further ammunition types in the 60-mm, 81-mm and 120-mm caliber ranges.

In the field of nonlethal weapon (NLW) systems, progress was achieved in the application of high-power microwaves especially aimed at disarming radio-based and sensor-controlled booby traps. This high-power microwave technology was successfully integrated into a new demonstrator vehicle and illustrated in use. In addition, testing continued of modern laser weapons for destroying unmanned systems and of a sensor-controlled automatic cannon with external drive for the 30-mm caliber. The MASS naval protection system, an automated decoy system for protecting vessels, underwent improvements to its electrical engineering, software and mechanical design.

United Arab Emirates

The United Arab Emirates (UAE) and the Gulf Cooperation Council states are gaining increasing importance for Rheinmetall. Following the award of key contracts, including for the new-generation Fox NBC reconnaissance vehicle, air defence systems and the light naval gun, Rheinmetall Defence maintains a presence in Abu Dhabi with its own branch since 2007. For the Automotive sector the Motor Service division's aftermarket business represents a close focus of interest in the region.

Rheinmetall Group
Research and development

Smart sensors for modern weapon platforms. As part of networked operations management, special importance is attached to the sensors fitted to state-of-the-art weapon platforms. For urban operations the visual systems for combat vehicles providing the crew with 360-degree panoramic imaging reconnaissance together with close-range automatic target detection and tracking were further developed. The results of these activities form an integral part of the new modular medium-caliber P105 turret. So that future air defence requirements are met, the stabilization and robustness properties of the platform technologies were optimized. This is especially important to the development of the multi-purpose combat system, enabling its versatility in deployment. In addition, work continued on the high-resolution display and control equipment meeting military specifications and designed for use on vehicles.

For the OPALE (Optionally Piloted Aircraft Long Endurance) aerial reconnaissance system, the functioning of the sensor chain in a new technology was demonstrated. In addition, a concept was drawn up for exchanging information between the unmanned aerial reconnaissance system (KZO) and future control systems. Development work on small drones for air-assisted close-range reconnaissance centered on expanding the product range, within which the first demonstration flights in the class with a take-off weight of around 5 kg were successfully completed.

Advanced work on simulators. R&D work on training simulators was stepped up in response to the increasing use of military forces in MOUT (Military Operations on Urbanized Terrain) scenarios. The upgrading of system modules for flight and naval simulation with special emphasis on command and control functionalities was advanced successfully. Since night fighting capability is of great tactical importance, R&D activities focused on a night vision training simulator (NTS). The prototype of the second-generation hand weapon duel simulator, which stands out from rival products thanks to its wireless technology, was completed in conjunction with the Future Soldier System program.

Canada

Rheinmetall Defence employs a workforce of some 400 in Canada. At Rheinmetall Canada Inc. based in Saint-Jean-sur-Richelieu close to Montreal, mobile air defence systems, drones and weapon stations are developed, integrated and repaired—for the Canadian armed forces as well as for export. In addition, the International Competence Center for Battle Management and Future Soldier Systems is located there.

Rheinmetall Group
Employees

19,185 employees representing Rheinmetall in customer and supplier relationships. The Automotive and Defence sectors operate in fiercely competitive markets characterized by the rising requirements and growing complexity of technologies, processes, and products. With their knowledge, skills and dedication, Rheinmetall employees play a major role in the achievement of corporate goals and sustainably securing and expanding the Group's economic success. They identify with the Group's distinctive corporate culture based on professional performance, individual responsibility and a common understanding and cooperation across functions, divisions, and national frontiers.

Skills—the preconditions for professionalism. A key factor in sharpening the Group's competitive edge is to develop human resources—up-and-coming talents as well as specialist and managerial staff—in line with current and future requirements. There is a broad array of classical and innovative training courses available, tailored to the skills and talents of individuals and the needs of the various companies. In this way, the preconditions are created for people to improve skills, knowledge and capabilities throughout during their employment and to obtain new credentials for successfully doing their jobs.

Analyzing potentials, planning for job succession—modules for future success. An elementary factor in promoting group expansion is management development. Success presupposes an awareness of potentials and goals, growth and improvement opportunities. Managerial staff needs to be adequately groomed for strategic and operational tasks in order to be able to respond to new challenges and adapt flexibly to change. Important are not only specialist skills but also top-caliber leadership and management talents.

The performance and development potentials of Rheinmetall's management and junior management staff are identified, analyzed and assessed using a standardized multistage procedure.

A determination of the status quo according to objective criteria allows a forthright dialogue concerning strengths and weaknesses while, at the same time, serving as a springboard for quality measures designed to promote specialist, methodical and interpersonal skills. As a result of this homogenous HR development approach, succession plans are facilitated and key positions when vacancies occur, in most cases staffed with qualified individuals from within the Group's own ranks.

A tradition of training. At the close of 2007, 547 young people were serving hands-on apprenticeships at Rheinmetall's German companies which organize courses in over 30 blue-, gray- and white-collar skills. Popular courses include industrial mechanics, metal cutting, tooling, and industrial clerk. The training ratio for the German locations was 5.2 percent of the workforce.

Incentive-based, performance-commensurate pay systems. Attractive compensation is an important consideration when recruiting and tying skilled and dedicated staff to the Group. Rheinmetall's leadership culture unites a strong conceptual framework and clear performance expectations with precisely detailed implementation and success benchmarks. Compensation formulas are competitive according to what is customary in the market and weighted, depending on the degree of leadership responsibility, according to individual and corporate success.

Besides a fixed amount, Rheinmetall offers its executives a variety of incentives and bonuses. Incentives range between 0 and 200 percent, depending on the achievement of personally agreed goals and quantitative corporate performance improvements. In addition to their contractually agreed pay, officers and other senior management are entitled to a long-term incentive tied to the absolute increase in the Rheinmetall Group's shareholder value and partly in the form of Rheinmetall stock.

Pension plans—a key component of HR policy. The Rheinmetall Group assists its employees in planning and securing retirement income supplementary to the statutory pension system.

The pension system, which applies to all domestic Rheinmetall locations, consists of a basic plan, an intermediate plan linked to performance and EBT increases, and a supplementary defined contribution plan, which enables various forms of deferred compensation. The plan is identically structured for employees and management alike, albeit patterned to enhance performance in the higher salary tiers.

An attractive place to work. Attracting able professionals to the Group is a central function of HR work. Job market trends have led to keener competition for good specialist and management staff and, especially in engineering professions it has become more difficult to staff vacancies. Besides the classical tools of personnel procurement, Rheinmetall increasingly looks to promoting relationships with technical colleges, research institutes and universities as well as participating at university and recruitment fairs. An international focus, a wide variety of products, individual development opportunities and appealing compensation systems make Rheinmetall an attractive place to work.

Personnel indicators. As of December 31, 2007, Rheinmetall employed a global workforce of 19,185 (up from 18,799). Of these, 62.0 percent worked for Automotive, 37.4 percent for Defence, and the remaining 0.6 percent Rheinmetall AG and the service enterprises. The percentage employed outside of Germany was 44 (up from 42 percent). Personnel expenses mounted €14 million to €1,052 million, wages and salaries accounting for €855 million, social security taxes, pension expense and related employee benefits adding up to €197 million. Personnel expenses per capita (rounded) again totaled €55,000. The ratio of personnel expenses to total operating performance slipped from 28 to 26 percent. Sales per capita (rounded) advanced from €193,000 to €209,000 in 2007.

Rheinmetall AG

Rheinmetall AG performing strategic holding functions. The corporate functions exercised by Rheinmetall AG include the uniform management and economic control of the Rheinmetall Group: the definition of the corporate strategy, the setting of targets and guidelines, portfolio management, central financing and treasury, and risk management. The clearly demarcated Automotive and Defence segments, each assigned all the necessary functions, are within the strategies, targets, guidelines and policies defined by the Group's Executive Board, autonomous corporate sectors with responsibility for global operations and each with its own management hierarchy. This type of organization allows high flexibility, rapid market access and pronounced customer proximity.

Automotive sector

Automotive indicators *€ million*

	2006	2007
Sales	2,181	2,249
Order intake	2,203	2,236
Order backlog (Dec. 31)	364	371
EBIT	113	120
EBT	90	94
Employees (Dec. 31)	11,922	11,895
Average capital employed	962	996
EBIT margin (%)	5.2	5.3
ROCE (%)	11.7	12.0

Material events. September 28, 2007, the date at which the resolutions of the extraordinary stockholders' meeting of June 26, 2007, in Stuttgart, in favor of the squeeze-out of minority stockholders and the transfer of their shares to controlling stockholder Rheinmetall, as well as the vote on the profit & loss transfer agreement between Rheinmetall Verwaltungsgesellschaft mbH and Kolbenschmidt Pierburg AG were entered into the Company's Commercial Register folio, was also the effective date of such transactions.

Pierburg's (water, oil, and vacuum) pump business was spun off to form an independent Pierburg Pump Technology division. In acquiring from DANA Corporation/Tecnología de Moción controlada the Electrically-Driven Oil Pump unit and then contributing this to the newly established Pierburg Mexico Automotive, Pierburg Pump Technology made a strategically important addition to its product portfolio, one that allows access to new applications.

KS Kolbenschmidt concluded an agreement with the Japanese company Nippon Piston Ring covering global R&D and marketing cooperation with the prime objective of jointly developing piston systems for car and commercial vehicle markets in Europe, North America, China, the ASEAN region, and Australia.

KS Aluminum Technology completed its new Neckarsulm shop for net-machining engine blocks.

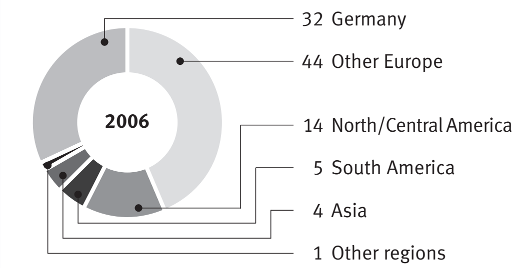
Sales growth. Sales by the Kolbenschmidt Pierburg Group in fiscal 2007 amounted to €2,249 million (up from €2,181 million). This is equivalent to a gain of around 3 percent or, adjusted for the unfavorable exchange rates, a good 4 percent. Sales growth was reported by the divisions Pierburg, KS Pistons, KS Plain Bearings, and Motor Service. Sales increases at Pierburg resulted from EGR valves, solenoid valves, and pumps. KS Pistons more than compensated for sales losses from the phaseout of a major piston program in the USA through higher shipments of large-bore and commercial vehicle pistons. Other sources of sales momentum: car diesel engine pistons. In its continuous castings business, KS Plain Bearings reported significantly higher sales, in some cases partly due to the downloading onto customers of the climbing cost of materials. This division's plain bearings products also yielded rising sales. Motor Service benefited from higher customer orders for Pierburg, KS, and TRW products due to the congenial economic climate as well as the rewards from growth strategy enactment. Sales at KS Aluminum Technology were virtually unchanged.

Mexico

Following the acquisition of the Pistones Moresa pistons business, Kolbenschmidt Pierburg has owned its own production facility in Mexico for two years. At the Celaya plant, gasoline and diesel pistons are manufactured for car and commercial vehicle engines, chiefly for auto makers in the USA. In 2007, Pierburg and Pierburg Pump Technology also started to build up capacity at the Mexican location in order to supply the major US manufacturers from there.

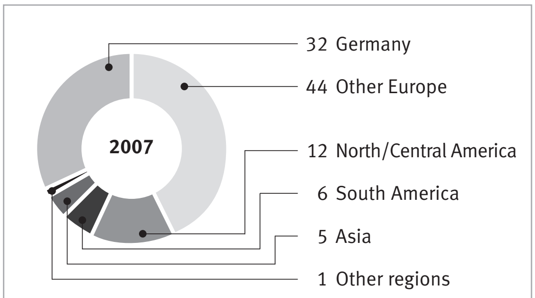
Automotive sector

Breakdown of sales 2006 by region %



Based on Automotive sales of €2,181 million

Breakdown of sales 2007 by region %



Based on Automotive sales of €2,249 million

Earnings up. With an EBIT of €120 million in 2007, the Kolbenschmidt Pierburg Group improved its prior-year figure by €7 million. This rise was chiefly due to Pierburg's input, a consequence of a strong sales surge, the implementation of the plan for the German locations, and operational improvements. Additional earnings ensued from the gain posted from the disposal of land and buildings at Neuss and the absence of the prior-year one-off production location burdens.

Supplementary earnings by Pierburg were partly eroded at KS Pistons by rising commodity prices and non-recurring effects from the sharp reduction in production capacity at this division's Fort Wayne, USA, location in response to the loss of a high-revenue contract for the supply of pistons.

At KS Plain Bearings, additional profit contributions from extra sales and remixed product ranges were largely eroded by rising prices for production materials, price discounts, and the added costs and expenses from switching over to zero-lead bearings.

The higher earnings at KS Aluminum Technology are also the result of many individual measures, among others aimed at optimizing the liquid-alloy proportion and thus the utilization of materials, boost the efficiency of production processes and thus again slashing the cost of internal rejects and the payments to customers for warranty claims.

Motor Service reported an increase in operating earnings that, however, were leveled to the prior-year volume because of provisions for non-German tax risks, warehouse relocation burdens in Germany, and the restructuring of the Brazilian subsidiary.

Brazil

Kolbenschmidt Pierburg has been operating in Brazil since the end of the 1960s. On the site of the Group's own supplier park in Nova Odessa, close to the city of Campinas with over a million inhabitants, products destined for the South American market and for export are manufactured at one of the world's largest piston plants belonging to the Group. In recent years the capacities in Nova Odessa have been expanded many times: the Pierburg Pump Technology and KS Plain Bearings divisions now also manufacture their products here. The most recent expansion involved the commissioning in the summer of 2007 of a new piston production facility for the Motor Service division, which has maintained a presence in Brazil since 1996.

Defence sector

Defence indicators *€ million*

	2006	2007
Sales	1,445	1,757
Order intake	1,696	1,804
Order backlog (Dec. 31)	2,819	2,868
EBIT	111	160
EBT	95	138
Employees (Dec. 31)	6,759	7,175
Average capital employed	728	859
EBIT margin (%)	7.7	9.1
ROCE (%)	15.2	18.6

Material events. Rheinmetall Defence expanded its portfolio in the high-growth protection systems segment through targeted acquisitions in fiscal 2007. Rheinmetall Waffe Munition GmbH, Ratingen, acquired a 51-percent share in the Bonn-based Chempro Gesellschaft für kunststoffgebundene Produkte mbH. Approval from the antitrust authorities was forthcoming in April 2007. The company’s purpose is the manufacture of passive protection systems for armoured vehicles. At the same time, a 25-percent stake was purchased in the Lohmar-based ADS Gesellschaft für aktive Schutzsysteme mbH, the leading developer of a new generation of active high-tech protection systems.

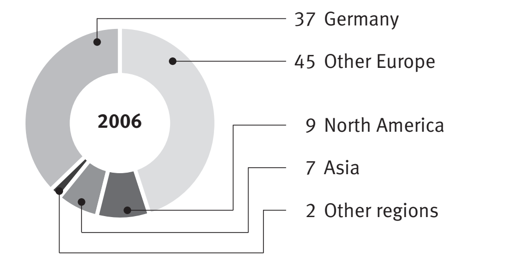
During the third quarter of 2007, the Ratingen-based Rheinmetall Waffe Munition GmbH purchased a 100-percent stake in Zaugg Elektronik AG, an internationally renowned manufacturer of fuze systems for military applications, which supplies a large number of European and North American defence technology companies with highly specialized fuzes for medium- and large-caliber ammunition as well as for missiles.

Additionally, during the third quarter of 2007, Kiel-based Rheinmetall Landsysteme GmbH sold its 100-percent stake in telerob Gesellschaft für Fernhantierungstechnik mbH, based in Ostfildern.

Surging sales at Rheinmetall Defence. During the period, the Defence sector stepped up sales by some 22 percent from the prior-year €1,445 million to €1,757 million. This surge was especially attributable to increased sales by the Land Systems, Air Defence, and Weapon and Munitions divisions. The first-time consolidation of the Chempro GmbH and Zaugg Elektronik AG companies acquired in 2007 also contributed €45 million to sales.

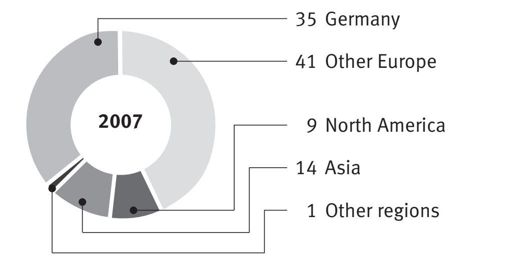
Exports rose to 65 percent (up from 63), underlining the increased international focus of operations. At 41 percent of total sales, other European countries, accounted for the lion’s share of exports as in previous years. Asia and the Middle East each contributed 14 percent, North America 9 percent and other regions 1 percent of the sector’s sales.

Breakdown of sales 2006 by region %



Based on Defence sales of €1,445 million

Breakdown of sales 2007 by region %



Based on Defence sales of €1,757 million

A large share of Land Systems' sales resulted from the surrender of German armed forces' vehicles with the related high value-adding repairs. Other significant revenue sources inside Germany included work invoiced in connection with the development contract and pilot production services for the new Puma infantry fighting vehicle and the shipment of the Wiesel2/BV206 S in various formats, the German army's ultramodern command and information system and the first batch of the Duro multipurpose vehicle (GFF).

Combat upgrade and modernization programs outside of Europe together with orders for new systems and extensions to systems already in use formed the prime source of sales at Air Defence. Significant projects comprised Skyguard 3 fire control units and the related air defence naval guns and shipments of ASRAD (Advanced Short Range Air Defence System). The first sales were also secured within a development contract for an active Camp Protection System for the German armed forces.

In the Weapon and Munitions division, projects related to the supply of the new 120-mm DM63 tank ammunition to Turkey as well as the shipment of the Leopard2 L55 weapon system to Greece and Spain generated large shares of revenue in 2007. The US market's importance rose thanks to substantial growth in sales of 40-mm practice ammunition. In addition, MLG27 light naval guns were delivered to the German navy and Kuwait. Other significant exports included the delivery of upgraded tank ammunition to the Netherlands and Finland, and in the Propellants division shipments of sizeable volumes of propellant powder for artillery and tank ammunition to Great Britain.

In the C4ISTAR (formerly Defence Electronics) division, deliveries of fire command systems for the Leopard2 battle tank to Spain and Greece were the prime source of sales. Another key contributor was the work performed for the German armed forces on a development contract for unmanned air vehicles for target detection (KZO drone) and the start of their series production. Additional sources of sales included the supply of cargo-loading systems for the Airbus A400M military aircraft as well as the initial invoicing of project planning services related to one of the German armed forces' key modernization programs, the expanded version of the Future Soldier System. In the Simulation and Training division, production of training simulators for the new Tiger combat helicopter was a key sales generator.

Increased order influx. In fiscal 2007, the Defence sector lifted its order inflow to €1,804 million, up 6 percent on the prior-year €1,696 million. This encouraging rise was largely attributable to an increase in contracts awarded to the Air Defence and Weapon and Munitions divisions. The first-time consolidation of Chempro GmbH and Zaugg Elektronik AG added another €42 million to the volume of orders received.

Defence sector

Land Systems secured in 2007 a major order for command and multifunctional vehicles within the German-Dutch Boxer program with a project value of over €117 million, of which electric components for the German and Dutch army vehicles make up €61 million and the German armed forces' order for 20 ambulance vehicles €56 million. Orders for NBC reconnaissance systems were secured from the USA, Switzerland and Germany. Other sources included the booking of orders by the maintenance and servicing unit amounting to some €120 million as well as orders for 16 Kodiak armoured engineering vehicles for the Dutch and Swedish armies amounting to over €100 million.

Orders from outside of Europe for Skyguard air defence systems and the Millennium air defence naval gun formed the prime source of incoming business at the Air Defence division. This included the megacontract for 18 Skyguard 3 fire control units and cannons as well as a follow-up order for combat upgrade and modernization programs for fire control systems as well as the German armed forces' commissioning of the project planning phase for the C-RAM Camp Protection System.

Most notable among the orders booked by the Weapon and Munitions division was the export contract for the supply of intelligent SMArt155 artillery ammunition to the British armed forces. Other significant orders were for shipments of 30-mm practice ammunition to the Swiss army, of the BK27 board cannon for the Eurofighter to Saudi Arabia and of the MASS naval protection systems for the F123 frigate. With the expansion of market activities in the USA, orders were received during the period for the shipment of 40-mm practice shells.

The most significant new business in the C4ISTAR division was the order for a mobile test system designed to repair electronic, optronic and optical turret components for the Leopard 1 and 2 for Greece and fire control units for the Leopard 2 destined for Spain. Order intake at home was boosted by the supply contract for extra cargo-loading systems for the Airbus A400M military aircraft. At Simulation and Training, major orders were booked for the NH90 helicopter range for Australia and for the expansion of the German army's combat training center.

Order backlog sufficient for budgeted sales. At December 31, 2007, the Defence sector's order backlog amounted to €2,868 million (up from €2,819 million) and includes high-volume contracts extending over several fiscal periods. The sales expectations for fiscal 2008 are already largely guaranteed by the current orders on hand.

Strong earnings. Benefiting from significant sales growth and a successful turnaround in the Air Defence division, the Defence sector boosted its EBIT by €49 million or 44 percent to €160 million (up from €111 million). All divisions shared in this increase. Chempro GmbH and Zaugg Elektronik AG, consolidated for the first time in 2007, contributed some €7 million to the increased earnings. The sale of telerob Gesellschaft für Fernhantierungstechnik mbH also yielded a gain of around €10 million. With earnings growth outpacing the sales advance, the Defence sector raised its EBIT margin from 7.7 to 9.1 percent in 2007.

USA

The United States of America is the world's biggest automobile market and the most important market for defence systems. Strategic alliances and licenses, including for the guns of the US Abrams combat tank, or the supply of Fox NBC reconnaissance vehicles have characterized the Defence sector's US business to date. Since 2007, Rheinmetall Defence has for the first time been developing its own US production facility for 40-mm ammunition. Kolbenschmidt Pierburg employs almost 1,400 people in the USA. In Marinette, Wisconsin, and Fort Wayne, Indiana, pistons are manufactured; in Fountain Inn, South Carolina, Pierburg and KS Plain Bearings build components for the American market while at the Technical Center in Auburn Hills, Michigan, all the divisions have converged certain of their activities.

Board compensation report

Remuneration of the Executive Board. The overall structure of Executive Board remuneration is defined by the Personnel Committee of Rheinmetall AG's Supervisory Board. The yardstick for determining an Executive Board member's performance-related compensation is, in particular, the scope of his responsibilities, as well as his individual performance and the Group's economic situation and success in comparison to industry peers. Total compensation is incentive-based and encompasses a number of components: it breaks down into a fixed portion, a performance-related profit share and, where applicable, a bonus, a long-term incentive, as well as fringes and pension benefits. For the fixed portion and the performance-related profit share, an annual target salary is specified, to be reviewed at intervals of 2–3 years, the latest revision taking effect as from July 1, 2007. The annual target salary comprises a 60-percent fixed, and a 40-percent variable, portion.

The fixed component is paid out as monthly salary. In addition, Executive Board members receive fringes in kind, such as contributions to their statutory social security insurance (or any exempting life insurance in lieu) plus the use of a company car. The target level of the performance-related component is based on the fiscal year's budget and is fixed by the Personnel Committee. It depends on how EBT and ROCE develop—weighted at 50 percent each—and ranges within a bandwidth of 0 to 200 percent.

Additionally, a long-term incentive program (LTIP) has been installed that is pegged to the increase in the Rheinmetall Group's adjusted EBT as the mean of the three preceding fiscal years in comparison with the mean value determined the year before. An incentive bonus is distributed if this actual-to-actual comparison shows an increase. After deducting personal income taxes, about one-half of the incentive bonus is granted in Rheinmetall shares which are subject to a 3-year resale blockage. The number of shares granted is based on a reference share price which corresponds to the average price on the last five trading days in February of the succeeding fiscal year.

Predicated on the end-February 2007 reference price of €63.24, altogether 6,757 shares were transferred on April 2, 2007, to Rheinmetall AG's Executive Board, including 3,379 shares to CEO Klaus Eberhardt and 1,689 shares each to Dr. Gerd Kleinert and Dr. Herbert Müller. These bonus shares are blocked from sale up to and including March 31, 2010.

€ '000

	Fixed salary incl. fringes	Performance-related income	LTIP	Total	Annual post-retirement pension	Service cost
Klaus Eberhardt	770	995	1,012	2,777	297	313
Dr. Gerd Kleinert	497	624	506	1,627	195	359
Dr. Herbert Müller	369	466	506	1,341	151	82
Total	**1,636**	**2,085**	**2,024**	**5,745**		

Executive Board members are entitled to defined pension benefits, based on 25 percent of the annual target salary. The retirement age has been fixed at 63 years. The Company has accrued these pension obligations (DBO). No further postretirement or postemployment benefits have been granted to any Executive Board member, nor has any Executive Board member received benefits or equivalent entitlements from a third party in 2007 for his services on the Executive Board.

Remuneration of the Supervisory Board. The remuneration of Rheinmetall AG's Supervisory Board is governed by Art. 13 of the bylaws, according to which Supervisory Board members, in addition to being reimbursed for advanced costs and receiving meeting attendance fees, are paid a fee that comprises a fixed and a variable portion. The latter is pegged to the year's dividend payout. The Supervisory Board Chairman and Vice-Chairman receive double this compensation. The fixed fee is €5,500, the variable portion being €1,500 for each percent of dividend in excess of 6 paid for the capital stock, however, with a cap of 24 percent.

Supervisory Board members receive an additional 25 percent of their fixed and variable fees for any committee membership, subject to a ceiling of 50 percent in the case of multiple offices. A committee chairman is paid an addition of 50 percent, however, not more than a total 100 percent if chairing several committees.

The attendance fee for Supervisory Board meetings amounts to €600, that for committee meetings not held the same day to €300. Meeting attendance fees in 2007 totaled around €51,000. Subject to the vote by the annual general meeting on May 6, 2008, Supervisory Board members will receive the following remuneration for 2007:

€

	Fixed fee	Variable fee	Committee membership fee	Total remuneration 2007
Klaus Greinert	11,000	54,000	32,500	97,500
Joachim Stöber	11,000	54,000	16,250	81,250
Dr. Eckhard Cordes	5,500	27,000		32,500
Dr. Andreas Georgi	5,500	27,000		32,500
Dr. Peter Mihatsch	5,500	27,000	8,125	40,625
DDr. Peter Mitterbauer	5,500	27,000		32,500
Henning von Ondarza	5,500	27,000		32,500
Prof. Dr. Frank Richter	5,500	27,000	16,250	48,750
Dr. Dieter Schadt	1,955	9,600		11,555
Reinhard Sitzmann	3,560	17,475		21,035
Dr. Ludwig Dammer	5,500	27,000		32,500
Heinrich Kmett	5,500	27,000	8,125	40,625
Dr. Rudolf Luz	5,500	27,000		32,500
Wolfgang Müller	5,500	27,000		32,500
Harald Töpfer	5,500	27,000		32,500
Wolfgang Tretbar	5,500	27,000	16,250	48,750
Peter Winter	5,500	27,000		32,500
Total	**99,015**	**486,075**	**97,500**	**682,590**

In addition, Rheinmetall refunds to Supervisory Board members the VAT on their fees.

Statutory disclosures according to Art. 315(4) HGB

Breakdown of capital stock, shares. As of December 31, 2007, Rheinmetall AG's capital stock amounted to an unchanged €92,160,000, divided into 36,000,000 fully paid-up no-par bearer shares of common stock. Each no-par share represents a notional €2.56 interest in the capital stock. According to Art. 5(2) of the Bylaws, no stockholder may insist on the issuance of a physical share certificate. The issuance of global share certificates is permitted.

Stockholder rights and obligations. The same rights and obligations attach to all the shares, as set out in the German Stock Corporation Act ("AktG"), especially Arts. 12, 53a et seq., 118 et seq., and 186 AktG. Stockholders are entitled to certain asset-related and administrative rights, the former mainly including (i) the rights to profits under the terms of Art. 58(4) AktG, (ii) interests in the dissolved company's net liquidation assets according to Art. 271 AktG, and (iii) share subscriptions rights in capital increases according to Art. 186(1) AktG. Administrative rights comprise the right to attend and participate in stockholders' meetings, as well as to speak there, ask questions, submit applications or motions, and exercise the voting rights. Any stockholder may enforce such rights by bringing an action for information, avoidance, rescission, etc.

One share in Rheinmetall AG entitles to one vote at a general meeting, except treasury shares as these do not confer any stockholder rights upon the Company. The general meeting of stockholders elects the Supervisory Board members it is entitled to, and the statutory auditor; inter alia, it decides on profit appropriation, official approval of the acts and omissions of board members, amendments of the articles of association or bylaws, capital moves, on the authority to repurchase treasury stock and, where appropriate, votes on the conduct of a special-purpose audit, the early removal of Supervisory Board members, and the Company's dissolution. Subject to other overriding legal provisions, the general meeting adopts its resolutions with the simple majority of votes cast and, where the law prescribes both a voting and shareholding majority, with the bare majority of the capital stock represented at such vote.

Restrictions on voting or share transfer. The Executive Board is not aware of any voting restrictions. To the extent that Rheinmetall AG issues shares to its Executive Board members and senior management staff, the transfer of such shares is restricted for a 3-year qualifying period stipulated by the Company under a private-law agreement, i.e., such shares may not be sold by their owners prior to the expiration of said waiting period.

Shareholdings above 10 percent. Rheinmetall AG is not aware of any direct or indirect shareholding under the terms of Sec. 22 German Securities Trading Act ("WpHG") that exceeds ten percent of the total voting capital. No notification pursuant to Sec. 21 WpHG has been received by Rheinmetall AG.

Shares conferring controlling privileges. Shares conferring controlling privileges do not exist at Rheinmetall.

Type of voting right control if employees own stock and exercise their rights of control not directly. To the extent that Rheinmetall AG issues shares under its LTIP to Executive Board members and other staff of the top management tier, such shares are directly assigned and transferred to these individuals subject to a certain waiting period for sale. Like any other stockholder, too, these LTIP beneficiaries can exercise the corresponding right of control directly, subject to the provisions of the law and bylaws.

India

Many industries are focusing on India as a market offering huge future potential. Rheinmetall substantially stepped up its activities in India recently. The KS Kolbenschmidt division increased its stake in Shriram Pistons and Rings Ltd while Pierburg, Pierburg Pump Technology and KS Plain Bearings are currently establishing new production plants close to Pune, a key region for Indian car manufacturing. Rheinmetall Defence, which has long been marketing its air defence systems in India, opened an office in New Delhi in early 2008 aimed at offering its customers direct local service.

Statutory disclosures according to Art. 315(4) HGB

Appointment and removal of Executive Board members, amendments to the Bylaws. The appointment and removal of Rheinmetall AG's Executive Board members are governed by Arts. 84 and 85 AktG as well as Art. 31 German Codetermination Act ("MitbestG") in conjunction with Art. 6 of the bylaws. Accordingly, Executive Board members are appointed by the Supervisory Board for a maximum 5-year term of office and may be reappointed or their term renewed for 5-year periods each. The provisions of Arts. 179 et seq. AktG apply generally to any amendment of Rheinmetall AG's bylaws. Art. 4 of the bylaws entitles and authorizes the Supervisory Board to vote on amendments that affect only the wording of the bylaws such as for an update of the balance and utilization of authorized capital, no resolution by the general meeting being required.

Executive Board powers, also to issue and repurchase stock. According to Art. 202 AktG, the stockholders' meeting may authorize the Executive Board for a maximum period of five years to increase the capital by issuing new shares in return for contributions. The authorized capital ceiling available for such increases has been stated in Art. 4(3) of Rheinmetall AG's bylaws.

The repurchase of treasury stock is governed by Art. 71 AktG. According to the resolution by the annual general meeting of May 8, 2007, in Berlin, Rheinmetall AG's Executive Board is authorized pursuant to Art. 71(1)(8) AktG, to repurchase Rheinmetall AG no-par bearer shares of common stock not to exceed 10 percent of the current capital stock of €92,160,000. Such treasury shares may be acquired via stock exchange or by public bid to all stockholders or by public invitation to submit a purchase bid. This authority will expire October 31, 2008, unless otherwise resolved by the AGM before such date. As of December 31, 2007, Rheinmetall AG held 1,051,417 shares of treasury stock (up from 986,364), equivalent to around 2.9 percent of the capital stock.

Major agreements terminable upon a change of control. In April 2005, a banking consortium granted Rheinmetall AG a syndicated facility of €400 million, originally expiring in 2010 but extended in February 2006 by one year up to 2011. If and when one-half of the Rheinmetall AG stock is held directly or indirectly by one or several persons (acting either jointly or severally), the agreement's terms and conditions must be renegotiated.

In June 2005, Rheinmetall AG floated a €325 million bond issue maturing in 2010. Upon a change of control, bondholders may call the bonds at 40–60 days' notice as from the publication date of the change of control and require redemption of bond principal plus interest. Such a right of call is standard practice.

No preventive precautions have been taken against a public takeover bid, the successive acquisition of a controlling stake through share purchases via stock markets, or control being gained by buying stock parcels. Art. 7 of the German Foreign Trade & Payments Act requires for the acquisition of a defence technology company that the federal government give its prior approval before any nonresident party can purchase 25 percent of the shares. This Act aims to safeguard material security interests of the Federal Republic of Germany.

Compensation arrangements between the Company and Executive Board members or employees in case of takeover bids. No such arrangements have been made.

Malaysia

In Malacca, Rheinmetall manufactures electronic components and modules for various sectors and applications—including related to automotive and defence electronics. Some 300 employees work at the subsidiary established in 1980, serving both domestic and other customers in Asia, Europe and the USA. The Pistons division has been engaged in local production under license for Asian customers since 2006.

Risk and reward report

Groupwide risk management. Rheinmetall is an internationally operating technology group that as such is exposed to a variety of risks, depending on division, market, and region. Given the growing dynamism and complexity of markets and business parameters, entrepreneurial decisions are increasingly hinging on the reliable assessment of potential risks. Rheinmetall's risk management system consists of a series of dovetailed planning, control and information mechanisms applying throughout the Group. The Executive Board formulates the group's risk strategy, defines responsibilities, communication structures, the documentation and treatment of identified risks and threshold/tolerance limits. This groupwide cohesive risk management system ensures that managerial decisions and ongoing business activities are contained within defined risk parameters and comply with statutory requirements.

Business risks. A corporate structure comprising the Automotive and Defence sectors, a diversified product portfolio within these sectors and the ongoing expansion of internationalization are factors that, at group level, help abate economic, market and industry-specific risks or help offset changes in individual markets by favorable developments in others.

Procurement risks may arise in that the raw materials, components and parts needed to manufacture our products are not or inadequately available in sufficient quality and quantity or cannot be smoothly procured. In order to ensure reliable supplies and be able to respond at short notice to any changes, we closely scrutinize the procurement markets. Such risks are also diluted by seeking alternative supply sources, efficient contract management, ongoing supplier ratings, supplier quality and reliability checks and by accumulating adequate backup supplies.

The market presence linked to international sales structures and longstanding supplier relationships make it possible to identify trends in sales markets and future product requirements. R&D risks are contained by feasibility studies, preinvestment analyses and extensive project management with experienced executives as well as through monitoring of adherence to milestones and budgets. Technological supremacy is further safeguarded by applying for patents.

The Rheinmetall Group observes high engineering, safety and security standards in the construction, operation and upkeep of its production facilities. Nonetheless, disruptions cannot be ruled out. For possible damage or loss as well as for other conceivable loss occurrences and liability risks, insurance cover has been taken out to an economically reasonable degree to ensure that the financial consequences are contained or completely offset.

Financial risks. The operations of Rheinmetall companies are exposed to interest rate and currency (forex) risks. While the ongoing globalization of procurement, production and financing has already gradually downscaled the impact of exchange rate risks, marketable financial derivatives have additionally been deployed for the sole purpose of hedging against currency and interest rate risks, mainly currency forwards and swaps, interest rate caps and currency options. Short positions are avoided generally.

The central liquidity management system, combined with the use of such financing instruments as bond issues, commercial paper and the asset-backed securities programs, ensure the general availability of sufficient financial resources for operating and investing activities. Potential losses on long-term contracts or from supply or sourcing agreements, as well as other risks from e.g. warranty claims have all been adequately and reasonably provided for. Given Rheinmetall's customer mix, default risks are negligible. No dependency on customers or (critical) countries exists which in the case of an adverse trend might jeopardize the Rheinmetall Group's survivability or going concern.

IT risks. Information and data are vulnerable to a variety and, in some cases growing, threats in terms of availability, confidentiality, and integrity. Alongside high security standards and groupwide security guidelines, technological and organizational preventive measures and safeguards restrict the risks of serious disruption such as systems failures, unauthorized access to the data of communications and information systems and possible data losses. Constant checks and adjustments to the information systems deployed ensure the secure handling of IT-assisted business processes backed up by state-of-the-art technology.

Personnel risks. In a technology-oriented organization such as the Rheinmetall Group, business success is dependent on highly skilled employees and executives. Staff turnover as well as problems of recruiting skilled personnel and executives with industry-specific expertise can be addressed by attractive compensation systems based on performance, in-house and external courses, and modern pension plans.

Legal risks. Risks potentially arising from a wide variety of tax, competition, fair-trade, patent, cartel or antitrust laws or other regulations and statutes are continuously monitored and carefully reviewed, examined and minimized when making business decisions.

The outcome of the judicial proceedings, which had been instituted in 1998, 2003 and 2007 in connection with the Kolbenschmidt/Pierburg merger and the Aditron AG and Kolbenschmidt Pierburg AG squeeze-outs, cannot be assessed with reasonable assurance. As pessimistic precaution for an unfavorable result of such proceedings, accruals have been recognized to account for known or predictable facts and circumstances.

Environmental risks. Potential environmental risks are abated by eco-friendly production processes, high standards of quality, and very many quality assurance measures. These include process certification to international standards, the ongoing update of production plant, and the further development of products.

Risk and reward report

Risks and rewards in the segments. Automotive stands to gain from the worldwide congenial automotive climate. Alongside the burgeoning Asian markets—the target of the sector's further internationalization of purchasing, production and sales activities—it is the Kolbenschmidt Pierburg Group's high-volume core markets of Western Europe and the USA that are still predominant.

Worldwide there is a general trend toward tighter emission standards and this offers additional sales opportunities for products, already existing or under development, which assist cars to comply with these standards.

Prospects of a surge in market share for diesel-engine vehicles are more probable given the still high gasoline prices, also in the USA and Asia. With its expertise and broad product range, Kolbenschmidt Pierburg can benefit from the likely success of diesel-driven vehicles in these markets as well as from the trend toward direct-injection gasoline engines. In addition, innovative products suitable for hybrid drive applications are also under development.

The year under review saw another improvement in the sector's international presence which through closer customer proximity, has made it easier to tap additional growth potentials. Possibilities are perceived for booking additional contracts from the vigorously growing Asian OEMs—still underrepresented in the customer portfolio, and then on the basis of competitive economies of scale also generating growth in the traditional core markets. Such a process is being assisted by an exploitation of potential in the manufacturing process and other processes along the value chain and further quality enhancements for reduced reject rates.

Other opportunities exist through the expansion of cooperation with customers outside of the passenger car manufacturing segment, the accelerated trend toward outsourcing on the part of various automakers regarding pistons and their parts and through efforts to access new areas of business by deploying existing know-how.

The market conditions in the automotive industry and business development of this sector have a crucial bearing on the Automotive sector's sales and earnings. Growing globalization, rising competition and enhanced market transparency might result in unexpected changes in component orders, product mix shifts, fiercer competition, and rising price pressure. This can result in price, volume and margin fluctuations.

Owing to the high price level now reached, the price trend on commodity markets now offers the possibility of declining prices and linked to that a reduction in the cost burden from surging prices. Price rises prompted by the scarcity of commodities do, however, also represent cost risks which we contain through appropriate contracts with price escalator clauses, especially in the case of aluminum and copper.

Material price increments are stipulated in contracts with customers where possible so as to largely minimize the negative effects of purchase price rises, with financial derivatives used to hedge against the remaining risks. We also control and optimize procurement timing and volumes accompanied by use of the relevant hedging tools. Rising energy costs are addressed by coordinated groupwide invitations to bid and, in some cases, extended contract periods.

China

China is one of the fastest-growing automobile markets in the world. Kolbenschmidt Pierburg has maintained a presence in the "Middle Kingdom" for over a decade. Together with the Shanghai Automotive Industry Corporation (SAIC) the Automotive sector runs two joint ventures: one for pistons and one for castings (KS Aluminum Technology). In fiscal 2007, the 1,700-strong workforce at the two joint venture companies, both based in Shanghai, generated sales of some €130 million. The Kolbenschmidt Pierburg presence in China has been augmented in recent years by KS Plain Bearings and Pierburg Pump Technology and most recently by the Motor Service division.

Risk and reward report

The Defence sector's market potential results from the defence budgets of possible customer countries for the most part. Other opportunities for external growth are tied to the changing military requirements of the German armed forces, NATO and the armed forces of EU states. The product range has been adapted to these trends, with R&D activities correspondingly geared to the rewritten scenarios.

The Defence sector may also benefit from potential ad-hoc procurement needs linked to the deployment of European forces in crisis regions. Referable projects commissioned by the German army—the series contract for the Puma, the Future Soldier System program, and mortar combat systems—are critical to winning orders abroad. The development contracts for an active Camp Protection System and an air defence system may result in sustained market opportunities in the years ahead.

Defence's divisions as such are not directly dependent on the shape of the economy. Budget restrictions and funding/financing problems or political influences and changes in customer countries might lead to risks in the form of delays and/or non-award of contracts. Other possible risk-related obstacles are higher advance funding owing to deteriorated downpayment conditions and possible financial involvement in projects (e.g. public-private partnership models). Nonetheless, the chief risks are reliance on public spending in Germany and other countries plus accelerating transatlantic competition. Those export markets which are accessible to this sector are exposed to strong international competition.

Efforts to strengthen market positions and expand business call for decisions on acquisitions and investments. Risks related to these decisions are contained through feasibility studies, conservative forecasting, simulation of varying scenarios, comprehensive due diligence of the acquisition targets, and multistage approval processes.

The general risk situation. The aforementioned risks are not the only ones to which the Rheinmetall Group is exposed. Risks, hitherto unidentified or assessed as insignificant, might under changing circumstances materialize and adversely impact on the asset and capital structure, financial position, or results of operations.

Major risks or developments with a potentially long-term unfavorable impact on the Group's asset and capital structure, financial position or results of operations were not identifiable during the period. From today's vantage point and in terms of assets and liquidity, no risks exist that might jeopardize to a serious degree in the foreseeable future either the continued existence as a going concern or the future development of Rheinmetall AG or its subsidiaries.

Japan

The Automotive sector has been operating its own production plant in one of the world's biggest automobile markets since 2003. In the Japanese city of Hiroshima pistons are produced for various Japanese car and commercial vehicle customers. In the Tokyo conurbation and in Odawara close to Yokohama the Automotive sector also runs a customer center aimed at attracting new customers and orders, including in other business segments. The Defence sector has awarded a license for the 120-mm smooth-bore cannon to Japan, which is to be deployed on the Japanese armed forces' type-90 combat tank.

Prospects

Regionally mixed business trend expected. The economic pundits are predicting solid growth in the world economy for fiscal 2008. However, due to the recent turmoils on the financial markets and possible adverse impact on global economic growth, expectations have been revised downward compared with preceding forecasts. In October 2007, the International Monetary Fund (IMF) was still forecasting growth in international economic output of 4.8 percent for 2008, but lowered this to 4.1 percent at the end of January 2008.

A crucial factor is the dampening effect of the subprime mortgage crisis on the US economy, resulting in a clear downswing, while some experts are not even ruling out recession. The predictions for growth in US economic output have sunk accordingly from 1.9 percent previously to the current 1.5 percent.

Experts have also reduced their expectations for Euroland growth by 50 basis points to 1.6 percent. GNP gains in Germany should be on a similar scale whereas Japan's economy is set to expand by 1.5 percent. Even though emerging markets have also been hit by the repercussions of the financial market crisis, they will again form the mainstay of strong global growth in 2008. According to the Organization for Economic Cooperation and Development (OECD), China is set to grow at the again double-digit rate of 10.7 percent, with economic output in India increasing by 8.6 percent. For C&E Europe, the IMF sees growth potential of 4.6 percent, and for the Middle East, boosted by continued high oil revenues, of 5.9 percent.

The forecasts for 2009 are subject to even greater uncertainty. At the end of 2007, the OECD was forecasting another growth year, especially with the effects of the financial market crisis expected to ease. The Paris-based organization is predicting a 2.2-percent rise in economic growth in the USA, with Euroland predicted to climb by 2.0 percent. Germany's economy—fueled by strong exports—should grow by 1.6 percent, while the Japanese is set to expand by 1.8 percent, according to OECD forecasts. In the newly industrialized countries a continuation of the dynamic upswing of previous years is anticipated, with experts expecting a growth rate of 10.1 percent for China and 8.4 for India.

Automotive industry propelled by affluence in newly industrialized countries. The upward trend in the worldwide production of vehicles is forecast to continue in 2008 und 2009, with the pent-up demand in the newly industrialized states of Asia, C&E Europe and South America still impacting favorably on worldwide vehicle output. In the view of the experts, global production of vehicles of up to 3.5 t will increase by some 3 percent to over 70 million vehicles in 2008.

There are clear regional disparities in this trend, however. Among the major long-established car manufacturers of North America, Western Europe and Japan, significant changes in production figures are not anticipated for 2008. Vehicle production in these three triad regions, as they are known, is set to drop by 1 percent overall to just over 42 million vehicles whereas the rest of the world could achieve growth of some 10 percent to about 28 million units. Recession scares could cause a significant decline of some 5 percent in production figures in North America. A slight downturn is also anticipated for Western Europe. Thanks to a rising export share, Japan on the other hand can expect a slight increase in production figures. In contrast, growth rates of around 10 percent are again being forecast for auto manufacturers in Asia's emerging economies, especially China. Carmakers in C&E Europe and South America should again achieve similar growth rates. The general trends toward fuel consumption- and emission-reducing technologies and toward diesel engines are also likely to continue in 2008 and 2009.

Automotive sector benefiting from innovation drive. In recent years, the Automotive sector through its innovation drive has consistently geared its product portfolio to long-term trends in motor vehicle manufacture. Automotive sets technological standards with its newly developed products—including those to reduce fuel consumption thus conserving resources, minimize CO_2 emissions and cut pollutants. In addition, the use of new (also lightweight) materials and composites has laid the foundations for product portfolio renewal. The current and future restrictive emission limits even more so, especially in European Union countries, are likely to assist the Automotive sector's organic growth in the coming years. In addition, further expansion of international R&D, marketing and production activities with the focus on Asia's dynamically growing automotive markets will make a major contribution to this sector's unabated growth.

Based on current forecasts on the development of the international automotive arena and assuming relatively stable conditions on both the customer and procurement markets, the Automotive sector is anticipating for 2008 moderate organic sales growth of 3 percent and a rise in EBIT above the expected sales increase.

Provided that the current activities aimed at improving production and cost structures are successfully completed, the Automotive sector is set to continue along its profitable growth course in fiscal 2008, thus paving the way for achieving the Rheinmetall Group's elevated return benchmarks.

Rising demand for modern defence systems. Driven by a continued high number of international military missions and the resultant significant need for armed forces' modernization, defence budgets are set to climb further in fiscal 2008, with US military spending likely to advance by more than 5 percent to over $600 billion.

The trend toward higher military expenditures is also intensifying in Europe. In Germany, according to current budgetary planning, the proportion of matériel and R&D spending is set to mount from €5.3 billion in 2007 to €5.9 billion in 2008, equivalent to 23 percent of the total budget volume, which is increasing by some 3 percent from €24.4 billion to €25.1 billion. Whereas for Germany this trend will persist into 2009, the growth in global defence spending depends greatly on developments in the world's major crisis regions, notably Iraq and Afghanistan.

Prospects

Defence forecasting improved earnings. Rheinmetall Defence can continue to rely on a technologically leading range of products and services geared to the new international deployment scenarios with emphasis on systems providing protection for the soldiers in the field.

In addition, products which improve armed forces' reconnaissance and command capabilities as well as the precision of combat agents, alongside the increasing scope of maintenance and service tasks, are the chief growth drivers in Rheinmetall's defence business.

Rheinmetall Defence is also predicting a continued favorable order intake situation in 2008 and 2009. Defence entered the new year once again with a high proportion of budgeted sales covered by existing contracts and is projecting organic growth of about 5 percent for the current fiscal period. Provided that all current major projects proceed according to schedule this year, for 2008, the Defence sector is looking to further growth in EBIT at least in line with the rate of organic sales expansion. For 2009, earnings are expected to climb even further.

Rheinmetall remaining on profitable growth course. With its two corporate sectors of Automotive and Defence, Rheinmetall is exceptionally well positioned throughout its markets, holding foremost positions in terms of size and technology in Europe. Renewal of the product portfolio on an innovations track clearly geared to customer requirements remains at the very heart of Rheinmetall's corporate strategy.

The continued internationalization drive is set to open up as yet untapped market potential for the Automotive and Defence sectors. It is Rheinmetall's aim to step up the two sectors' strategic development with regard to their internationalization and innovative capabilities so as to guarantee the Group's profitable growth and shareholder value enhancement in the long term.

For fiscal 2008, Rheinmetall predicts in view of the economic and industry outlook outlined further organic sales growth and an EBIT of between €280 million and €290 million. A rising level of sales and earnings is also anticipated for 2009.

South Africa

Through its planned stake in Denel Munitions, South Africa, Rheinmetall Defence is further expanding its role as leading systems supplier to the land forces.

Subsequent events

On February 8, 2008, Rheinmetall Waffe Munition GmbH, Ratingen, signed an agreement with the South African company, Denel (Pty) Ltd., based in Irene, Pretoria, on its intention to acquire a majority holding in Denel Munitions (Pty) Ltd. The planned acquisition of a 51-percent stake is subject to approval by the antitrust authorities and tied to the fulfillment of various conditions precedent. This decision forms part of continuing moves to further internationalize Rheinmetall's defence technology activities, raises market presence in the defence industry and underlines the Defence sector's role as a leading supplier of systems and equipment for ground forces. Whereas the bulk of Rheinmetall Defence's business is with NATO countries, Denel Munitions is well established in Asia, the Middle East and South America, in addition to South Africa. Rheinmetall and Denel Munitions will be able to serve their respective traditional markets with a complete portfolio of products in future.

On February 12, 2008, Kiel-based Rheinmetall Landsysteme GmbH concluded an agreement with Stork N.V., Amsterdam, on the acquisition of Stork PWV B.V., a Dutch tank builder. The planned complete takeover by share deal is subject to approval by the cartel authorities. Rheinmetall Defence is thus increasing its share in currently Europe's largest cross-border military vehicle-building project. The armoured Boxer transport vehicle is an advanced, highly mobile 8x8 wheeled unit, whose modular design with a total weight of 32t enables a multitude of mission-specific configurations. The Boxer vehicles are to be shipped to the Dutch army from the year 2011 to the end of 2016. The first consignment is to be supplied to the German armed forces as early as 2009. Stork PWV, like Rheinmetall Landsysteme, forms part of the industrial consortium headed by Munich-based ARTEC GmbH, which is developing and producing 472 armoured Boxer vehicles in total for the German and Dutch armed forces, of which Stork PWV accounts for 200 units. On the German side, Rheinmetall Defence is producing 85 of the total 272 vehicles. With the acquisition Rheinmetall's share in the consortium is set to rise from the current 14 to 64 percent.

Düsseldorf, March 3, 2008

Rheinmetall AG
The Executive Board

Eberhardt Dr. Kleinert Dr. Müller

This management 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.

Consolidated financial statements 2007
Rheinmetall AG

Consolidated balance sheet as of December 31, 2007

ASSETS *€ million*

	Note	12/31/2006	12/31/2007
Intangible assets	(6)	439	484
Tangible assets	(7)	1,057	1,046
Investment properties	(8)	15	14
Investments	(9)	68	84
Other noncurrent financial assets	(13)	10	10
Other noncurrent assets	(12)	3	3
Deferred tax assets	(29)	60	44
Total noncurrent assets		**1,652**	**1,685**
Inventories	(10)	757	726
less prepayments received		(54)	(24)
		703	702
Trade receivables	(11)	703	779
Other current financial assets	(13)	58	38
Other current receivables and assets	(12)	64	70
Income tax assets		12	8
Cash & cash equivalents	(14)	197	163
Total current assets		**1,737**	**1,760**
Total assets		**3,389**	**3,445**

EQUITY & LIABILITIES *€ million*

	Note	12/31/2006	12/31/2007
Capital stock		92	92
Additional paid-in capital		208	208
All other reserves		516	615
Group earnings (after minority interests)		120	145
Treasury stock		(42)	(46)
Stockholders' equity		**894**	**1,014**
Minority interests		43	43
Total equity	(15)	**937**	**1,057**
Accruals for pensions and similar obligations	(16)	519	522
Other noncurrent accruals	(17)	112	106
Noncurrent financial liabilities	(18)	388	384
Other noncurrent liabilities	(20)	9	12
Deferred tax liabilities	(29)	19	23
Total noncurrent liabilities		**1,047**	**1,047**
Current accruals	(17)	322	316
Current financial liabilities	(18)	14	15
Trade payables	(19)	510	554
Other current liabilities	(20)	509	412
Income tax liabilities		50	44
Total current liabilities		**1,405**	**1,341**
Total equity & liabilities		**3,389**	**3,445**

Consolidated income statement for fiscal 2007

€ million

	Note	2006	2007
Net sales		**3,626**	**4,005**
Net inventory changes and other work and material capitalized		110	(6)
Total operating performance	(21)	**3,736**	**3,999**
Other operating income	(22)	147	136
Cost of materials	(23)	(1,951)	(2,109)
Personnel expenses	(24)	(1,038)	(1,052)
Amortization/depreciation/write-down	(25)	(151)	(168)
Other operating expenses	(26)	(530)	(543)
Operating result		**213**	**263**
Net interest expense[1]	(27)	(51)	(57)
Net investment income and other financial results[2]	(28)	2	7
Net financial result		**(49)**	**(50)**
Earnings before taxes (EBT)		**164**	**213**
Income taxes	(29)	(41)	(63)
Group net income		**123**	**150**
Minority interests	(30)	*3*	*5*
Group earnings (after minority interests)		*120*	*145*
EpS	(31)	€3.41	€4.15
EBITDA		366	438
EBIT		215	270
Adjusted EBIT	(32)	222	269

[1] *incl. €66 million interest expense (up from €59 million)*
[2] *incl. €7 million from investees carried at equity (up from €5 million)*

Consolidated statement of cash flows for fiscal 2007

€ million

	2006	2007
Cash & cash equivalents at Jan. 1 (BoP)	**408**	**197**
Group net income	123	150
Net interest income from financing activities	24	30
Amortization/depreciation/write-down/write-up of intangibles/tangibles and investment properties	151	168
Change in pension accruals	10	4
Cash flow	**308**	**352**
Net gain/loss from fixed-asset disposal	(14)	(26)
Change in other accruals	(2)	(9)
Change in inventories	(20)	6
Change in receivables, nonfinancial liabilities and prepaid & deferred items	(80)	(118)
Other noncash expenses and income, net	3	30
Net cash provided by operating activities[1)]	**195**	**235**
Cash outflow for additions to tangible/intangible assets and investment properties	(186)	(214)
Cash inflow from the disposal of tangible/intangible assets and investment properties	13	51
Cash outflow for additions to consolidated subsidiaries and financial assets	(24)	(66)
Cash inflow from the disposal of consolidated subsidiaries and financial assets	16	39
Net cash used in investing activities	**(181)**	**(190)**
Dividend paid out by Rheinmetall AG	(32)	(35)
Other profit distribution	(3)	(4)
Treasury stock	(8)	(7)
Net interest expense	(23)	(30)
Financial liabilities incurred	26	10
Financial liabilities repaid	(183)	(14)
Net cash used in financing activities	**(223)**	**(80)**
Net change in cash & cash equivalents	**(209)**	**(35)**
Parity-related change in cash & cash equivalents	(2)	1
Total change in cash & cash equivalents	**(211)**	**(34)**
Cash & cash equivalents at Dec. 31 (EoP)	**197**	**163**

For comments on the cash flow statement, see Note (33).

1) *included are net income taxes paid at €42 million (down from €43 million)*

Rheinmetall Group
Statement of changes in equity

€ million

	Capital stock	Additional paid-in capital	Reserves retained from earnings	*OCI from currency translation differences*	*OCI from statement at FV and other valu-ation*	Accumu-lated OCI	Group earnings after minority interests	Treasury stock	**Stock-holders' equity**	Minority interests	**Total equity**
Balance at January 1, 2006	**92**	**208**	**401**	*(18)*	*66*	**48**	**113**	**(34)**	**828**	**47**	**875**
Dividend payout	--	--	(32)	--	--	--	--	--	(32)	(3)	(35)
Currency translation differences	--	--	--	*(19)*	--	(19)	--	--	(19)	(2)	(21)
Consolidation group changes	--	--	--	--	--	--	--	--	--	(4)	(4)
Transfer to/from reserves	--	--	113	--	--	--	(113)	--	--	--	--
Accumulated OCI	--	--	6	--	*(1)*	(1)	--	(8)	(3)	2	(1)
Group net income	--	--	--	--	--	--	120	--	120	3	123
Balance at December 31, 2006/January 1, 2007	**92**	**208**	**488**	*(37)*	*65*	**28**	**120**	**(42)**	**894**	**43**	**937**
Dividend payout	--	--	(35)	--	--	--	--	--	(35)	(4)	(39)
Currency translation differences	--	--	--	*(6)*	--	(6)	--	--	(6)	(1)	(7)
Consolidation group changes	--	--	--	--	--	--	--	--	--	1	1
Transfer to/from reserves	--	--	120	--	--	--	(120)	--	--	--	--
Accumulated OCI	--	--	6	--	*14*	14	--	(4)	16	(1)	15
Group net income	--	--	--	--	--	--	145	--	145	5	150
Balance at December 31, 2007	**92**	**208**	**579**	*(43)*	*79*	**36**	**145**	**(46)**	**1,014**	**43**	**1,057**

For comments on equity, see Note (15).

Net comprehensive income, which consists of total OCI and Group net income, amounts to €162 million (up from €109 million) and is the net of currency translation differences, accumulated OCI (excluding treasury stock), changes in treasury stock and Group net income. The accumulated OCI reflects mainly changes in fair value and other remeasurement.

Notes (Group)
Segment reports

Primary segments *€ million*

Corporate sectors		Automotive		Defence		Others/ Consolidation		Group	
		2006	2007	2006	2007	2006	2007	**2006**	**2007**
Balance sheet as of 12/31									
Segment assets		1,417	1,463	1,656	1,750	47	17	**3,120**	**3,230**
thereof goodwill		*154*	*169*	*211*	*222*	--	--	***365***	***391***
thereof book values of investees carried at equity		*42*	*44*	*26*	*40*	--	*0*	***68***	***84***
Segment expenditures		153	163	47	65	1	1	**201**	**229**
Segment liabilities		742	763	1,171	1,104	68	55	**1,981**	**1,922**
Equity	(1)	537	513	519	610	(119)	(66)	**937**	**1,057**
Pension accruals	(2)	248	247	244	249	27	26	**519**	**522**
Net financial liabilities	(3)	30	71	(68)	10	243	155	**205**	**236**
Capital employed (CE)	(1)+(2)+(3)	815	831	695	869	151	115	**1,661**	**1,815**
Additions to CE		167	179	77	77	(120)	(132)	**124**	**124**
CE at Dec. 31		982	1,010	772	946	31	(17)	**1,785**	**1,939**
Annual average CE	(4)	962	996	728	859	35	7	**1,725**	**1,862**
Income statement									
Net external sales		2,181	2,249	1,445	1,757	--	(1)	**3,626**	**4,005**
thereof Germany (%)		*32.0*	*32.3*	*36.6*	*34.9*	--	--	***33.9***	***33.4***
thereof abroad (%)		*68.0*	*67.7*	*63.4*	*65.1*	--	--	***66.1***	***66.6***
Net P/L from investees carried at equity		3	4	2	3	--	0	**5**	**7**
Income from write-up		--	--	1	--	--	--	**1**	**--**
Write-down		0	4	--	9	--	--	**0**	**13**
EBITDA		226	237	147	211	(7)	(10)	**366**	**438**
Amortization/depreciation		(113)	(117)	(36)	(51)	(2)	0	**(151)**	**(168)**
Segment EBIT	(5)	113	120	111	160	(9)	(10)	**215**	**270**
Net interest expense		(23)	(26)	(16)	(22)	(12)	(9)	**(51)**	**(57)**
EBT		90	94	95	138	(21)	(19)	**164**	**213**
Income taxes		(25)	(32)	(24)	(47)	8	16	**(41)**	**(63)**
Net income/(loss)		65	62	71	91	(13)	(3)	**123**	**150**
EBIT margin (%)		5.2	5.3	7.7	9.1	--	--	**5.9**	**6.7**
Other data									
ROCE *in %*	(5)÷(4)	11.7	12.0	15.2	18.6	--	--	**12.5**	**14.5**
Cash inflow from operating activities		175	170	23	35	(3)	30	**195**	**235**
Capital expenditures (acc. to management structure)		142	148	43	53	1	1	**186**	**202**
R&D expenditures		115	126	54	53	--	--	**169**	**179**
Order intake		2,203	2,236	1,696	1,804	--	--	**3,899**	**4,040**
Order backlog (Dec. 31)		364	371	2,819	2,868	--	--	**3,183**	**3,239**
Prepayments received		38	23	463	477	--	--	**501**	**500**
Employees at 12/31 (FTE)		11,922	11,895	6,759	7,175	118	115	**18,799**	**19,185**

Secondary segments *€ million*

Regions	Germany		Other Europe		North America		Asia		Other Regions/ Consolidation		**Group**	
	2006	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
Net external sales Automotive	699	727	951	991	313	279	94	107	124	145	**2,181**	**2,249**
Net external sales Defence	529	612	650	713	136	154	94	240	36	38	**1,445**	**1,757**
Total net external sales	1,228	1,339	1,601	1,704	449	433	188	347	160	182	**3,626**	**4,005**
in % of group sales	34	33	44	43	12	11	5	9	5	4	**100**	**100**
Segment assets	1,946	2,020	815	847	243	220	40	43	76	100	**3,120**	**3,230**
Segment expenditures	106	128	41	60	27	14	7	6	20	21	**201**	**229**

For comments on the segment reports, see Note (34).

Notes (Group)
Fixed-asset analysis

€ million

	Gross values				
2006	01/01/2006	Additions	Disposals	Book transfers	Changes in consolidation group/share-holding
Intangible assets					
Development costs and other intangible assets	51	18	--	--	--
Concessions, franchises, industrial-property rights and licenses	77	10	3	1	--
Goodwill	357	--	--	--	8
Prepayments on intangibles	1	1	--	(1)	--
	486	**29**	**3**	**--**	**8**
Tangible assets					
Land, equivalent titles, and buildings (incl. buildings on leased land)	952	8	16	--	6
Production plant and machinery	1,585	61	43	47	1
Other plant, factory and office equipment	469	18	30	5	--
Prepayments on tangibles, construction in progress	71	70	1	(57)	--
	3,077	**157**	**90**	**(5)**	**7**
Investment properties	**25**	**--**	**1**	**5**	**--**
Total	**3,588**	**186**	**94**	**--**	**15**
2007	01/01/2007	Additions	Disposals	Book transfers	Changes in consolidation group/share-holding
Intangible assets					
Development costs and other intangible assets	69	23	1	--	16
Concessions, franchises, industrial-property rights and licenses	85	9	--	1	--
Goodwill	365	--	--	--	26
Prepayments on intangibles	1	1	--	(1)	--
	520	**33**	**1**	**--**	**42**
Tangible assets					
Land, equivalent titles, and buildings (incl. buildings on leased land)	937	20	53	28	1
Production plant and machinery	1,621	54	40	35	3
Other plant, factory and office equipment	459	27	22	14	2
Prepayments on tangibles, construction in progress	81	68	--	(81)	--
	3,098	**169**	**115**	**(4)**	**6**
Investment properties	**29**	**--**	**9**	**4**	**--**
Total	**3,647**	**202**	**125**	**--**	**48**

		Amortization/depreciation/write-down							Net values
Currency translation differences	**12/31/2006**	01/01/2006	Additions	Disposals	Book transfers	Write-up	Changes in consolidation group/share-holding	Currency translation differences	**12/31/2006**	**12/31/2006**
--	69	16	5	--	--	--	--	--	21	48
--	85	53	10	2	--	--	--	(1)	60	25
--	365	--	--	--	--	--	--	--	--	365
--	1	--	--	--	--	--	--	--	--	1
--	**520**	**69**	**15**	**2**	**--**	**--**	**--**	**(1)**	**81**	**439**
(13)	937	446	22	12	(1)	--	--	(8)	447	490
(30)	1,621	1,207	84	42	2	--	--	(22)	1,229	392
(3)	459	372	29	30	(3)	--	--	(3)	365	94
(2)	81	--	--	--	--	--	--	--	--	81
(48)	**3,098**	**2,025**	**135**	**84**	**(2)**	**--**	**--**	**(33)**	**2,041**	**1,057**
--	**29**	**12**	**1**	**1**	**2**	**--**	**--**	**--**	**14**	**15**
(48)	**3,647**	**2,106**	**151**	**87**	**--**	**--**	**--**	**(34)**	**2,136**	**1,511**
Currency translation differences	**12/31/2007**	01/01/2007	Additions	Disposals	Book transfers	Write-up	Changes in consolidation group/share-holding	Currency translation differences	**12/31/2007**	**12/31/2007**
--	107	21	19	--	--	--	--	--	40	67
(1)	94	60	10	--	--	--	--	(1)	69	25
--	391	--	--	--	--	--	--	--	--	391
--	1	--	--	--	--	--	--	--	--	1
(1)	**593**	**81**	**29**	**--**	**--**	**--**	**--**	**(1)**	**109**	**484**
(7)	926	447	20	23	(3)	--	--	(4)	437	489
(23)	1,650	1,229	86	37	1	--	1	(17)	1,263	387
--	480	365	32	21	--	--	1	1	378	102
--	68	--	--	--	--	--	--	--	--	68
(30)	**3,124**	**2,041**	**138**	**81**	**(2)**	**--**	**2**	**(20)**	**2,078**	**1,046**
--	**24**	**14**	**1**	**6**	**2**	**--**	**--**	**(1)**	**10**	**14**
(31)	**3,741**	**2,136**	**168**	**87**	**--**	**--**	**2**	**(22)**	**2,197**	**1,544**

Notes (Group)
Accounting principles

(1) General The consolidated financial statements have been prepared in due accordance with the regulations of Art. 315a(1) German Commercial Code ("HGB") and hence with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). A groupwide accounting guideline binding on all companies included in the consolidated financial statements ensures that all current rules and principles are consistently applied and interpreted.

The following new or revised IASB Standards and Interpretations have been applied in 2007 for the first time. The transitional provisions have been duly complied with.

IFRS 7	*Financial Instruments: Disclosures*
IAS 1 amendment	*Presentation of Financial Statements (capital details)*
IFRIC 7	*Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies*
IFRIC 8	*Scope of IFRS 2*
IFRIC 9	*Reassessment of Embedded Derivatives*
IFRIC 10	*Interim Financial Reporting and Impairment*
IFRIC 11	*IFRS 2—Group and Treasury Share Transactions (voluntary early application)*

Applying IFRS 7 and the amended IAS 1 has resulted in a wider scope of disclosures in the notes regarding financial instruments and capital management. The Interpretations initially applied have no material impact on the consolidated financial statements.

Application of IFRIC 11 is obligatory for fiscal years commencing on or after March 1, 2007. The early application of this Interpretation has no material impact on the consolidated financial statements.

The EU-adopted IFRS 8 supersedes IAS 14, Segment Reporting, and generally requires application for fiscal years commencing on or after January 1, 2009, but earlier application is encouraged. The Group has elected not to apply IFRS 8 early and presently assumes that the application of this Standard will not materially affect the presentation of the consolidated financial statements.

The following IASB Standards and Interpretations have not yet been adopted by the EU:

IAS 1 amendment	*Presentation of Financial Statements (statement of changes in comprehensive income, SOCCI)*
IAS 23 amendment	*Borrowing Costs*
IFRIC 12	*Service Concession Arrangements*
IFRIC 13	*Customer Loyalty Programs*
IFRIC 14	*IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

Once adopted by the EU, application of the amended Standards and new Interpretations is obligatory as from fiscal 2009 and 2008, respectively. The IAS 1 amendments largely refer to the presentation of OCI changes not originating from transactions with stockholders. The amended IAS 23 requires borrowing costs to be capitalized for assets which are manufactured over a longer period of time. This requirement will entail a change in the Rheinmetall Group's accounting and valuation methods since the cost of debt previously had to be expensed. Within the Group, the revised Standard will particularly impact on the accounting for manufacturing/construction contracts but are not assessed to be material. No material effects are expected to result from the new Interpretations either.

The consolidated financial statements are presented in euro (€). Unless otherwise stated, amounts are throughout indicated in € million (including prior-year comparatives). Non-rounded amounts may differ. The consolidated income statement has been prepared in the total-cost format.

The presentation and/or classification of certain balance sheet lines and related notes were changed when IFRS 7 was initially applied and where transparency required so. The items specified below are affected, the prior-year comparatives having been restated accordingly.

The prepayments made in connection with orders or contracts, previously included in the other current receivables and assets, are shown within inventories (prior-year data adjusted by €24 million each). Prorated costs from work invoiced for manufacturing contracts (totaling €52 million in 2006), previously offset as adjustment against inventories, are now shown within prepayments received where their prepayment nature prevails (€20 million reclassified in 2006); where not, they are accrued as contract-related costs (€32 million reclassified in 2006). PoC receivables are now reported as trade receivables. The prior-year disclosure under other current receivables and assets was adjusted accordingly (by €204 million). Obligations for yet unbilled costs or purchase invoices outstanding are shown as trade payables, the prior-year disclosure under sundry liabilities was adjusted by €45 million.

Moreover, the breakdown of financial and other receivables and assets was changed to allow for their allocation (or otherwise) to financial instruments. The 2006 financial assets increased by €30 million (including €1 million noncurrent) while the other receivables and assets shrank by €30 million.

The disclosure of PoC receivables and payables includes invoices under milestone agreements.

Being part of the other accruals, the risks from contractual penalties, impending losses and prorated costs from contracts billed are subsumed in the accruals movement analysis as contract-related costs.

The external sales proratable to the other companies (€3 million in 2006) and exclusively generated from leases and insurance premiums charged are assigned to other operating income.

The fiscal year of Rheinmetall AG and its consolidated subsidiaries equals the calendar year. Rheinmetall AG (Local Court of Registration: Düsseldorf, Commercial Register no. HRB 39401) has its registered office in Düsseldorf at Rheinmetall Platz 1.

Notes (Group)
Accounting principles

Based on the provisions of Arts. 264(3) and 264b HGB governing companies and trading partnerships, respectively, the following German enterprises have elected not to disclose their financial statements 2007:

Rheinmetall Berlin Verwaltungsgesellschaft mbH
Rheinmetall Verwaltungsgesellschaft mbH
Rheinmetall Industrie Ausrüstungen GmbH
Rheinmetall Industrietechnik GmbH
Eurometaal Holding Deutschland GmbH
MEG Marine Electronics Holding GmbH
Rheinmetall Versicherungsdienst GmbH
Rheinmetall Immobiliengesellschaft mbH
Rheinmetall Maschinenbau GmbH
Rheinmetall Bürosysteme GmbH
EMG EuroMarine Electronics GmbH
SUPRENUM Gesellschaft für numerische Superrechner mbH
Kolbenschmidt Pierburg AG
Pierburg GmbH
KS Kolbenschmidt GmbH
KS Gleitlager GmbH
KS ATAG GmbH
KS Aluminium-Technologie AG
KS ATAG Bearbeitungsgesellschaft mbH
Werkzeugbau Walldürn GmbH
MS Motor Service International GmbH
MS Motor Service Deutschland GmbH
GVN Grundstücksverwaltung Neckarsulm GmbH & Co. KG
KS Grundstücksverwaltungs GmbH & Co. KG
Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin
GVG Grundstücksverwaltung Gleitlager GmbH & Co. KG
Pierburg Pump Technology GmbH
Rheinmetall Waffe Munition GmbH
Rheinmetall Defence Electronics GmbH
Rheinmetall Technical Publications GmbH
Rheinmetall Landsysteme GmbH
Oerlikon Contraves GmbH

Since Rheinmetall’s consolidated financial statements have an exempting effect under the terms of Art. 291(2) HGB, Kolbenschmidt Pierburg AG refrains from preparing its own consolidated financial statements.

(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 derecognized when control is transferred. Associated affiliates (i.e., companies in which a stake between 20 and 49 percent is owned and over which a controlling influence is exercised) and joint ventures are stated at equity.

Consolidation group: companies included

	12/31/2006	Additions	Disposals	**12/31/2007**
Fully consolidated companies				
Germany	45	2	(3)	44
abroad	47	4	(3)	48
	92	**6**	**(6)**	**92**
Investees carried at equity				
Germany	7	5	--	12
abroad	9	--	--	9
	16	**5**	**--**	**21**

The newly added fully consolidated subsidiaries in 2007 refer to three acquirees and three newly organized enterprises (including two abroad in each case). Three companies were transferred to other group companies by either merger or accrual, another two were liquidated, and one disposed of.

In the year under review, prices totaling €58 million were agreed upon for the acquisition of new or additional shares (up from €16 million). In an asset deal in April 2007, the DANA pump business was acquired by Pierburg México S.A. de C.V. and Pierburg Ltd. at a purchase price of €1 million.

By acquiring a 51-percent stake in Bonn-based Chempro GmbH in April 2007, Rheinmetall accessed the development and manufacture of highly complex protective systems for military vehicles. The purchase price amounted to €25 million, its allocation resulting in goodwill of €11 million.

In July 2007, all of the stock in Joma Holding AG (including Zaugg Elektronik AG, its operating subsidiary), both based in Lohn-Ammannsegg, Switzerland, was acquired at a purchase price of €6 million. Goodwill was capitalized at €1 million. Through this takeover, the reliance on external suppliers is downscaled while new marketing opportunities are opened up. After the acquisition, this operating subsidiary was merged into its parent, Joma Holding AG, meantime renamed RWM Zaugg AG, Lohn-Ammannsegg, Switzerland.

Notes (Group)
Accounting principles

The assets and liabilities acquired from Chempro GmbH and Zaugg Elektronik AG are stated at fair value in the balance sheet and break down as follows:

€ million

	Pre-acquisition book values	Adjustments	Fair values
Goodwill	--	12	12
Other intangible assets	--	17	17
Tangible assets	2	1	3
Inventories	9	--	9
Cash and cash equivalents	8	--	8
Other current assets	22	--	22
Current financial liabilities	1	--	1
Other current liabilities	22	--	22
Other noncurrent liabilities	--	7	7

The fair values of intangible assets had the greatest impact on purchase price allocation and cover mainly technology and know-how, besides customer relations. Chempro GmbH and RWM Zaugg AG together contributed €7 million to the Group's EBIT.

Assuming the shareholdings had been acquired as of January 1, 2007, the Group's sales would have risen to €4,040 million, and its EBIT by €2 million. These statements are for comparative purposes only and give no indication of future trends.

The minority interests in Kolbenschmidt Pierburg AG were taken over by squeeze-out at a price of €27 million (including purchase incidentals), with the result that Kolbenschmidt Pierburg AG is now fully owned by the Rheinmetall Group.

The shares in Ostfildern-based telerob Gesellschaft für Fernhantierungstechnik mbH were sold in September 2007. Major items of the net assets disposed of include goodwill (€1 million), inventories (€4 million), other current assets (€3 million), other current liabilities (€5 million), and other noncurrent liabilities (€1 million). The purchase price of €13 million (net after the costs to sell) was fully paid in cash.

Subsequent to the balance sheet date, a share deal was signed in February 2008 to acquire all of the shares in Stork PWV B.V., Amsterdam, Netherlands, but is still subject to the satisfaction of certain conditions precedent stipulated and to official antitrust approval, as is an agreement (also executed in February 2008) to take over a 51-percent stake in Pretoria, South Africa, based Denel Munitions Pty. Ltd.

All major consolidated subsidiaries and all significant investees stated at equity are listed separately after these notes to Rheinmetall's consolidated financial statements. A comprehensive listing of the shareholdings of Rheinmetall AG, together with the financial statements and management report, will be published in the digital version of the German Federal Gazette and included in the new companies register website.

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

Subsidiaries included for the first time are consolidated according to the purchase method (involving full revaluation) by contrasting the cost of shares acquired against the subsidiaries' prorated equity revalued as of the date of change of control. 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.

When additional shares in already fully consolidated subsidiaries are acquired, the difference between purchase price and minority interests is recognized as goodwill.

Within the Rheinmetall Group, the value of goodwill is tested once annually for, and during the year if signs hint at, impairment by comparing the book value to the recoverable amount, the latter generally 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. The impairment loss is then charged as write-down at the difference between book value and recoverable amount. A cash-generating unit's value in use is calculated according to the DCF method, discounting future cash flows over the medium-term corporate planning period. In the Rheinmetall Group, the corporate plan is prepared on the basis of 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 planned engine programs of carmakers, specific customer commitments to individual projects, as well as on Automotive-specific adjustments to allow for planned product innovations and cost savings.

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 NATO, duly allowing for new-market access and cost-paring programs.

The discount rate applied is the current WACC of 9.6 percent (up from 8.9). For the period after the last planning year, the following growth allowance is deducted from the risk-specific pretax discount rate:
Automotive: 0.0 percent (down from 0.5)
Defence: 1.0 percent (unchanged)

Notes (Group)
Accounting principles

Neither the discount rate increase by 0.5 percentage points nor the growth allowance change to 0.0 percent have impaired goodwill. Goodwill impairment losses are immediately recognized as write-down in the corresponding income statement line; any write-up upon future value rebound is, however, prohibited.

Minority interests in the consolidated 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 related profits or losses, are disclosed on acquisition through the prorated recognition at fair value of minority interests.

Expenses, losses, income and gains from intragroup transactions, as well as intercompany receivables/payables are all mutually offset. Unless allocable to goodwill, taxes are deferred for all temporary differences from the consolidation of receivables/payables, income/expenses, and the elimination of intercompany profits/losses.

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

To determine the goodwill (if any) of investees, principles analogous to full consolidation are adopted, capitalized goodwill being mirrored in the investment book value. Consolidation transactions substantially conform with the principles described above for fully consolidated subsidiaries.

(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 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. 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 The key accounting and valuation methods applied on the basis of the groupwide uniform accounting guideline to Rheinmetall AG’s consolidated financial statements are described below.

Cost Intangible and tangible assets as well as investment properties and inventories are stated at (purchase or production) cost.

Purchase cost includes the purchase price and all direct purchase incidentals.

The production cost of internally made assets from which future economic benefits are likely to flow to the Group and whose value can be reliably determined, includes the costs directly allocable to the production or conversion process, as well as reasonable portions of production-related overheads, the latter comprising, inter alia, indirect materials and indirect labor, as well as production-related depreciation and social security expenses, all based on normal workloads. Financing or borrowing costs are not capitalized as part of cost.

Subsidies and grants Public subsidies and customer grants or allowances which by their nature are considered investment grants are directly offset against the capital expenditures, whereas any grants or allowances for expenses for purposes other than investing activities are deferred as income and released to the income statement when the related expenses are incurred. Where the effect of interest from discounting is material, long-term deferred income is carried at the settlement amount discounted as of the balance sheet.

Impairment of assets Where certain signs indicate that the value of an intangible or tangible asset may be impaired, and if the recoverable amount is below amortized or depreciated cost, write-down is charged. When the reasons for write-down have ceased to exist, the asset is written up to an amount not exceeding its amortized or depreciated cost excluding write-down.

For goodwill impairment testing, see Note (3), *Consolidation principles*.

Intangible assets Intangible assets are capitalized at cost. Research costs are always expensed. Development costs are not capitalized unless a newly developed product or process can be clearly defined, technologically realized and used either internally or is destined for marketing, and if there is reasonable assurance that its costs will be recovered by future cash inflows. Any other development costs are immediately expensed.

Finite-lived intangible assets are amortized by straight-line charges from the date of first use over their economic lives.

The following unchanged useful lives underlie amortization:

	Years
Concessions, franchises, and industrial property rights	3–15
Development costs	5–7
Customer relations	5
Technology	10–25

Goodwill is not amortized but its value tested once annually, or whenever deemed appropriate, for impairment.

Notes (Group)
Accounting principles

Tangible assets Tangible assets are carried at depreciated cost less any write-down. Tangible assets (if finite-lived) are 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 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

Essential plots of land owned for business purposes are stated according to the revaluation method at fair value, which regularly equals market value. Generally accepted valuation techniques are used to determine fair market values, which are in most cases based on the expert reports of an independent appraiser (updated as of December 31, 2005).

Capital leases 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.

Investment properties These are properties held for investment, i.e., to earn rental income or benefit from long-term capital appreciation, and not for use in production or administration.

Investment properties (unless land) are carried at depreciated cost, less accumulated write-down (if any). The fair market value of investment properties, determined according to generally accepted valuation techniques and substantially based on values indicated by an independent appraiser (updated as of December 31, 2005), is stated in Note (8).

Financial assets Securities belong throughout in the category *available for sale* and are therefore carried at fair value. Where such fair market value is not reliably determinable, the assets are carried at amortized cost. Gains and losses, while unrealized, are shown as OCI from statement at fair value and other remeasurement but, upon financial-asset disposal, are recognized in net income. However, if and when substantiated evidence hints at a monetary asset's impairment, even unrealized losses are recognized in the income statement.

Initial measurement is based on the value at settlement date.

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.

Receivables are stated at amortized cost. While adequate allowances provide for bad debts and doubtful accounts, nonpayment or other default risks are insignificant, given Rheinmetall's customer mix. Receivables sold under an ABS program are offset against trade receivables and, at the amount of the continuing involvement (i.e., the risk retained), shown as both *other current receivables* and *other current liabilities*.

Inventories and prepayments received Inventories are recognized at cost, which as a rule equals average prices. LIFO, FIFO or similar inventory-pricing methods are not used. 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 the balance sheet date is below their carrying amount, such inventories are written down to NRV. The write-down either raises the cost of materials (raw materials and supplies) or reduces the net inventory level of finished products and work in process. If the NRV of inventories previously written down rebounds, the ensuing write-up is routinely offset against cost of materials (raw materials and supplies) or shown as increase in inventories of finished products and 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 PoC, is shown as PoC receivable 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. If the net result from a PoC contract cannot be reliably estimated, expected revenue is recognized only at the amount of contract costs actually incurred. 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. Milestone payments or other prepayments received are directly offset against the PoC receivables up to a ceiling that corresponds to the contract's actual PoC, any sums received in excess being recognized as prepayments received.

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

Notes (Group)
Accounting principles

Deferred taxes Taxes are deferred for the temporary differences between the values of assets and liabilities in the IFRS-based 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 announced in each country at the balance sheet date.

A rate of 40 percent is applied to calculate German deferred taxes (corporate income tax, solidarity surtax thereon and municipal trade income tax). Due to the German Corporate Taxation Reform Act 2008, this rate will shrink to an overall 30 percent as from 2008 and has already been used to compute the deferred tax assets and liabilities of German companies. Deferred taxation rates outside of Germany range between 18 and 41 percent.

No deferred tax liabilities for temporary differences of shares in subsidiaries and associated affiliates were recognized since Rheinmetall can control the reversal of such differences and the reversal is not probable in the foreseeable future.

Accruals Accruals for pensions and similar obligations are determined for defined benefit plans 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 fair value of any existing pension plan assets is deducted from pension accruals. Any excess of plan assets over the DBO volume (a so-called defined benefit asset) is not recognized unless Rheinmetall can actually utilize or realize it.

Differences between actuarial assumptions as well as actual trends of the underlying parameters and the calculation of fair value of plan assets give rise to actuarial gains or losses which, if outside a 10-percent corridor of the higher of the DBO's present value or the plan assets' fair value, are added to the accrual (and recognized in the income statement) over the average residual service years of employees. 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 provide for all identifiable legal and constructive commitments and obligations to third parties if based on past transactions or events and if likely to result in an outflow of resources (which can be reliably estimated) embodying economic benefits. Noncurrent accruals are shown, if the effect of discounting is significant, at the settlement amount discounted as of the balance sheet date. The settlement amount also accounts for identifiable future cost increases.

Liabilities 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.

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 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 The Rheinmetall Group uses financial derivatives to hedge future fair values and cash flows against currency, interest rate and commodity price risks; financial derivatives are used solely to hedge current underlyings or forecasted transactions.

Pursuant to IAS 39, *Financial Instruments: Recognition and Measurement*, 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 *other assets* or *other liabilities*, respectively.

Fair value changes of financial derivatives are generally recognized immediately in net income unless an effective hedge exists that meets the criteria of IAS 39. If the derivative is used in a cash flow hedge (CFH) to effectively hedge expected future cash inflows/outflows, changes in the financial derivative's fair value are recognized in, and only in, OCI. 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 the income statement.

Estimates Preparing the consolidated financial statements requires certain assumptions and estimates which impact on the application of accounting principles within the Group and the disclosure of assets and liabilities, income and expenses. Such assumptions and estimates mainly refer to the measurement of pension provisions/accruals (determining the underlying parameters) and the discount rate used in goodwill impairment testing.

These assumptions and estimates are based on the latest conditions and findings and, moreover, are regularly reviewed. If the underlying assumptions develop differently, the actual figures may differ from such estimates. Such differences, if impacting on the accounting, are recognized in the period of change where affecting this period only. Changes are duly accounted for in the period of change and future periods if the change affects both the current and future periods.

Notes (Group)
Notes to the consolidated balance sheet

(6) Intangible assets In the year under review, non-contracted R&D expenses of €179 million were incurred (up from €169 million). Thereof, development costs of €23 million met the capitalization criteria according to IFRS (up from €18 million).

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

€ million

	2006	2007
Research costs and noncapitalized development costs	151	156
Amortization of capitalized development costs	5	17
Total R&D costs expensed	**156**	**173**

Breakdown of capitalized goodwill:

€ million

	12/31/2006	12/31/2007
Automotive sector	154	169
Defence sector	211	222
	365	**391**

Unchanged, the largest goodwill assigned to a single company is the €73 million allocable to Oerlikon Contraves AG, Zurich, Switzerland, a Defence company.

The write-down of intangible assets came to €10 million (up from nil), including €9 million charged to development costs.

(7) Tangible assets The total disclosed as depreciation in 2006 did not comprise any write-down, while in the year under review, it included write-down of €3 million (charged to production plant and machinery, and other plant, factory and office equipment).

In accordance with the revaluation method of IAS 16, essential plots of land are stated at fair value, which generally equals their market values. The fair value of such land, carried at €194 million (down from €202 million), includes step-up of €98 million (down from €105 million). Regarding the movement of the revaluation reserve, see the comments on total equity in Note (15).

The disposal of €26 million of tangible assets (up from €23 million) is restricted by land charges, similar encumbrances and the assignment as security. Moreover, standard commercial liens totaling €39 million (down from €42 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.

Production plant and machinery of €4 million (down from €5 million) have been capitalized under leases.

As a rule, such leases include a purchase option. The remaining lease terms vary between 1 and 5 years (down from 1–6 years). Depending on market conditions and contracting date, the interest rate underlying capital leases is an unchanged 6.5 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 liabilities, are shown in the table below:

€ million

	2006				2007			
	2007	2008–2011	after 2011	Total	2008	2009–2012	after 2012	Total
Lease payments	2	5	--	7	2	3	--	5
Discount	--	(1)	--	(1)	--	--	--	--
Present values	**2**	**4**	**--**	**6**	**2**	**3**	**--**	**5**

The purchasing obligation from firm capital expenditure contracts totals €25 million (up from €23 million).

(8) Investment properties The investment properties have a total fair value of €27 million (down from €29 million); in 35 percent of all cases (down from 40), the individual values were determined by internal experts, largely by updating external appraisal reports. In the year under review, rental income of €1 million (down from €6 million) was earned, contrasting with direct operating expenses of €1 million (down from €2 million).

(9) Investees carried at equity The proratable assets, liabilities, income and expenses of major joint ventures and associated affiliates break down as follows:

Joint ventures *€ million*

		2006	2007
Assets	(Dec. 31)	96	140
thereof noncurrent		*23*	*24*
Equity	(Dec. 31)	29	30
Debt	(Dec. 31)	67	110
thereof noncurrent		*3*	*4*
Income		85	143
Expenses		83	141
Net income		2	2

Notes (Group)
Notes to the consolidated balance sheet

Associated affiliates *€ million*

		2006	2007
Assets	(Dec. 31)	36	45
Equity	(Dec. 31)	13	18
Debt	(Dec. 31)	23	27
Net sales		51	62
Net income		3	5

Analysis of investees carried at equity *€ million*

2006	**Book value 1/1/ 2006**	Addition	Change not affecting IS	Prorated net profit	Dividend payment	**Book value 12/31/ 2006**
Joint ventures	32	2	--	2	(1)	35
Associated affiliates	32	--	--	3	(2)	33
	64	**2**	**--**	**5**	**(3)**	**68**

2007	**Book value 1/1/ 2007**	Addition	Change not affecting IS	Prorated net profit	Dividend payment	**Book value 12/31/ 2007**
Joint ventures	35	--	1	2	(1)	37
Associated affiliates	33	10	--	5	(1)	47
	68	**10**	**1**	**7**	**(2)**	**84**

(10) Inventories

€ million

	12/31/2006	12/31/2007
Raw materials and supplies	210	246
Work in process	373	330
Finished products	72	75
Merchandise	43	48
Prepayments made	59	27
	757	**726**
Less prepayments received	(54)	(24)
	703	**702**

The book value of inventories stated at the lower NRV totals €54 million (up from €44 million). Write-down was charged in fiscal 2007 at €4 million (down from €5 million). In the year under review, inventories previously written down were written up at an unchanged €0 million as NRV had risen. Unchanged, inventories do not collateralize any liabilities.

(11) Trade receivables

€ million

	12/31/2006	12/31/2007
Trade receivables	499	546
thereof with a remaining term >1 year	*12*	*9*
thereof from joint ventures and associated affiliates	*8*	*17*
Percentage of completion receivables	204	233
	703	**779**

Breakdown of percentage of completion receivables:

€ million

	12/31/2006	12/31/2007
Production cost to date	1,961	2,168
plus profit margin/(less losses)	472	478
	2,433	**2,646**
Billed on account/as milestone	(2,229)	(2,413)
Percentage of completion receivables	**204**	**233**

Percentage of completion payables are included in the sundry other liabilities and break down as follows:

€ million

	12/31/2006	12/31/2007
Production cost to date	12	55
Losses according to percentage of completion	(2)	(5)
Anticipated losses	(2)	(2)
	8	**48**
Billed on account/as milestone	(10)	(50)
Percentage of completion payables	**2**	**2**

The prorated revenue recognized in net sales for 2007 totaled €795 million (up from €671 million).

Notes (Group)
Notes to the consolidated balance sheet

(12) Other receivables and assets

€ million

	12/31/2006	thereof current	thereof noncurrent	12/31/2007	thereof current	thereof noncurrent
Non-income tax assets	21	20	1	23	22	1
Prepayments made	1	1	--	3	3	--
Prepaid expenses and deferred charges	10	9	1	10	8	2
Sundry assets	35	34	1	37	37	--
	67	**64**	**3**	**73**	**70**	**3**

(13) Other financial assets

€ million

	12/31/2006			12/31/2007		
	Total	thereof current	thereof noncurrent	**Total**	thereof current	thereof noncurrent
Receivables						
Purchase prices receivables	26	26	--	3	3	--
Loans	10	5	5	11	3	8
Other	15	15	--	10	9	1
FI available for sale						
Securities	7	3	4	3	3	--
FI held for trading						
Financial derivatives (no hedge)	4	4	--	8	8	--
Financial derivatives in hedges	6	5	1	13	12	1
	68	**58**	**10**	**48**	**38**	**10**

The securities of €3 million (down from €7 million) have been stated at fair value. The purchase prices receivables refer to the transfer of shares and the conveyance of real estate. The loans of €11 million (up from €10 million) are carried at amortized cost in accordance with IAS 39.

(14) Cash & cash equivalents

€ million

	12/31/2006	12/31/2007
Cash on hand and in bank (incl. checks)	197	163

The disposal of €0.450 million of cash & cash equivalents is restricted (up from nil). The term “cash & cash equivalents” covers the same assets in balance sheet and cash flow statement.

(15) Total equity Rheinmetall AG's capital stock amounts to an unchanged €92.16 million and is divided into 36 million shares of common stock.

The caption *all other reserves* comprises earnings retained by the Rheinmetall Group at €579 million (up from €488 million), as well as the accumulated other comprehensive income (OCI) which breaks down into unrealized losses of €43 million from currency translation (up from €37 million) and unrealized gains of €79 million from the statement at fair value and other remeasurement (up from €65 million).

A breakdown and analysis of OCI from the statement at fair value and other remeasurement are shown below:

€ million

	Land revaluation reserve	Hedge reserve	OCI from statement at FV and other remeasurement
Jan. 1, 2006	**64**	**2**	**66**
Change in fair value	(1)	2	1
Deferred taxes	--	(2)	(2)
Dec. 31, 2006/Jan. 1, 2007	**63**	**2**	**65**
Change in fair value	--	5	5
Disposals/book transfers	(4)	2	(2)
Tax rate change	11	0	11
Dec. 31, 2007	**70**	**9**	**79**

Breakdown of the land revaluation reserve (recognized for essential land capitalized within tangible assets):

€ million

	12/31/2006	**12/31/2007**
Step-up	105	98
Deferred taxes	(42)	(28)
	63	**70**

Capital management Rheinmetall's capital management aims at establishing the best possible equity-debt ratio.

In line with the IFRS definition, Rheinmetall's total equity comprises minority interests, too, since these are at the Group's disposal.

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

Notes (Group)
Notes to the consolidated balance sheet

Breakdown of closing equity:

€ million

	2006	2007	Change
Stockholders' equity	894	1,014	120
Minority interests	43	43	--
	937	**1,057**	**120**
Equity ratio in %	28	31	

Breakdown of changes in equity:

€ million

	2006	2007
Dividend payout	(35)	(39)
Net income	123	150
Currency translation differences	(21)	(7)
Change in treasury stock	(8)	(4)
Remaining accumulated OCI	3	20
	62	**120**

By resolution of the annual stockholders' meeting on May 9, 2006, the Executive Board has been authorized, after first obtaining approval from the Supervisory Board, to increase on or before May 8, 2011, Rheinmetall AG's capital stock by issuing once or several times new no-par shares in return for contributions in cash and/or in kind, up to an aggregate €18.432 million (authorized capital). The new shares may also be issued to employees of Rheinmetall AG or any subsidiary it controls. The Company has not exercised this authority to date.

The authority to repurchase treasury shares equivalent to 10 percent of the current capital stock, which was conferred on the Executive Board by resolution of the annual general meeting of May 9, 2006, and renewed by AGM resolution of May 8, 2007, was exercised. As of December 31, 2007, the portfolio of treasury stock amounted to 1,051,417 shares (up from 986,364), repurchased at a total cost of €46 million (up from €42 million), which was deducted from equity in one sum.

Rheinmetall's separate financial statements close the fiscal year with net earnings of €72 million (up from €40 million), €45 million thereof being earmarked for the distribution of a cash dividend (up from €35 million), the balance of €27 million to be transferred to the other reserves (up from €5 million). The proposed cash dividend amounts to €1.30 per share of common stock (up from €1.00).

The minority interests mainly refer to the Automotive sector at €4 million (down from €18 million), and to Defence at €39 million (up from €25 million).

(16) Accruals for pensions and similar obligations The company pension systems consist 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 €60 million (up from €58 million) was paid to DCPs, specifically the Statutory Social Security Insurance in Germany.

Under its defined benefit plans, Rheinmetall is obligated to meet its confirmed benefit obligations to active and former employees.

Pension accruals provide for obligations under vested rights and current pensions payable to eligible active and former employees 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 pensionable pay. Moreover, at the German subsidiaries, a performance-related pension obligation has been 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 following actuarial parameters have been assumed:

Parameters %

	12/31/2006			12/31/2007		
	Germany	USA	Switzerland	Germany	USA	Switzerland
Discount rate	4.75	5.72	3.25	5.50	6.15	3.25
Pay rise (general)	2.75	4.00	1.50	2.75	4.00	1.50
Pay raises (fixed sums)	1.25	--	--	1.25	--	--
Pension uptrend	1.25	--	--	1.25	--	--
Expected return on plan assets	--	8.50	4.25	--	8.50	4.25
Health care expense rise	--	5.0–11.0	--	--	6.0–11.0	--

The non-German DBO primarily refer to benefit obligations incurred by Swiss and US subsidiaries, most of which are plan-funded. The Swiss plan assets have been carved out as an independent Pension Fund and benefit exclusively eligible pensioners, any flowback of income or assets to the contributing trustor being irreversibly blocked.

Reconciliation and analysis of pension accruals:

€ million

	2006	2007
Balance at January 1	**514**	**519**
Pension payments	(28)	(31)
Employer contributions to plans	(8)	(10)
Pension expense	50	45
Currency translation differences/other	(9)	(1)
Balance at December 31	**519**	**522**

Notes (Group)
Notes to the consolidated balance sheet

Pension accruals *€ million*

	2006			2007		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Analysis of the PV of the DBO						
PV of the DBO at Jan. 1	587	920	**1,507**	547	881	**1,428**
Consolidation group changes	--	--	**--**	0	--	**0**
Currency translation differences	--	(38)	**(38)**	--	(31)	**(31)**
Current service cost	14	9	**23**	12	7	**19**
Interest cost	25	31	**56**	25	30	**55**
Employee contributions	--	5	**5**	--	5	**5**
Pension payments	(27)	(38)	**(65)**	(29)	(40)	**(69)**
Effects of plan curtailments/settlements	(1)	(2)	**(3)**	--	--	**--**
Actuarial gains and losses	(51)	1	**(50)**	(49)	(14)	**(63)**
Past service cost/revenue	--	(1)	**(1)**	--	--	**--**
Book transfers	--	(6)	**(6)**	--	--	**--**
PV of the DBO at Dec. 31	**547**	**881**	**1,428**	**506**	**838**	**1,344**
thereof wholly or partly plan-funded	--	*846*	***846***	--	*807*	***807***
thereof internally funded	*547*	*35*	***582***	*506*	*31*	***537***
Analysis of plan assets						
Fair value of plan assets at Jan. 1	--	888	**888**	--	887	**887**
Currency translation differences	--	(35)	**(35)**	--	(30)	**(30)**
Expected return on plan assets	--	40	**40**	--	39	**39**
Employer contributions	--	8	**8**	--	10	**10**
Employee contributions	--	5	**5**	--	5	**5**
Pensions paid by plans	--	(37)	**(37)**	--	(38)	**(38)**
Actuarial gains and losses	--	18	**18**	--	5	**5**
Fair value of plan assets at Dec. 31	**--**	**887**	**887**	**--**	**878**	**878**
Plan-unfunded pension obligations at Dec. 31	**547**	**(6)**	**541**	**506**	**(40)**	**466**
Unrecognized actuarial gains/(losses)	(58)	(23)	**(81)**	(8)	(12)	**(20)**
Unrecognized past service revenue	--	1	**1**	--	--	**--**
DBA effects (IAS 19:58)	--	58	**58**	--	76	**76**
Pension accrual as of Dec. 31	**489**	**30**	**519**	**498**	**24**	**522**

The unrecognized actuarial losses of €20 million (down from €81 million) are largely attributable to previous interest rate adjustments. In the year under review, the plan assets actually returned €44 million (down from €58 million) before the exchange-related (currency translation) losses recognized in equity only.

Plan asset structure:

%

	2006	2007
Equities	23	28
Treasuries and corporates/securities	19	19
Real estate and property investment funds	32	32
Other	26	21
Total	**100**	**100**

Analysis over time of the DBO at PV and the plan assets:

€ million

	12/31/2005	12/31/2006	12/31/2007
Present value of the DBO	1,522	1,428	1,344
Plan assets	903	887	878
Deficient cover	**619**	**541**	**466**

The long-term return is determined by the investment strategy defined for each asset class. The empirical adjustments mainly refer to non-German pension plans, the obligations accounting for 0.4 percent of the present value of the DBO (up from 0.3 percent) and for 0.6 percent of plan assets (down from 2.0).

Breakdown of pension expense:

€ million

	2006			2007		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Service cost	14	9	**23**	12	7	**19**
Actuarial gains and losses	6	2	**8**	1	1	**2**
Past service revenue	--	(2)	**(2)**	--	(1)	**(1)**
Effects of plan settlements/curtailments	(1)	(2)	**(3)**	--	--	**--**
Effects of the asset cap (IAS 19:58)	--	8	**8**	--	9	**9**
Reversed discount of expected pension obligations	25	31	**56**	25	30	**55**
Expected return on plan assets	--	(40)	**(40)**	--	(39)	**(39)**
Total	**44**	**6**	**50**	**38**	**7**	**45**

Notes (Group)
Notes to the consolidated balance sheet

The effects of the asset value cap to be recognized according to IAS 19:58 for pension entitlements in Switzerland, as well as the related amortized actuarial gains and losses, are shown within the net interest result, on a netted basis as economically appropriate and together with the expected return on plan assets and the reversed discount.

The remaining components shown above are part of personnel expenses.

Analysis of defined benefit asset limitation (acc. to IAS 19:58):

€ million

	2006	2007
Balance at Jan. 1	36	58
Currency translation differences	--	(2)
Amortized actuarial gains/losses	14	11
Change in DBA	8	9
Balance at Dec. 31	**58**	**76**

The contributions expected for 2008 will substantially be the same as in 2007.

(17) Other accruals

Analysis of accruals *€ million*

2006	Personnel	Restruc-turing	War-ranties	Identifi-able losses	Contract-related costs	All other	Total
Balance at Jan. 1, 2006	**128**	**46**	**52**	**28**	**129**	**82**	**465**
Utilized	(72)	(20)	(14)	(11)	(55)	(28)	(200)
Released	(6)	(3)	(7)	(3)	(4)	(20)	(43)
Added/provided for	86	20	21	11	33	38	209
Compounded	1	1	1	--	--	--	3
Currency translation differences/other	(1)	5	(1)	(1)	(2)	--	--
Balance at December 31, 2006	**136**	**49**	**52**	**24**	**101**	**72**	**434**
Cash outflows							
short-term (‹1 year)	**104**	**23**	**38**	**16**	**80**	**61**	**322**
long-term	**32**	**26**	**14**	**8**	**21**	**11**	**112**
thereof 1–5 years	28	25	14	8	21	6	102
thereof ›5 years	4	1	--	--	--	5	10

2007	Personnel	Restruc-turing	War-ranties	Identifi-able losses	Contract-related costs	All other	Total
Balance at Jan. 1, 2007	**136**	**49**	**52**	**24**	**101**	**72**	**434**
Utilized	(78)	(10)	(18)	(11	(45)	(29)	(191)
Released	(9)	(3)	(8)	(--)	(6)	(10)	(36)
Added/provided for	87	10	26	10	41	38	212
Compounded	--	--	--	--	--	1	1
Currency translation differences/other	--	--	3	1	(3)	1	2
Balance at December 31, 2007	**136**	**46**	**55**	**24**	**88**	**73**	**422**
Cash outflows							
short-term (‹1 year)	**107**	**13**	**44**	**13**	**83**	**56**	**316**
long-term	**29**	**33**	**11**	**11**	**5**	**17**	**106**
thereof 1–5 years	25	32	11	11	5	16	100
thereof ›5 years	4	1	--	--	--	1	6

The restructuring accruals chiefly cover the measures required for personnel retrenchment (termination indemnities, preretirement part-time work, etc.). The all other accruals provide mainly for €5 million of legal, consulting and audit fees (down from €6 million), €8 million of discounts, allowances and rebates (up from €6 million), and €6 million due to environmental risks (virtually unchanged).

Notes (Group)
Notes to the consolidated balance sheet

(18) Financial liabilities

€ million

	12/31/ 2006	thereof current	thereof noncurrent	12/31/ 2007	thereof current	thereof noncurrent
Bond	324	--	324	324	--	324
Due to banks	34	12	22	36	11	25
Lease payables	6	1	5	5	2	3
Liabilities of real estate companies (SPEs)	31	1	30	30	1	29
Other	7	--	7	4	1	3
	402	**14**	**388**	**399**	**15**	**384**

€26 million of financial debts (up from €23 million) is collateralized by land charges and similar encumbrances, as is another €11 million (virtually unchanged) borrowed to finance the real property owned by consolidated special-purpose entities (SPEs).

The analyses below reflect the terms, and book and fair values, of financial liabilities, the fair values being determined on the basis of interest rates current at the balance sheet date for corresponding maturities/ redemption patterns:

Bond *€ million*

				12/31/2006		12/31/2007	
Interest terms	Rate (%)	Currency (ISO code)	Maturing in	Book value	Fair value	Book value	Fair value
Fixed	3.5	EUR	2010	324	316	324	313

Due to banks *€ million*

				12/31/2006		12/31/2007	
Interest terms	Weighted (%) rate	Currency (ISO code)	Maturing in	Book value	Fair value	Book value	Fair value
Fixed	3.9	EUR	2007	3	3	--	--
Fixed	3.0	USD	2008	1	1	--	--
Fixed	4.6	EUR	2010/2011	--	--	1	1
Fixed	4.9	EUR	2013	2	2	2	2
Fixed	3.7	EUR	2016	5	5	5	5
Fixed	4.4	EUR	2020	8	6	10	9
Fixed	3.7	EUR	2026	6	5	5	5
Variable		BRL	2007/2008	2	2	3	3
Variable		USD	2008	--	--	2	2
Variable		EUR	2007–2011	7	7	8	8
				34	**31**	**36**	**35**

Lease payables *€ million*

Interest terms	Weighted (%) rate	Currency (ISO code)	Maturing in	12/31/2006 Book value	12/31/2006 Fair value	12/31/2007 Book value	12/31/2007 Fair value
Fixed	6.5	EUR	2008	2	3	2	2
Fixed	6.5	EUR	2010–2012	4	4	3	3
				6	**7**	**5**	**5**

Liabilities of real estate companies (SPEs) *€ million*

Interest terms	Weighted (%) rate	Currency (ISO code)	Maturing in	12/31/2006 Book value	12/31/2006 Fair value	12/31/2007 Book value	12/31/2007 Fair value
Fixed	4.9	EUR	2008	20	20	19	19
Variable		EUR	2023	11	11	11	11
				31	**31**	**30**	**30**

Other financial liabilities *€ million*

Interest terms	Weighted (%) rate	Currency (ISO code)	Maturing in	12/31/2006 Book value	12/31/2006 Fair value	12/31/2007 Book value	12/31/2007 Fair value
Fixed	7.5	EUR	2009	3	3	--	--
Variable		EUR	sdry. ≤2017	4	4	4	4
				7	**7**	**4**	**4**

(19) Trade payables

€ million

	12/31/2006	12/31/2007
Trade payables	510	554
thereof to joint ventures and associated affiliates	1	3

The remaining term of trade payables was less than one year, in both 2006 and 2007. The book value of trade payables substantially equals their fair value.

Notes (Group)
Notes to the consolidated balance sheet

(20) Other liabilities

€ million

	12/31/ 2006	thereof current	thereof noncurrent	12/31/ 2007	thereof current	thereof noncurrent
Prepayments received	331	331	--	243	243	--
Sundry	187	178	9	181	169	12
	518	**509**	**9**	**424**	**412**	**12**

€97 million of the prepayments received on orders has a remaining term above one year (down from €146 million). The payables for financial derivatives are stated at fair value, the carrying amount of the remaining liabilities approximates their fair value.

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

€ million

	12/31/ 2006	thereof current	thereof noncurrent	12/31/ 2007	thereof current	thereof noncurrent
Social security	13	12	1	13	11	2
Due to board members and employees	10	10	--	12	12	--
Non-income taxes	37	37	--	29	29	--
Monies in transit from debt collection	79	79	--	81	81	--
Financial derivatives	5	4	1	8	8	--
Deferred income	12	8	4	12	6	6
Miscellaneous	31	28	3	26	22	4
	187	**178**	**9**	**181**	**169**	**12**

Notes (Group)
Notes to the consolidated income statement

(21) Total operating performance

€ million

	2006	2007
Net sales	3,626	4,005
Change in inventories of finished products and WIP	83	(39)
Other work and material capitalized	27	33
	3,736	**3,999**

(22) Other operating income

€ million

	2006	2007
Gains from fixed-asset disposal/divestment	14	27
Income from the release of accruals	43	36
Income from bad-debt allowances reversed	2	2
Income from compensation and refunds	15	3
Sundry rental income	11	9
Income from grants and subsidies	3	2
Income from canteens and ancillary operations	3	2
Income from credit notes for prior years	11	7
Income from prototype and tooling costs refunded	7	5
Income from residue utilization	7	7
Other secondary income	31	36
	147	**136**

(23) Cost of materials

€ million

	2006	2007
Cost of raw materials, supplies, and merchandise purchased	1,768	1,910
Cost of services purchased	183	199
	1,951	**2,109**

Notes (Group)
Notes to the consolidated income statement

(24) Personnel expenses

€ million

	2006	2007
Wages and salaries	834	855
Social security and related employee benefits	118	113
Pension expense	86	84
	1,038	**1,052**

Annual average headcount (FTE) *Employees*

	2006	2007
Automotive	11,968	11,921
Defence	6,794	7,027
Rheinmetall AG/Others	123	120
	18,885	**19,068**

(25) Amortization/depreciation/write-down For the allocation of these charges to intangible/tangible assets and investment properties, see the fixed-asset analysis.

Write-down was charged at €13 million (up from €0 million).

(26) Other operating expenses

€ million

	2006	2007
Losses on fixed-asset disposal	1	1
Exit plans, termination benefits, preretirement part-time work	22	11
Selling expenses	62	73
Maintenance and repair (M&R)	82	81
Promotion and advertising	13	14
Other general administration	142	144
Rents	35	34
Payroll incidentals	23	27
Facility cleaning, security/vigilance	9	9
Outsourced services	9	15
Legal and consultancy fees	24	26
Audit and consultancy fees of external accountants	6	5
Write-down of receivables	3	3
Non-income taxes	11	17
Additional provisions	56	53
All other	32	30
	530	**543**

(27) Net interest expense

€ million

	2006	2007
Other interest and similar income	8	9
Total interest income	**8**	**9**
Interest expense		
from capital leases	(2)	(1)
for pension obligations	(24)	(25)
compounding of noncurrent other accruals	(3)	(2)
other interest and similar expenses	(30)	(38)
Total interest expense	**(59)**	**(66)**
Net interest expense	**(51)**	**(57)**

(28) Net investment income and other financial results

€ million

	2006	2007
Net profit from joint ventures and associated affiliates	5	7
Investment income	**5**	**7**
Net currency/exchange loss	(7)	(3)
Guaranty commissions	(2)	(1)
Net gain from financial derivatives	2	4
Sundry	4	0
Other financial results	**(3)**	**0**
Net investment income and other financial results	**2**	**7**

The joint ventures and associated affiliates serve the expansion of the operating activities of Automotive and Defence.

(29) Income taxes

€ million

	2006	2007
Current income tax expense	35	37
Prior-period income taxes	1	(3)
Deferred taxes	5	29
	41	**63**

Notes (Group)
Notes to the consolidated income statement

The table below reconciles the expected to the recognized actual 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.

€ million

	2006	**2007**
EBT	164	213
Expected income tax expense (tax rate of 40%)	**66**	**85**
Foreign tax rate differentials	(2)	(8)
Effects of loss carryovers and write-down of deferred taxes	(13)	(9)
Reduction of tax expense due to previously unrecognized loss carryovers and temporary differences	(11)	(1)
Tax-exempt income	(5)	(8)
Nondeductible expenses	5	5
Differences due to tax rate changes	--	2
Earlier-period income taxes	1	(3)
Other	--	(2)
Effective tax expense	**41**	**63**
Effective tax rate in %	**25**	**30**

The deferred taxes are allocable to the following balance sheet lines:

€ million

	12/31/2006		**12/31/2007**	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryovers and tax credits	87	--	64	--
Fixed assets	14	93	11	79
Inventories and receivables	21	25	18	35
Pension accruals	29	2	22	2
Other accruals	33	12	24	--
Liabilities	3	7	12	15
Sundry	(5)	2	8	7
	182	**141**	**159**	**138**
Offset	(122)	(122)	(115)	(115)
	60	**19**	**44**	**23**
thereof noncurrent	46	15	36	11
thereof not affecting net income	2	42	1	32

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 €445 million (up from €327 million) which are not utilizable or whose deferred tax assets were adjusted by write-down. Thereof, €297 million (up from €178 million) is allocable to German, another €137 million (down from €138 million) to foreign, loss carryovers and another €11 million to tax credits (virtually unchanged). For the first time in 2007, German tax loss carryovers of €117 million of nonoperating companies are included. The German loss carryovers are not subject to expiration, out of the foreign ones, €74 million (down from €80 million) is not either. Most of the foreign loss carryovers subject to expiration can be utilized for more than 9 years (virtually unchanged). The adjustment/write-down of deferred tax assets changed in 2007 by €2 million (up from a €0 million). Outside of Germany, companies have capitalized deferred tax assets of €27 million (up from €7 million) as they have been incurring ongoing losses due to expanded/realigned business operations.

A negative €29 million of the deferred taxes recognized in equity only (down from €42 million) is allocable to land revaluation, another €2 million to hedges (virtually unchanged).

In addition, €2 million of income tax assets is deemed noncurrent for the purposes of Art. 37(4) German Corporation Income Tax Act ("KStG").

(30) Minority interests Minority interests in profit came to €6 million (up from €3 million), those in loss to €1 million (up from €0 million).

(31) 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, 2007 nor 2006, 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. The weighted average number of shares accounts for the repurchased shares of treasury stock.

	2006	2007
Net earnings after minority interests *€ million*	120	145
Number of common shares *million*	35.08	34.99
Earnings per common share	**€3.41**	**€4.15**

(32) Adjusted EBIT EBIT after adjustment for nonrecurring expenses, losses, income and gains relating to equity interests, real estate and restructuring programs breaks down as follows:

€ million

	2006	2007
Accounting EBIT	**215**	**270**
Nonrecurring expenses, losses, income, gains related to		
shareholdings	(7)	(12)
real estate	(6)	(6)
restructuring	20	17
Adjusted EBIT	**222**	**269**

Notes (Group)
Note to the cash flow statement

(33) Cash flow statement For improved presentation of the financial position, the cash inflow from, and outflow for, interest have been reassigned to financing activities, the prior-year data having been adjusted accordingly.

The net cash used in operating activities included income taxes paid at €42 million (down from €43 million). The noncash expenses basically reflect deferred taxes.

The cash outflow for acquiring consolidated subsidiaries totaled €51 million (up from €16 million) and substantially concerned the acquisition of Chempro GmbH, RWM Zaugg AG, and (by squeeze-out) the remaining shares in Kolbenschmidt Pierburg AG. Another cash outflow was produced by the acquisition of the DANA pump operations by Pierburg México S.A. de C.V. and Pierburg Ltd.

The cash inflow from the disposal of consolidated subsidiaries totaled €28 million (up from €9 million), including €17 million from companies sold in previous years and the divestment of telerob Gesellschaft für Fernhantierungstechnik GmbH. The acquisitions and disposals were substantially settled in cash. For purchase price details, see the explanations in Note (2) to the consolidation group. For more information about the dividends received from joint ventures and associated affiliates, turn to Note (9).

Cash and cash equivalents of €8 million were taken over in the M&A transactions (up from nil) while €1 million in cash and cash equivalents was disposed of in divestments (up from nil).

The net cash used in financing activities mirrors a cash inflow from interest of €8 million (virtually unchanged) and a cash outflow for interest of €38 million (up from €31 million).

Notes (Group)
Note to the segment reports

(34) 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, besides the Group's parent (Rheinmetall AG), intragroup service and other nonsegment companies, plus consolidation transactions.

In the segment report, directly allocable transactions and group-level valuations have been assigned to the appropriate segment.

Intersegment transfers are principally priced as if at arm's length. 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 the cash and cash equivalents of €163 million (down from €197 million) and income taxes of €52 million (down from €72 million), as well as on the liabilities side, equity of €1,057 million (up from €937 million), financial debts of €399 million (down from €402 million) and income taxes of €67 million (down from €69 million).

Segment capital expenditures refer to tangible and intangible assets, investment properties, and goodwill.

Net financial debt reflects financial liabilities less cash and cash equivalents. Intersegment loans are assigned to cash and cash equivalents. Capital employed (CE) is determined as the aggregate sum of total equity, pension accruals, net financial debt, and the goodwill amortization and write-down accumulated in the past.

EBITDA means earnings before interest, taxes, depreciation and amortization. The EBIT margin equals EBIT divided by total segment sales.

Capital expenditures according to management structure reflect the additions to tangible/intangible assets and investment properties. Goodwill or other assets resulting from purchase price allocation are not counted toward capex.

Notes (Group)
Supplementary disclosures

(35) Contingent liabilities As in previous years, the suretyships and guaranties existing in connection with the divestment of former operations mainly include rental loss guaranties and performance bonds in favor of divestees. These divestees regularly and duly perform their obligations and there are no signs of any future enforcement of such guaranties or bonds.

A joint and several liability expiring in 2008 exists for the debts assigned under the split-up in 2003 of Bremen-based STN Atlas Elektronik GmbH, at a non-specifiable amount. No claims under this liability are believed to be asserted.

Furthermore, several performance bonds have been furnished in favor of some nonconsolidated Rheinmetall investees (joint project ventures). In the relationship to third parties, Rheinmetall may also be held liable for the performance of the other joint venturers while in the relationship of the parties inter se, by virtue of certain agreements on liability upon recourse, Rheinmetall is only liable for its own share of products and services. At present, no cash outflows are expected from such bonds.

In the judicial review proceedings pending since 1998, the share exchange ratio determined during the Kolbenschmidt Pierburg merger is examined for fair valuation. On April 12, 2007, the Heilbronn Regional Court dismissed all pending petitions for cash compensation based on an adjusted share exchange ratio. The Court held that the different values determined in the Court-appointed expert's review of the share exchange ratio were inside the generally acceptable bandwidths of enterprise valuation, and that the Court therefore saw no grounds for adjusting the merger-related share exchange ratio through any cash compensation. The Heilbronn Regional Court's decision is not yet res judicata, the counsels for the minority stockholders having lodged an appeal with the Stuttgart Higher Regional Court. No decision by this court of appeal is expected before mid-2008. Kolbenschmidt Pierburg assumes that the Stuttgart Higher Regional Court will endorse the first instance's decision.

(36) Other financial obligations Various financial commitments in line with customary business standards exist under master agreements with suppliers, as well as under contracts for services. For the tangible-asset purchasing obligations for capital expenditure projects, see Note (7).

In the year under review, rents of €34 million (down from €35 million) paid under operating leases were expensed, which also include all rents paid for computer hardware and software.

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

€ million

	2006				2007			
	2007	2008–2011	after 2011	**Total**	2008	2009–2012	after 2012	**Total**
Buildings	15	38	28	**81**	22	61	47	**130**
Other leases	15	32	4	**51**	9	16	0	**25**
	30	**70**	**32**	**132**	**31**	**77**	**47**	**155**

In addition, under an agreement on the divestment of a business segment in earlier years, Rheinmetall committed itself to take over the lease for a partly-let property. The future (unrecognized) accumulated obligations under this commitment totaled €8 million as of year-end 2007 (down from €14 million).

€3 million was earned in the period from subleasing properties leased by Rheinmetall (down from €4 million). The future income expected during the noncancelable lease term totals €9 million (down from €10 million). €11 million has been provided for the accrued lease-out risks (virtually unchanged).

(37) Additional information on financial instruments This note provides a comprehensive summary of the significance of financial instruments (FI) to the Rheinmetall Group, besides making additional FI-related disclosures.

Table 1: Financial assets and liabilities by valuation category acc. to IAS 39:45 *€ million*

	12/31/2006	12/31/2007
Financial assets		
Loans and receivables		
Trade and other receivables	854	803
Cash and cash equivalents	197	163
	1,051	**966**
Financial assets available for sale		
Securities	7	3
Financial assets held for trading		
Derivatives with no hedging relationship	4	8
	1,062	**977**
Financial liabilities		
Financial liabilities at amortized cost	997	1,048
Financial liabilities held for trading		
Derivatives with no hedging relationship	3	3
	1,000	**1,051**

The two tables below additionally deal with capital leases and CFH-related derivatives as these two captions are not covered by the IAS 39:45 valuation categories.

Notes (Group)
Supplementary disclosures

Table 2: Financial instruments at cost or amortized cost and their fair value *€ million*

	12/31/2006		12/31/2007	
	Book value	Fair value	Book value	Fair value
Financial assets stated at cost or amortized cost				
Cash and cash equivalents	197	197	163	163
Trade and other receivables	854	854	803	803
Financial liabilities stated at cost or amortized cost				
Bonds	324	316	324	313
Due to banks	65	63	66	65
Payables under capital leases	6	6	5	5
Other straight financial liabilities	7	7	4	4
Trade payables	465	465	554	554
All other	136	136	100	100

Table 3: Financial instruments at fair value *€ million*

	12/31/2006	12/31/2007
Financial assets at fair value		
Other straight financial assets and securities	7	3
Financial derivatives with no hedging relationship	8	8
Financial derivatives in cash flow hedges (CFHs)	5	13
Financial liabilities at fair value		
Financial derivatives with no hedging relationship	3	3
Financial derivatives in cash flow hedges	2	5

Given mainly the short term to maturity of such instruments, the fair value of cash, cash equivalents, current receivables, trade payables and other financial liabilities substantially equals book value.

Rheinmetall measures noncurrent fixed- or floating-rate receivables with due regard to customer credit standing, specific country risks, and the structure of the financing transaction. Taking this approach, expected collection or default risks are duly allowed for. Non-interest receivables are discounted by applying rates that match their maturity. The current book values of such receivables (less any allowances) will then substantially correspond to their fair values.

The exchange-listed bond issue is marked to the market as of the balance sheet date. The fair value of liabilities to banks and other financial debts, payables under capital leases, as well as of other noncurrent financial liabilities was determined by discounting the associated future cash flows at rates that match the time to maturity of similar debts.

Further balance sheet disclosures

Derecognition of receivables Under an ABS program, the Rheinmetall Group sells trade receivables on a revolving basis up to a maximum volume of €170 million (unchanged). As of December 31, 2007, the principal of receivables sold came to €170 million (virtually unchanged).

According to IAS 39, these sold receivables are derecognized since the residual recourse risks are insignificant for Rheinmetall, an asset and a liability of €3 million each accounting for the maximum continuing involvement.

Collateral furnished Liens of €2 million (down from €6 million) rest on financial assets (securities) to protect employees from insolvency risks in connection with pension systems.

Further income statement disclosures

The other interest income of €9 million (up from €8 million) and other interest expense of €38 million (up from €30 million) largely result from loans and receivables as well as financial liabilities carried at amortized cost.

The net loss on loans and receivables came to €2 million (down from a €1 million net profit) and breaks down as follows:

€ million

	2006	2007
Other financial income and expenses	2	(1)
Write-up	2	2
Write-down and additional allowances	(3)	(3)

Expenses of €1 million (down from €3 million) are allocable to financial liabilities stated at amortized cost and mainly refer to guaranty commissions; they are included in the other financial results.

The net currency/forex loss totaled €3 million (down from €7 million) and was incurred for loans and receivables as well as liabilities carried at amortized cost.

The category *financial assets available for sale* produced a net profit of €1 million (down from €3 million) from the write-down, write-up and disposal of securities. The gain resulting from financial derivatives held for trading totaled €4 million (up from €3 million) and is included in the other financial results.

Notes (Group)
Supplementary disclosures

Financial risk management

Financial market risks The operations and financing transactions of Rheinmetall as an international group are exposed to financial risks, mainly from liquidity, counterparty failure, commodity prices, 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 by taking actions to avoid, contain or limit such risks, including by contracting 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.

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, exclusively with banks whose credit rating ensures that they will meet their related obligations. The most important currency hedges contracted by German companies refer to US dollar, Swiss franc and Swedish krona sales transactions while the foreign companies mostly hedge euro-based purchasing and sales transactions. In certain cases—especially within Automotive—natural hedging options exist, too. These hedges are measured as of the balance sheet date and recognized at fair value. If the underlyings are not yet recognized in the balance sheet (and hence not offsetting the effects of fair value changes) and provided that the hedge accounting criteria are met, the changes in the fair value of hedges which are treated as cash flow hedges are recognized in OCI only.

At December 31, 2007, the notional volume of cash flow hedges (CFHs) totaled €258 million (up from €240 million). In 2007 fair value changes of €11 million (up from €3 million) were recognized in OCI only while €6 million (up from €2 million) was recycled from OCI to the income statement (mainly net sales). There were no ineffective portions of currency hedges in 2007 or 2006.

As of December 31, 2007, OCI from FV remeasurement amounted to €9 million (up from €2 million) after proratable deferred taxes.

No hedge accounting was applied to hedges covering a notional volume of €218 million (down from €235 million) since either automatic offsetting mechanisms existed or the documentation requirements were not satisfied. No fair value hedges existed within the Rheinmetall Group (unchanged).

The table below shows the notional volume, time to maturity and fair value of all currency hedges open at December 31. The fair values at the balance sheet date correspond to FI prices in arm's length transactions.

Currency hedges *€ million*

	Notional volume		Maturing after 1 year		Fair values	
	12/31/2006	12/31/2007	12/31/2006	12/31/2007	12/31/2006	12/31/2007
No hedging relationship	227	216	18	22	(1)	2
Currency forwards	8	2	--	0	--	0
Other	**235**	**218**	**18**	**22**	**(1)**	**2**
Hedging relationship						
Currency forwards	197	254	81	71	4	10
Other	43	4	--	--	--	1
	240	**258**	**81**	**71**	**4**	**11**

What-if analysis If the exchange rates for the euro as functional currency had been 10 percent higher or lower at the closing date, the net financial result would have changed by €3 million (virtually unchanged), and the OCI (before deferred taxes) by €17 million (up from €1 million).

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 and interest rate swaps (including cross-currency interest rate swaps) contain the risks emanating from market rate changes.

Such hedges are contracted centrally by Rheinmetall AG, as well as locally at subsidiary level.

As of December 31, 2007, the interest rate hedges listed in the table 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.

Interest rate hedges *€ million*

	Notional volume		Maturing after 1 year		Fair values	
	12/31/2006	12/31/2007	12/31/2006	12/31/2007	12/31/2006	12/31/2007
Interest rate options	160	160	160	160	1	2
Interest rate swaps	38	36	21	32	1	2
	198	**196**	**181**	**192**	**2**	**4**

Notes (Group)
Supplementary disclosures

What-if analysis If the yield curve had been 100 basis points higher or lower at December 31, the net financial result would have been €3 million higher (down from €4 million) or €3 million lower (up from €2 million), and OCI would not have been affected at all since in 2007 or 2006, virtually none of the interest rate hedges presented a hedging relationship.

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 shifted to customers, albeit with a time lag. Moreover, since 2007 Automotive (where most of these risks exist) has also used financial derivatives for risk management, mainly exchange-traded commodity futures contracted on a financial basis. Hedging strategy and extent of underlyings to be hedged have been specified with binding effect in a corporate guideline, thus ensuring that such derivatives are exclusively used to hedge present underlyings or forecasted transactions in the scope of the sector's primary operating activities. The derivatives are part of cash flow hedges, and the fair value changes in perfect hedges are recognized in OCI only until the underlying materializes or falls due. If hedge effectiveness is less than 100 percent, FV changes are recognized in the income statement but these were marginal in 2007.

In the year under review, a total fair value decrease of €5 million was recognized in OCI only and another €3 million recycled from OCI to the cost of materials.

The fair value of the commodity futures is derived from the value of all contracts at market as of the valuation date and therefore corresponds to the current value of the contract portfolio at year-end.

The notional volume of hedges represents the sum total of all purchase and selling contracts and is shown non-netted.

Commodity price hedges *€ million*

	Notional volume		Maturing after 1 year		Fair values	
	12/31/ 2006	12/31/ 2007	12/31/ 2006	12/31/ 2007	12/31/ 2006	12/31/ 2007
No hedging relationship						
Commodity futures	--	2	--	--	--	0
Hedging relationship						
Commodity futures	--	23	--	--	--	(2)

What-if analysis If the forward price curve had changed by 10 percent, the related OCI would have been €4 million (maximum) lower while the net financial result would not have been affected since at December 31, all open contracts had a hedging relationship.

Default (credit) 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 credit risks are subject to ongoing mapping and monitoring by the operating units which, in line with the concept of local management of specific default risks, take various approaches. Individual assessments (where appropriate, based on current trends, developments and qualitative information) may be used in addition to automated risk management processes.

The default risk from financial derivatives is the potential failure of a counterparty and is therefore capped at 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.

Aged analysis of trade receivables past due *€ million*

	12/31/2006	12/31/2007
Trade receivables unimpaired but past due		
for 30 days or less	67	89
for 180 days or less	18	31
for ›180 days	2	17
	87	137
Impaired	2	7
Neither impaired nor past due	412	404
	501	548
Specific allowances/write-down	(2)	(2)
	499	546

Both at year-end and during the period, the required allowances were insignificant since, thanks to the type of transactions and customer structure, even overdue receivables are generally paid (albeit with a time lag).

As of the balance sheet date, there were no indications that any unimpaired and not overdue receivables of the A/R portfolio would remain unpaid. The book values constitute the maximum risk inherent in capitalized assets. In addition, loans of €2 million (up from €1 million) have been committed to associated affiliates.

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, partly unutilized finance facilities, including besides credit lines granted by banks and other financial institutes on a bilateral or syndicated basis, also a commercial paper (CP) program, an asset-backed securities (ABS) program, and bond issues. For further details of such credit facilities, see the management report.

Notes (Group)
Supplementary disclosures

The table below discloses as of December 31 all contractually agreed payments for recognized financial liabilities, as well as the financial derivatives with negative fair value.

€ million

	12/31/2006			12/31/2007		
	2007	2008–2011	after 2011	2008	2009–2012	after 2012
Bond	11	359	--	11	348	--
Due to banks	16	34	26	14	33	28
Payables under capital leases	2	6	--	2	3	--
Other financial debts	--	3	4	1	2	2
Loan commitments	1	--	--	--	2	--
Financial derivatives payable	3	2	--	3	2	--

The associated cash flow risk is confined to cash outflows.

The Rheinmetall Group's financial resources comprise cash and cash equivalents, financial current assets available for sale, and the cash provided by operating activities. In contrast, the capital requirements cover the redemption of financial debts (principal and interest), capital expenditures, and the funds needed for operating activities.

(38) Stock-based compensation In fiscal 2006 an incentive program was launched whose participants would benefit from an increase in the Rheinmetall Group's shareholder value by receiving a cash compensation and also Rheinmetall shares. For the purposes of this program, shareholder value is deemed to have risen if the adjusted EBT for the preceding three years outstrips the prior 3-year period's. The number of shares granted is determined on the basis of the share price during the five last trading days in February of the succeeding year, in some cases subject to a markdown. After a 3-year qualifying period, beneficiaries can freely dispose of such shares. The expense recognized in 2007 for stock-based compensation totaled €4 million (up from €3 million).

On April 2, 2007, incentive program participants were granted altogether 45,120 shares for fiscal 2006.

(39) Other details of related-party transactions The volume of services provided by or to material related companies mainly originates from project work with joint ventures and associated affiliates and is broken down below:

€ million

	Volume of services rendered		Volume of services utilized		Volume of unpaid items	
	2006	**2007**	**2006**	**2007**	**12/31/ 2006**	**12/31/ 2007**
GIWS Gesellschaft für intelligente Wirksysteme mbH	11	3	--	--	--	2
PSM Projekt System & Management GmbH	21	36	--	--	3	13
OY Finnish Defence Power Systems AB	5	9	9	20	2	(1)
AIM Infrarot-Module GmbH	1	--	2	1	--	--
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co.Ltd.	1	--	5	8	1	--
Kolbenschmidt Shanghai Piston Co.Ltd.	1	3	1	2	--	2
Advanced Bearing Materials LLC	5	--	--	2	1	1
Shriram Pistons & Rings Ltd.	2	3	3	2	--	--
EuroSpike GmbH	--	--	--	1	--	(1)
HFTS Helicopter Flight Training Services GmbH	2	1	--	--	--	--
	49	**55**	**20**	**36**	**7**	**16**

Remuneration of the Executive and Supervisory Boards The reportable compensation of senior management within the Group comprises that paid to active Executive and Supervisory Board members.

The expenses for compensation paid or payable to active members of the Executive Board break down as follows:

€ '000

	2006	**2007**
Short-term payments due	5,777	5,418
Deferred compensation	328	328
	6,105	**5,746**
Postretirement benefits in addition	750	754

The postretirement benefit amounts reflect the current service cost for pension entitlements.

Supervisory Board fees amounted to €0.733 million in fiscal 2007 (up from €0.706 million) and are all due short term.

For further details and itemization of each member's remuneration, see the Board Compensation Report within the group management report.

An unchanged €2 million was paid to former Executive Board members or their surviving dependants, the accruals for pension obligations to them totaling €16 million (down from €18 million). An unchanged €1 million was paid to former executive board members or their surviving dependants of Rheinmetall DeTec AG (merged in 2005 into Rheinmetall AG), the accruals for pension obligations to them totaling €6 million (down from €7 million).

Notes (Group)
Supplementary disclosures

Shareholdings As of December 31, 2007 and 2006, none of Rheinmetall AG's Executive Board members held any legally reportable shares in the Company.

(40) Statutory auditor's fees

€ '000

	2006	2007
Auditing services	1,882	2,145
Other verification/appraisal services	289	62
Tax consultancy	204	205
Other services	--	223
	2,375	**2,635**

Solely services were rendered that are compatible with the engagement as auditor.

(41) Corporate Governance Code In December 2007, Rheinmetall AG published on the Internet at www.rheinmetall.com, and thus made available to its stockholders, the declaration of conformity according to the German Corporate Governance Code pursuant to Art. 161 AktG.

Düsseldorf, March 3, 2008

The Executive Board

Eberhardt   Dr. Kleinert   Dr. Müller

Notes (Group)
Major Group companies

Fully consolidated companies

	Interest held %	Net sales **2007** € million
Rheinmetall AG, Düsseldorf		
Automotive		
Kolbenschmidt Pierburg AG, Neckarsulm, Germany	100.0	0
Pierburg GmbH, Neuss, Germany	100.0	384
Pierburg S.A., Abadiano, Spain	100.0	136
Pierburg S.à.r.l., Basse-Ham (Thionville), France	100.0	171
Pierburg S.p.A., Lanciano, Italy	100.0	161
Pierburg Inc., Fountain Inn, USA	100.0	57
KS Kolbenschmidt GmbH, Neckarsulm, Germany	100.0	255
KS Pistões Ltda., Nova Odessa, Brazil	100.0	112
Karl Schmidt Unisia Inc., Marinette, USA	92.0	169
KS Kolbenschmidt France S.A.S., Basse-Ham (Thionville), France	100.0	61
Kolbenschmidt K.K., Yokohama, Japan	100.0	40
KS Kolbenschmidt Czech Republic a.s., Ústí, Czech Republic	100.0	53
KS Gleitlager GmbH, St. Leon-Rot, Germany	100.0	189
KS Aluminium-Technologie AG, Neckarsulm, Germany	100.0	217
MS Motor Service International GmbH, Neckarsulm, Germany	100.0	109
Defence		
Rheinmetall Landsysteme GmbH, Kiel, Germany	100.0	440
Oerlikon Contraves AG, Zurich, Switzerland	100.0	179
Rheinmetall Italia S.p.A., Rome, Italy	100.0	62
Rheinmetall Canada Inc., St.-Jean-sur-Richelieu, Canada	100.0	80
RWM Schweiz AG, Zurich, Switzerland	100.0	41
Rheinmetall Waffe Munition GmbH, Ratingen, Germany	100.0	332
Nitrochemie Aschau GmbH, Aschau, Germany	55.0	58
CHEMPRO Gesellschaft für kunststoffgebundene Produkte mbH, Bonn, Germany	51.0	43
Rheinmetall Defence Electronics GmbH, Bremen, Germany	100.0	413

Investees carried at equity

	Interest held %	Net sales **2007** € million
Joint ventures		
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., Shanghai, China	50.0	96
Kolbenschmidt Shanghai Piston Co. Ltd., Shanghai, China	50.0	33
GIWS Gesellschaft für Intelligente Wirksysteme mbH, Nuremberg, Germany[1), 2)]	50.0	29
PSM Projekt System & Management GmbH, Kassel, Germany[1)]	50.0	38
Associated affiliate		
AIM Infrarot-Module GmbH, Heilbronn, Germany[1)]	50.0	61

1) *local financial statements*
2) *prior-year data*

Management representation

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group, and the group management report includes a fair review of the development and performance of the business and the position of the group, together with a description of the principal opportunities and risks associated with the expected development of the group.

Düsseldorf, March 3, 2008

Eberhardt Dr. Kleinert Dr. Müller

Auditor's Report and Opinion

Rheinmetall AG, Düsseldorf Independent auditor's report and opinion We have audited the consolidated financial statements (consisting of balance sheet, income statement, statement of changes in equity, cash flow statement, and notes) and the group management report, all as prepared by Rheinmetall AG, Düsseldorf, for the fiscal year ended December 31, 2007. The preparation of the consolidated financial statements and group management report in accordance with the IFRS whose application is mandatory in the European Union (EU), and the additional financial-accounting provisions of Art. 315a(1) HGB, is the responsibility of the Company's Executive Board. Our responsibility is, based on our audit, to express an opinion on the consolidated financial statements and group management report.

We have conducted our annual group audit in accordance with Art. 317 HGB and with due regard to generally accepted standards on the audit of financial statements as established by IDW, the Institute of Sworn Public Accountants & Auditors in Germany. Said standards require that we plan and perform the audit to obtain reasonable assurance that any misstatement or fraud which has a material impact on the view of the asset and capital structure, financial position and results of operations as presented by the consolidated financial statements in accordance with applicable accounting principles and by the group management report, is identified. 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, largely on a test basis, the accounting-related internal control system's effectiveness and the evidence supporting the amounts and disclosures in the consolidated financial statements and group management report. An audit also includes assessing the financial statements of companies included in the consolidated financial statements, the definition of the consolidation group, the accounting and consolidation principles used, and significant estimates made, by the Company's Executive Board, as well as evaluating the overall presentation of the consolidated financial statements and group management report. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any objections or exceptions.

It is our opinion that, based on our audit conclusions, the consolidated financial statements are in conformity with the IFRS whose application is mandatory in the EU, and the additional financial-accounting provisions of Art. 315a(1) HGB and, with due regard to these standards, regulations and provisions, present a true and fair view of the Group's asset and capital structure, financial position and results of operations. The group management report is in conformity with the consolidated financial statements and presents fairly, in all material respects, the Group's position and the risks and rewards inherent in its future development.

Düsseldorf, March 3, 2008

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Peter Albrecht)	(Dr. Walter Husemann)
Wirtschaftsprüfer	Wirtschaftsprüfer

Balance sheet of Rheinmetall AG as of December 31, 2007 (acc. to German GAAP*)

ASSETS *€ million*

	12/31/2006	12/31/2007
Fixed assets		
Intangible assets	0.100	0.048
Tangible assets	31.858	30.357
Financial assets	788.626	788.682
	820.584	**819.087**
Current assets		
Receivables and sundry assets	337.948	417.210
Securities	41.806	46.180
Cash on hand and in bank	89.733	76.230
	469.487	**539.620**
Prepaid expenses & deferred charges	**2.084**	**1.368**
	1,292.155	**1,360.075**

EQUITY & LIABILITIES *€ million*

	12/31/2006	12/31/2007
Capital stock	92.160	92.160
Additional paid-in capital	208.262	208.262
Reserves retained from earnings	109.596	195.208
Net earnings	39.712	72.192
Total equity	**449.730**	**567.822**
Untaxed/special reserves	**3.298**	**3.214**
Accruals	**117.102**	**120.089**
Liabilities		
Bonds	325.000	325.000
All other liabilities	397.020	343.950
	722.020	**668.950**
Deferred income	**0.005**	**0.000**
	1,292.155	**1,360.075**

** German Commercial Code (“HGB”)*

Income statement of Rheinmetall AG for fiscal 2007 (acc. to German GAAP*)

€ million

	2006	2007
Income from investments	134.156	172.898
Net interest expense	(18.659)	(8.906)
Net financial result	**115.497**	**163.992**
Other operating income	47.381	64.155
Personnel expenses	(25.571)	(27.107)
Amortization of intangible and depreciation of tangible assets	(1.824)	(1.742)
Other operating expenses	(30.823)	(32.742)
EBT	**104.660**	**166.556**
Income taxes	(9.798)	(13.424)
Net income	**94.862**	**153.132**
Transfer from reserves retained from earnings	--	2.128
Transfer to reserves retained from earnings	(55.150)	(83.068)
Net earnings	**39.712**	**72.192**

** German Commercial Code ("HGB")*

Corporate governance report

Corporate governance. The trust and confidence placed by German and international investors, business counterparts, financial analysts, media and employees in Rheinmetall AG's business strategy, management and supervision are decisively influenced by a corporate governance and control system that is transparent, responsible and geared to adding value to profitable growth. Effective corporate governance evidenced by safeguarding stockholder interests, early reporting, proper accounting and efficient inter-board collaboration has enjoyed high priority within the Rheinmetall Group.

Stockholders and their meeting. At the general meeting—as a rule convened once annually by the Executive Board—Rheinmetall AG's stockholders exercise their codetermination and control rights where one share grants one vote and at which stockholders decide on matters such as profit appropriation, capital moves, approval of intercompany agreements, Supervisory Board remuneration, amendments of the bylaws, etc. If prevented from personally voting at a general meeting, stockholders may appoint a proxy at their discretion or give voting power to a Rheinmetall-appointed voting proxy. The AGM documentation, the Executive Board presentation and the voting results are published on Rheinmetall's website.

Management and control of Rheinmetall AG. Through constructive frequent dialogs, the Executive and Supervisory Boards closely work together in an atmosphere of mutual trust in the best interests of the Group's control and supervision. The responsibilities of either board along with membership rules, tasks, duties, authorities and transactions subject to approval are defined in rules of procedure.

The currently three Executive Board members manage the Group on their joint and several responsibility on the basis of jointly agreed objectives. The Executive Board is committed to safeguarding Rheinmetall's interests as well as to adding sustained shareholder value. This Board's key management functions include the development of the basic strategic orientation, the formulation of business goals and targets, as well as the control and supervision of Rheinmetall's operating units.

The Supervisory Board (which is subject to the codetermination statutes 1976 and the bylaws) has 16 members, eight each elected by the stockholders and the employees. In the performance of their work, Supervisory Board members are committed to Rheinmetall's best interests but are not bound by specific instructions. When candidates for election are proposed, Supervisory Board membership should be governed by the principles of adequate technical know-how, experience and the level of independence required by the German Corporate Governance Code. Supervisory Board members do not include any former Executive Board members of Rheinmetall AG. In its work, the Supervisory Board is assisted by its Personnel, Audit and Slate Submittal Committees, whose members are equally stockholder and employee representatives.

In 2007 no consultancy or other contracts for work or services existed between the Company and any Supervisory Board member. No clashing interests affecting Executive or Supervisory Board members and requiring immediate disclosure to the Supervisory Board were reported. The offices held by Executive and Supervisory Board members are itemized on pages 128–130.

Compensation of board members. Details of the total and individual remuneration of Executive and Supervisory Board members in 2007 and the underlying compensation structures are described and explained in the board compensation report on pages 46 et seq. The Supervisory Board Chairman briefed the annual general meeting on May 8, 2007, on the basic elements and components of Executive Board remuneration, which have also been disclosed on the Company's website.

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

Detailed reporting system. Up-to-date, fair and consistent financial communications are a matter of course within the Rheinmetall Group and address the rights and interests of stockholders and the general public. True to its principle of equal treatment, Rheinmetall informs all target groups simultaneously and reports comprehensively on business trends, the financial position, as well as major transactions and significant intragroup changes.

The website presents, in English and German language, annual and quarterly reports, press releases and other relevant news about current developments and new features. Any information likely to impact on stock exchange quotations is promptly published in an ad-hoc notification as required by the law. Periodic conferences and road shows for investors and financial analysts ensure an ongoing information interchange with the financial and capital markets.

Provident risk management. Sustainable added value is not achievable unless the risks inherent in business decisions are identified and reasonably managed in addition to any opportunities or rewards. In view of growing market volatility and ever-changing overall parameters, the success of managerial decisions increasingly hinges on the reliable assessment of potential risks. The plenary Executive Board is responsible for Rheinmetall AG's risk management system by defining the strategic approach to risks and the acceptable overall risk level with regard to the Group's survivability. Rheinmetall AG's Executive Board and management staff within the Group can resort to extensive groupwide and company-specific reporting and controlling systems for systematic risk mapping, profiling and assessment, with a view to identifying risks early on and managing the Group's risk positions. Rheinmetall AG's risk management system, which is checked and reviewed by the statutory auditor, is continuously fine-tuned and updated to respond to a changed risk environment.

Due and proper accounting system. For enhanced transparency and better comparability with its international competitors, Rheinmetall AG formulates its consolidated financial statements and interim reports in conformity with the rules of the International Financial Reporting Standards (IFRS) while its separate financial statements are prepared according to, as required by, the German Commercial Code (HGB).

Corporate governance report

Independent statutory audit. PricewaterhouseCoopers Aktiengesellschaft Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Düsseldorf branch, was elected as the statutory auditor for 2007 by the annual general meeting. The Supervisory Board defines the focal audit areas, ensures that no clashing interests adversely affect the auditor's work, and obligates the auditor to promptly disclose any incompatibility with the engagement (e.g. non-eligibility or partiality). Moreover, the statutory auditor reports on any material findings, conclusions or events that are in contradiction to the Executive and Supervisory Boards' declaration of conformity under the terms of Art. 161 AktG. The 2007 annual audit has not indicated any such reportable facts.

Directors' dealings. The provisions of Sec. 15a WpHG require that any managerial staff of a German listed company and parties (individuals or entities) related to these officers and managers report the purchase or sale of Rheinmetall AG securities to both the Company and BaFin, the Federal Financial Supervisory Authority, provided that the aggregate total of any such deals exceeds €5,000 in the calendar year. Eight such reportable transactions were communicated to the Company during the year under review, which were duly disclosed on the Company's website. In fiscal 2007, the aggregate shareholding of the members of Rheinmetall AG's Executive and Supervisory Boards was throughout below one percent of the shares issued by the Company. Therefore, no shareholding existed as of December 31, 2007, that would have been reportable under the terms of § 6.6 of the German Corporate Governance Code.

Declaration of conformity 2007. Under the terms of Art. 161 AktG, the Company's Executive and Supervisory Boards annually issue a declaration of conformity relating to the German Corporate Governance Code, published in the annual report and on the website. The current declaration is dated December 7, 2007, and refers to the Code as amended up to June 12, 2006, and June 14, 2007.

Joint declaration of conformity of the Executive and Supervisory Boards pursuant to Art. 161 German Stock Corporation Act ("AktG") on the recommendations of the German Corporate Governance Code Government Commission:

"Rheinmetall AG's Executive and Supervisory Boards declare

(1) THAT, since the issuance of the preceding declaration of conformity in December 2006, Rheinmetall AG had fully carried out the recommendations of the German Corporate Governance Code Government Commission as amended up to June 12, 2006, and June 14, 2007 (officially published in the digital Federal Gazette on July 24, 2006, and July 20, 2007, respectively).

(2) THAT Rheinmetall AG will fully carry out the recommendations of the German Corporate Governance Code Government Commission as amended up to June 14, 2007, and officially published on July 20, 2007, in the digital Federal Gazette."

Supervisory Board

Klaus Greinert
Mannheim
Businessman
Chairman

Advisory board of Gebr. Röchling KG
(Chairman)
Advisory board of Röchling Immobilien GmbH
(Chairman) (up to October 9, 2007)
DURAVIT AG
(Chairman)
DURAVIT S.A.
Stockholder committee of Gebr. Röchling KG
(Chairman)

Joachim Stöber *)
Biebergemünd
Vice-Chairman

Member of the Metalworkers Union's General Secretariat
GEA Group AG
Pierburg GmbH
(Vice-Chairman)

Dr. Eckhard Cordes
Düsseldorf
(up to December 31, 2007)

Executive board chairman of
Franz Haniel & Cie. GmbH
CEO of METRO AG

Air Berlin PLC
Celesio AG
(Chairman)
Kaufhof Warenhaus AG
(Chairman)
TAKKT AG

Dr. Ludwig Dammer *)
Düsseldorf

Head of Production System/Technology
Pierburg GmbH

Kolbenschmidt Pierburg AG

Dr. Andreas Georgi
Glashütten
Executive board member of
Dresdner Bank AG

Asea Brown Boveri AG
Deutsche Schiffsbank AG
(Vice-Chairman)
Dresdner Bank Luxembourg S.A.
(Vice-President)
Dresdner Bank (Schweiz) AG
(President)
Dresdner Mezzanine Verwaltungs GmbH
(Vice-Chairman) (up to October 31, 2007)
Felix Schoeller Holding GmbH & Co. KG
Oldenburgische Landesbank AG
(Chairman)
Reuschel & Co. KG
(Vice-Chairman)
RWE Dea AG

Dr. Siegfried Goll
Markdorf
(as from February 28, 2008)
Graduated mechanical engineer/Dipl.-Ing.

Rohwedder AG
SAF-Holland S.A.
Voss Holding GmbH & Co. KG
Witzenmann GmbH

Heinrich Kmett *)
Fahrenbach/Robern
Works council chairman of
Kolbenschmidt Pierburg AG
KS Kolbenschmidt GmbH
MS Motor Service International GmbH

Kolbenschmidt Pierburg AG

Dr. Rudolf Luz *)
Neckarsulm

1st delegate of the Metalworkers
Union Heilbronn-Neckarsulm
Bechtle AG
Kolbenschmidt Pierburg AG
(Vice-Chairman)

*) *employee representative*

Dr. Peter Mihatsch
Sindelfingen

Consulting engineer

Arcor AG

Giesecke & Devrient GmbH
(Chairman)

Vodafone Deutschland GmbH

Vodafone D2 GmbH

DDr. Peter Mitterbauer
Gmunden, Austria

CEO of Miba AG

Andritz AG

Erste Österreichische Spar-Casse Privatstiftung

FFG Österreichische Forschungs-
förderungsgesellschaft mbH
(Chairman)

Oberbank AG

ÖIAG Österreichische Industrieholding AG
(Chairman)

Wolfgang Müller *)
Bad Rappenau

Works council chairman of
KS Aluminium-Technologie AG

KS Aluminium-Technologie AG

KS ATAG GmbH

Henning von Ondarza
Bonn

Retired general

Prof. Dr. Frank Richter
Ulm

Professor, Chair of Strategic
Corporate Governance and Finance
University Ulm

Advisory board of Gebr. Röchling KG

GSW Gemeinnützige Siedlungs- und
Wohnungsbaugesellschaft Berlin mbH

University Ulm

Dr. Dieter Schadt
Stuttgart (up to May 8, 2007)

Former CEO
Franz Haniel & Cie. GmbH

A.S. Creation TAPETEN AG

LSG Lufthansa Service Holding AG

Reinhard Sitzmann
Weichs
(as from May 8, 2007)

General manager of
Hirschmann Electronics GmbH

General manager of
IRS Profil GmbH

Shareholder committee of Opti M&A GmbH

Hirschmann Car Communication GmbH

Wolfgang Tretbar *)
Nettetal

Works council chairman of
Pierburg GmbH,
Nettetal plant

Harald Töpfer *)
Kassel

Works council chairman of
Rheinmetall Landsysteme GmbH,
Kassel operation

Peter Winter *)
Achim

Works council member of
Rheinmetall Defence Electronics GmbH

*) *employee representative*

Executive Board

Klaus Eberhardt
Düsseldorf

Chairman (CEO)
Director of Industrial Relations

Chairman of the Defence sector

Membership in supervisory boards:

Hirschmann Electronics Holding S.A.
(Chairman) (up to March 27, 2007)

Kolbenschmidt Pierburg AG
(Chairman)

MAN AG
(up to May 10, 2007)

MTU Aero Engines Holding AG
(as from April 27, 2007)
(Chairman) (as from December 14, 2007)

Nitrochemie AG
(President)

Nitrochemie Wimmis AG
(President)

Oerlikon Contraves AG
(President)

Rheinmetall Defence Electronics GmbH
(Chairman) (up to November 15, 2007)

Rheinmetall Landsysteme GmbH
(Chairman) (up to November 15, 2007)

Rheinmetall Waffe Munition GmbH
(Chairman) (up to November 15, 2007)

Eckart Wälzholz-Junius Familienstiftung

Dietrich Wälzholz Familienstiftung

Dr. Gerd Kleinert
Gottmadingen

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
(Chairman)

KS Gleitlager GmbH
(Chairman)

KS Kolbenschmidt GmbH
(Chairman)

KS International Investment Corp.

Läpple AG
(Chairman)

Läpple Holding AG
(Chairman)

Pierburg GmbH
(Chairman)

Dr. Herbert Müller
Bonn

Finance & Controlling

Membership in supervisory board:

Kolbenschmidt Pierburg AG

Senior Executive Officers

Dr. Andreas Beyer, LL.M.
Sindelfingen
Law, Internal Auditing, M&A

Ingo Hecke
Meerbusch
Human Resources and Senior Management

Executive Board Automotive

Dr. Gerd Kleinert
Gottmadingen
Chairman
Strategy, Marketing, Operations

Dr. Peter P. Merten
Herrsching
Finance & Controlling, IT

Dr. Jörg-Martin Friedrich
Ludwigsburg
HR, Law
(up to June 30, 2007)

Peter-Sebastian Krause
Erkrath
HR, Law
(as from July 1, 2007)

Management Board Defence

Klaus Eberhardt
Düsseldorf
Chairman

Helmut P. Merch
Erkrath
Finance & Controlling, IT

Detlef Moog
Mülheim/Ruhr
Land Systems, Weapon and Munitions, Propellants

Heinz Dresia
Krefeld
Air Defence, C4ISTAR, Simulation and Training

Ingo Hecke
Meerbusch
Human Resources

Financial diary 2008

March 19, 2008
Annual accounts press conference

March 19, 2008
Analysts conference

May 5, 2008
Report on Q1/2008

May 6, 2008
Annual general meeting

August 12, 2008
Report on H1/2008

November 2008
Report on Q3/2008

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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