Annual Report
Rheinmetall AG

2008

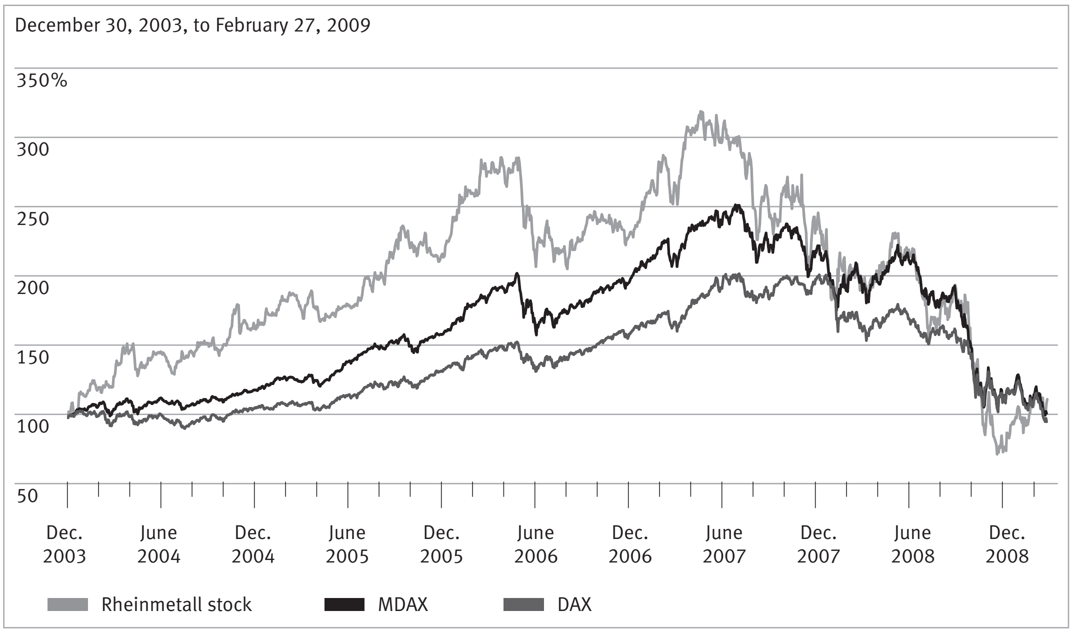
Rheinmetall in figures

Rheinmetall Group indicators

		2004	2005	2006	2007	2008
Sales	*€ million*	3,413	3,454	3,626	4,005	3,869
Order intake	*€ million*	3,147	3,625	3,899	4,040	3,780
Order backlog (Dec. 31)	*€ million*	2,741	2,907	3,183	3,239	3,683
EBITDA	*€ million*	385	382	366	438	412
EBIT	*€ million*	217	225	215	270	246
EBT	*€ million*	146	170	164	213	184
Net income	*€ million*	101	118	123	150	135
Cash flow [1]	*€ million*	264	277	308	352	335
Capital expenditures	*€ million*	183	198	186	202	200
Amortization/depreciation	*€ million*	168	157	151	168	166
Total equity	*€ million*	779	875	937	1,059	1,118
Total assets	*€ million*	3,100	3,423	3,389	3,448	3,588
EBIT margin	*in %*	6.4	6.5	5.9	6.7	6.4
ROCE [2]	*in %*	14.9	15.2	12.5	14.5	12.6
Stock price, annual high	*€*	41.85	55.00	66.41	74.12	53.81
Stock price, annual closing	*€*	39.25	53.26	57.48	54.38	22.90
Stock price, annual low	*€*	23.40	38.40	47.80	48.04	16.82
Earnings per share (EpS)	*€*	2.64	3.19	3.41	4.15	3.89
Dividend per share	*€*	0.74	0.90	1.00	1.30	1.30
Employees (Dec. 31)		18,283	18,548	18,799	19,185	21,020

[1] *As from 2006, net interest result reclassified into financing activities*
[2] *As from 2006, CE incl. accumulated goodwill amortization*

Rheinmetall stock price trend in comparison to DAX and MDAX



An overview of the Rheinmetall Group

Corporate sector Defence – Rheinmetall Defence

Land Systems

Armored vehicles
Turrets and weapon stations
Support vehicles
Command and functional vehicles
Services/logistics

Locations

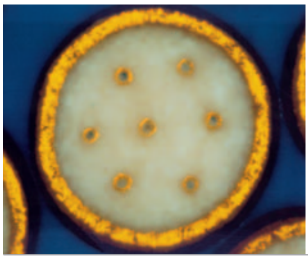
Germany
Netherlands

Weapon and Munitions

Direct fire
Indirect fire
Infantry
Protection systems
Plant engineering

Locations

Germany
Switzerland
Austria
USA
South Africa

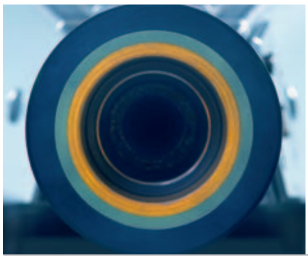


Propellants

Propellant systems
Civil chemistry

Locations

Germany
Switzerland



Air Defence

Ground-based air defence
Naval air defence
Services

Locations

Switzerland
Italy
Singapore

C4ISTAR

Reconnaissance
Command
Fire control
Airborne systems

Locations

Germany

Simulation and Training

Flight simulation
Land simulation
Maritime and process simulation

Locations

Germany

Further locations: Canada, Greece, Malaysia, United Arab Emirates

Corporate sector Automotive – Kolbenschmidt Pierburg

KS Kolbenschmidt

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

Locations

Germany
France
Czech Republic
USA
Mexico
Brazil
Japan
India (associated)
China (joint venture)

Pierburg

Air management
Actuators
Emission reduction
Solenoid valves
Commercial diesel systems

Locations

Germany
Spain
Czech Republic
USA
India

Pierburg Pump Technology

Oil pumps
Vacuum pumps
Water circulation and coolant pumps

Locations

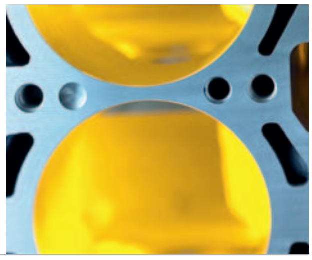
Germany
Great Britain
France
Italy
Mexico
Brazil

KS Aluminium-Technologie

Aluminium alloy engine blocks
Cylinder heads
Final 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
Spain
Turkey
USA
Brazil
China

PRO TEC TION

Protecting people and the environment | Rheinmetall's vast technological competence as manifested in its Defence and Automotive sectors and derived from around a century of experience, benefits both people and the environment.

Assignments abroad, peace-keeping missions, rapid-response forces in crisis regions: with the growth in operations abroad, the forces of the 21st century find themselves facing new challenges. Effective systems are of essential importance in providing the forces with maximum protection in the course of their assignments. Rheinmetall Defence specializes in the development and production of components and systems designed to protect people, vehicles, aircraft, ships and property. Its products protect the German and NATO armed forces during missions intended to safeguard democracies and peaceful law-abiding nations.

Rheinmetall's Automotive sector develops and manufactures eco-friendly auto industry products. In an age where the number of motor vehicles is growing worldwide and the global climate changing, the Kolbenschmidt Pierburg Group as a longstanding development partner of national and international automotive manufacturers addresses their needs for innovative solutions in the areas of emission control, fuel reduction, weight loss and performance enhancement while reconciling mobility trends with environmental protection requirements.

Helping to protect people and the environment—a tradition to which Rheinmetall through close customer partnerships is committed. Now and in future.

Contents

News flashes 2008

Q1/2008


■ In taking over the Dutch company Stork PWV B.V. from the Amsterdam-headquartered parent Stork N.V., Rheinmetall Defence again expands its position as leading systems supplier to the European land forces.

■ The British and Australian Armed Forces order from Gesellschaft für intelligente Wirksysteme (in which Rheinmetall Defence holds a 50-percent interest) SMArt 155 artillery ammunition at a value of over €120 million.

■ Rheinmetall Defence is commissioned by the German Navy to supply Mass units (Multi Ammunition Softkill System) for two mine-combat units. As a mission-related immediate response, one MJ333 and one HL352 vessel each are to be fitted by May 2008 with a Mass two-launcher configuration with integrated detection unit.

■ The Kolbenschmidt Pierburg Group's Motor Service division moves its two warehouses at Neckarsulm and Stuttgart to the new Neuenstadt location in record time. On the new logistics center's very first day, altogether 1,520 orders are shipped out to customers in Germany.

■ At the Auto Expo staged in the Pragati Maidan Centre in New Delhi, the divisions Motor Service, Pierburg, Pierburg Pump Technology and Plain Bearings display their products at the German pavilion.

■ As part of their coordinated further training, a group of teachers visit the service school of Automotive's Motor Service division in Dormagen to update themselves in detail on components, modules and assemblies for fuel supply, air management, emission control, engine cooling and vacuum production on gasoline and diesel engines.

Q2/2008


■ At a ceremony in Kassel Rheinmetall Landsysteme hands over the first of 21 latest-generation Fuchs/Fox armored transport vehicles to the German Armed Forces. The armoring against improvised explosive devices (IED) coupled with more extensive protection against heavy antitank mines make this vehicle, which has been realized in less than three years, the safest in its class.

■ In view of the German Armed Forces' ongoing procurement plans with regard to armored command and multipurpose vehicles Rheinmetall Defence and an industrial partner give the go-ahead for the joint internally funded development of a new range of vehicles offering a high level of protection in the 5- to 9-t class.

■ The Royal Dutch Armed Forces award a contract worth €51 million to Rheinmetall Defence for the delivery of 81-mm mortar ammunition, thus strengthening Rheinmetall Waffe Munition's position as Europe's foremost supplier of large- and medium-caliber weapons and related ammunition.

■ High production output at Pierburg Pump Technology's Hartha plant: in eleven years ten million water circulating pumps have been produced which are used by such renowned car manufacturers at home and abroad as VW, Audi, BMW, Porsche and Peugeot Citroën.

■ With an innovative aluminum die-cast cooler concept featuring high thermal conductivity and very good corrosion resistance, Pierburg wins first prize for an exhaust gas cooler module at the 2008 International Aluminum Die-Casting Competition. This is a new product designed to cool exhaust gases in diesel engines so that emissions—especially nitrogen—are reduced and CO_2 discharges effectively lowered.

■ By making a license agreement with Jaya Hind Industries Ltd., based in Pune, India, Kolbenschmidt Pierburg is expanding its activities in the Indian market. Collaboration in the development and production of cylinder heads, engine blocks and bedplates for national and international auto manufacturers as well as other automotive industry suppliers enables KS Aluminium Technologie to gain a foothold in the high-growth Indian market.

Q3/2008

■ The United States Marine Corps orders 40-mm training cartridges worth some $61 million from Rheinmetall Waffe Munition for its training establishment.

■ The acquisition announced in February 2008 of a majority stake in South Africa's Denel Munitions by Rheinmetall Defence takes legal effect following antitrust approval and fulfillment of the conditions precedent.

■ At MSPO 2008 in Kielce, Poland, Rheinmetall Defence presents a wide array of products and services as well as capability-oriented system solutions aimed at meeting the current and future needs of international armed forces.

■ KS Kolbenschmidt marks 40 years in Brazil: the plant at the Nova Odessa site is one of the Kolbenschmidt Pierburg Group's largest piston plants worldwide. It produces for international OEMs annually some 15 million pistons with diameters ranging from 35 to 140 mm for gasoline and diesel engines.

■ UK Interpress, Great Britain's biggest automotive publishing house, confers the International Engine of the Year Award in eleven categories in the world's most important engine competition. Nine of the winners are equipped with components supplied by Kolbenschmidt Pierburg companies.

■ The Pistons, Plain Bearings, Pierburg and Pierburg Pump Technology divisions showcase their goods and services for the first time at the International Commercial Vehicles Motor Show in Hannover, including products which help reduce fuel consumption and CO_2 emissions.

Q4/2008

■ At the Unterlüss firing range and to an audience of over 200 national and international trade journalists and guests the new modular medium-caliber turret system for infantry combat vehicles, Lance, demonstrates its exceptional live firing abilities. The cannon nested in the new turret are impressive for their excellent accuracy in single mode and low dispersion rate in burst mode.

■ Rheinmetall Defence hands over to Bremen University of Applied Sciences' worldwide recognized Competence Center for Shipbuilding, Ocean Engineering, and Nautical Science, a second ship navigation simulator which allows current flows, tides, sea conditions, environmental and weather influences as well as coastal and seabed conditions to be realistically reproduced. It will also simulate a variety of vessel and propulsion types, control devices as well as navigation and communication systems.

■ State-of-the-art simulators from Rheinmetall Defence for Zurich's police and emergency forces. Two high-tech driving simulators from Rheinmetall form the heart of a unique indoor training facility allowing police, firefighters and emergency services to practice high-speed driving under realistically simulated traffic conditions irrespective of the state of the weather.

■ On behalf of the MS Motor Service division, the newly set-up MS Motor Service Shanghai Trading Company Ltd. supplies from its Shanghai base China and neighboring countries with aftermarket products. The company provides engineering competence in the form of local training and other services while benefiting from cooperation with other Kolbenschmidt Pierburg Group companies already resident in Shanghai.

■ Rheinmetall's Automotive sector and the University of Kaiserslautern have had a very successful working relationship for many years. Under the umbrella of the university's own renowned foundation, the Rheinmetall Foundation will be pursuing its target of supporting young and talented scientists by offering them additional qualification options.

Letter from the Executive Board

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

2008 was a fiscal period of contrasting extremes. Up to midyear, the Rheinmetall Group was squarely on track, with all the important indicators even better than in 2007. Then, starting from the fall of the year, the repercussions of the worldwide financial market crisis led to a deterioration of conditions, especially for our automotive business. The crisis swept over quite abruptly into the real economy and, by year-end, with a brutality that caught everyone by surprise. By the end of October the consequences of the sudden plunge in the auto market and the accompanying dramatic decline in auto manufacturer orders became clearly evident. The Rheinmetall Group's sales and earnings forecasts were no longer tenable and had to be downwardly revised. This was a step that hurt, yet even Defence's all-time record EBIT of €194 million failed to offset the slide at Automotive.

Fortified for a formidable fiscal 2009 | We responded to the new economic situation rapidly and resolutely. It is a great advantage for us that our defence business is largely impervious to economic swings. The products and capabilities of our Defence sector are tailored to central requirements associated worldwide with the transformation of the armed forces and the new military mission scenarios. This year we are expecting major orders such as for the series-production Puma infantry fighting vehicle and forward operating base protection systems in Afghanistan with air defense systems to physically intercept incoming rocket, artillery and mortar rounds. Efforts are mounting to internationalize our Defence business by establishing in 2008 bases in India and the United Arab Emirates in order for us to show greater presence in these important markets. Encouraged by mostly long-term contracts with our defence equipment customers we expect to continue to make solid progress.

2009 will turn out to be a very arduous year for the national and international auto industry. Nonetheless, we see our Automotive sector as equipped to survive the severe slump in demand in the established industrialized and important emerging nations. Today, we are benefiting from our production structure revamps over recent years in the wake of our internationalization drive. A sizable share of production is already located in lower-cost regions and the mutually approved restructuring plans for the German locations are being enacted at an accelerated rate. In the fall of 2008 we additionally launched a sweeping cost-efficiency program designed to cut annual costs by at least €50 million. For fiscal 2009, capital expenditures by the Kolbenschmidt Pierburg Group will be significantly shrunk and, besides, virtually all its German locations are on short time during the first half of 2009. All in all, therefore, not only are we equipped to absorb the shocks ahead, we see ourselves as emerging from the crisis readied to write further chapters in our success story.

With its very healthy balance sheet structure, the Rheinmetall Group is solidly positioned. At 31 percent, our equity ratio is again at the same high level of the previous year. Additionally, the Group has a stable financial footing and, for risk-balancing purposes, is backed by a variety of instruments such as a syndicated loan, commercial paper, a corporate bond issue, bilateral bank credit facilities and an asset-backed securities program. Unchanged, the Rheinmetall Group has been rated as "investment grade."

Respectable EBIT targeted for 2009 | It is generally difficult to make any predictions for 2009 from today's vantage point. At present, it is unforeseeable just how the world economy will develop. Even in today's recession, the defence equipment market benefits from a high level of stability and planning predictability. In contrast, the automotive industry's prospects are bleak, with OEMs and their suppliers for the time being under vast pressure. Rheinmetall enjoys a balanced blend of business operations, some mature, others growing and still to be built upon. The Group is in a position to balance to a certain degree mixed economic scenarios in its Defence and Automotive sectors through a diversified product portfolio aimed at customers in various industries and with a broad geographical risk spread. In their specialized defence and automotive industry sectors, the various divisions occupy foremost positions. With brands enjoying global popularity, they stand for solid technological expertise, vast engineering competence, and remarkable innovative resources.

In the 21st century the world finds itself in a changed security situation. Terrorism, organized crime and the consequences of collapsing state structures call for new responses to internal and external security challenges and hazards as well as new skills in international peace efforts. Rheinmetall is among the leading European suppliers of land forces equipment with a broad range of ordnance designed to enhance mobility, reconnaissance and impact and to protect soldiers on their missions.

With its power train components, systems and modules, Kolbenschmidt Pierburg embodies exceptional capabilities given the current challenges in automotive engineering. Our products stand for low emissions, fuel efficiency, weight reduction and, on smaller engines, performance enhancement. These are issues that are and will remain important.

Rheinmetall will not be able to escape the impact of the global recession. Fundamentally, though, the operating preconditions exist for it to deliver a satisfactory EBIT in 2009, albeit at a lower level than in preceding years.

Concentration on our operational and technological strengths, changeability and adaptability, determination—these are our hallmarks. Cautiously yet confidently, we are convinced that Rheinmetall will emerge invigorated from this recession. Over 21,000 employees are doing their utmost.

Our thanks go to all those who have accompanied us through 2008 for their trust and confidence—our business partners, stockholders, Supervisory Board members. Our special thanks to our employees for their efforts and engagement over the past period.

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

Report of the Supervisory Board

Close cooperation between Supervisory and Executive Boards | In fiscal 2008, the Supervisory Board dealt in detail with the Group's situation and 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.

Through the quarterly written reports, the Supervisory Board was kept abreast of the current economic and financial position even between its meetings. Moreover, the CEO met with the Supervisory Board Chairman periodically to exchange information and ideas. In ad hoc meetings, the CEO reported on major transactions, significant trends, extraordinary events, and matters up for decision. Actions and transactions of the Executive Board requiring approval in accordance with the Company's bylaws or the rules of procedure were duly submitted to, and thoroughly reviewed, discussed and approved by, the Supervisory Board. For timing reasons, one resolution was passed by the Supervisory Board members in writing outside their meetings on the basis of the documents provided.

At the meetings and through written reports, the Executive Board periodically briefed the Supervisory Board in depth and due course. Being directly involved in all decisions of fundamental strategic and economic import to the Group, as well as on the basis of the detailed reports and the information furnished by the Executive Board, the Supervisory Board satisfied itself of the due and proper conduct of business by the Executive Board.

Supervisory Board meetings | In fiscal 2008, the Supervisory Board routinely met four times. All its members performed their functions and duties responsibly and with great dedication. In 2008, no Supervisory Board member attended fewer than half of all Supervisory Board meetings.

Besides the business trend, earnings and financial position, high on the Supervisory Board's agenda were the prospects and strategic further development of the corporate sectors, the Rheinmetall Group's long-term positioning, the current risk profile and the risk management system, as well as general economic, market and sales data, operating performance by the corporate sectors, and the target achievement potential. In addition, the Supervisory Board discussed in detail the fallout of the US mortgage market crisis and ensuing financial-market repercussions on the overall economy, financing transactions, the specific market, sector and competitive structures, as well as the resultant options and alternatives for the future strategic focus of the divisions of Automotive and Defence.

Key items on the agenda of the March 18, 2008 annual accounts meeting of the Supervisory Board were not only Rheinmetall AG's separate and consolidated financial statements 2007, but also the draft proposals to be submitted to the annual general meeting on May 6, 2008. Additionally, the Executive Board provided information on the acquisition of a majority stake in South Africa's Denel Munitions (Pty) Ltd., and on the post-contracting closing of the complete takeover of the Dutch subsidiary Stork PWV B.V., recapitulating the business and strategic purposes behind these M&A transactions.

At its meeting on May 5, 2008, the Supervisory Board obtained information about the current business trend and Q1/2008 accounts and prepared for the AGM a day later. Moreover, the Executive Board reported on the annual meeting of the top echelon of Rheinmetall AG's senior management, as well as on the great demand for the employee stock purchase program.

On September 9, 2008, the Executive Board updated the Supervisory Board not only on the H1 business trend but also on the Group's funding strategy, especially with a view to the financial crisis. Keeping an eye out for the global downturn in automotive markets, the Board members extensively discussed Automotive's strategic, technological and operational focus. In addition, predicated on a detailed Executive Board presentation, the Supervisory Board deliberated on the Pistons division's current business trend and strategic options.

On the agenda of the Supervisory Board meeting on December 9, 2008, were the Group's current business trend, the action package for safeguarding Automotive's earnings and cash flows, the Executive Board remuneration system's structure, and Rheinmetall AG's stock performance. Additionally, the Supervisory Board dealt with the fine-tuning of corporate governance principles and their enactment within the Group, besides conducting the annual review of its own efficiency; this review, which was concluded with a favorable assessment, included the work flows within the Supervisory Board, the routing of information from the Executive Board, as well as the interaction of the two Boards and the quality of committee work. In light of the current imponderabilities and the difficult assessment of future reverberations from the financial crisis upon Automotive's business, the submittal by the Executive Board of the corporate plan for 2009–2011 has been postponed from this December meeting (the routine presentation date) to an extraordinary meeting in late April 2009.

Committee activities | The Supervisory Board is assisted by its committees as these screen and prepare for decision the business to be transacted at Supervisory Board meetings. Where so authorized by the Supervisory Board, certain specific decisions can also be made directly by a committee. The Supervisory Board was periodically updated on committee meetings and activities.

At three meetings, the Personnel Committee conferred on matters such as remuneration and other Executive Board issues, and passed the required resolutions. The structure of Executive Board member remuneration was also on the plenary Supervisory Board's agenda.

The Audit Committee met four times in 2008, inter alia, to deal in the presence of the statutory auditor with the separate and consolidated financial statements 2007 and the profit appropriation proposal to be submitted to the annual general meeting, to formulate and issue the engagement letter to the statutory auditor, verify the latter's independence, and fix the audit fee. Moreover, the Audit Committee closely attended to risk-mapping and risk-monitoring efforts within the Group, as well as to the activities, conclusions and findings of Internal Auditing and to corporate compliance. Besides, the financial statements of Q2 and Q3/2008 were discussed prior to their publication.

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.

Corporate governance | In its December meeting, the Supervisory Board deliberated in detail on corporate governance issues and endorsed the annual declaration of conformity under the terms of Art. 161 German Stock Corporation Act ("AktG"), made available long term to the Company's stockholders on the Internet at www.rheinmetall.com. Rheinmetall AG complies with all recommendations of the German Corporate Governance Code Government Commission as amended up to June 6, 2008. In line with § 3.10 of the Code, the Executive and Supervisory Boards report on Rheinmetall's corporate governance on pages 122–125.

Report of the Supervisory Board

Supervisory Board membership | As ordered by the Düsseldorf Local Court on February 28, 2008, Dr. Siegfried Goll was appointed alternate Supervisory Board member to succeed Dr. Eckhard Cordes, who had stepped down in 2007, up to the AGM of May 6, 2008; this AGM then elected Dr. Goll as stockholder representative for a term expiring at the close of the annual general meeting which votes on the official approval of board member acts and omissions for fiscal 2012.

Annual audit 2008 | The separate financial statements prepared by the Executive Board as of December 31, 2008, in accordance with German GAAP (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 general meeting on May 6, 2008, 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 17, 2009 preparatory meeting of the Audit Committee, and the March 24, 2009 annual accounts meeting of the Supervisory Board, were both attended by the annual audit report signatories who provided details of the conclusions of their audit as well as additional information.

The statutory audit report contains no mention of, or reference to, any misstatement or misrepresentation in the Declaration of Conformity.

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 2008. The separate financial statements for 2008 are thus adopted under the terms of Art. 172 AktG. Furthermore, the Supervisory Board concurs 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 for 2008.

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 24, 2009
For the Supervisory Board

Klaus Greinert
Chairman

Rheinmetall on the capital markets

Investors trust Rheinmetall | The trust placed by its equity and debt instrument holders in Rheinmetall's sustainably successful business strategy is the very cornerstone of the Group's external funding. This is especially true amid the present financial and economic crisis. The repeated equity increase to €1,118 million (31 percent of total assets) and the net financial debt, thanks to a strong net cash inflow from operating activities in 2008 down to €205 million (6 percent of total assets excluding cash and cash equivalents), have steeled the Group's financial muscle. Besides the ever successful capital market acceptance, credit facilities of a total €2+ billion firmly committed by a relationship banking syndicate whose members have remained unchanged for years form the Rheinmetall Group's solid funding platform.

Stock markets under heavy pressure | 2008 was a period of generally declining stock prices. In the first six months this was due to the sharp rise in oil and commodity prices plus the international financial market crisis culminating in the insolvency of the US investment bank Lehman Brothers and resulting in severe difficulties for major American and European banks. The repercussions of the crisis: a nose-diving economy and global recession scares again reflected in dramatically plunging prices at stock markets.

Amid this highly hostile environment, the DAX, Germany's most important stock market index, shed 40 percent over year-end 2007 and closed 2008 at 4,810. The MDAX, which reflects the performance of midcaps and includes Rheinmetall, lost 43 percent and ended the year at 5,602.

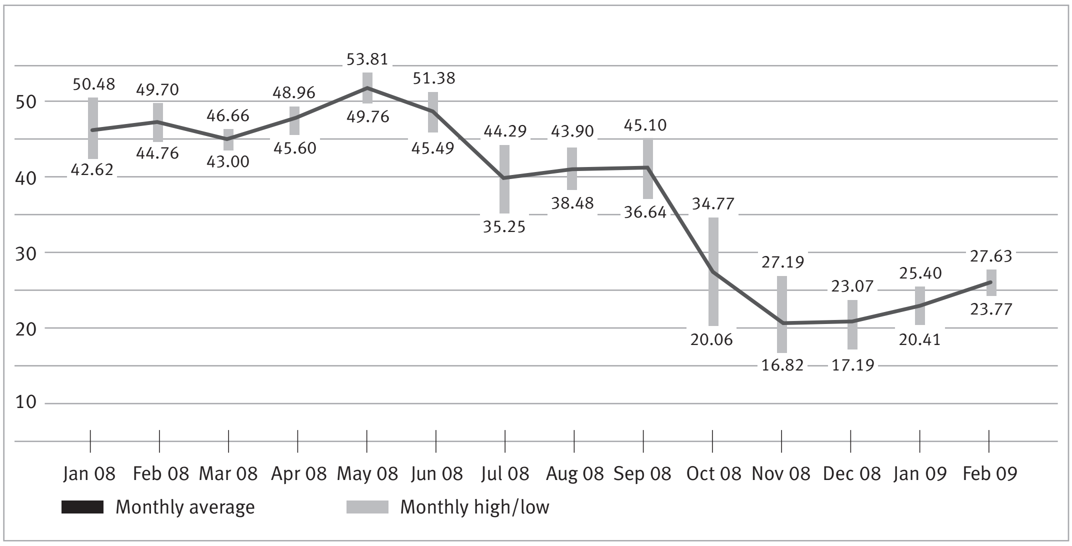
With the proliferation of international assignments, the protection of forward operating bases, convoys, ships and ports is of critical importance. Rheinmetall Defence's solution: Protective Shield, an all-embracing system for dealing with asymmetric threats, one founded on the intelligent networking of command, reconnaissance, surveillance and weapon systems.

Painful period for Rheinmetall stock | Stock market pessimism and a volatile environment inevitably impacted on Rheinmetall stock, too. Beginning the year with a sharp downturn, the price then recovered and climbed to an annual high of €53.81 on May 13, 2008. The further price slide that followed affected to an exceptional degree also Rheinmetall stock which in July sank to €35. Following a rally lasting up to early September, the downturn continued in the final quarter when the repercussions of the financial market crisis on the real economy were dramatically reflected in stock market prices. As a consequence of the severe and unprecedented global decline in auto industry shipments and production cuts plus the attendant shrinkage in call orders in this industry, Rheinmetall AG on October 23 downwardly revised its Automotive sector sales and EBIT forecast for the year. Despite the unflickering bright prospects and re-boosted profitability of the Group's Defence sector, Rheinmetall's stock price plunged to an annual low of €16.82 on November 19, 2008, and after rebounding somewhat closed the year at €22.90.

Rheinmetall on the capital markets

The stock began fiscal 2009 with a sideward movement, followed mid-January by an upturn. By February 27, 2009, Rheinmetall stock had fared significantly better than the MDAX to reach €26.02.

Rheinmetall stock price trend with monthly averages, highs and lows



MDAX rankings | The 2008 average daily trading volume in Rheinmetall stock climbed 50 percent to around 450,000 shares. In terms of share turnover volume, Rheinmetall thus ascended from position 22 to 15. In terms of free-float market capitalization, another key MDAX criterion, the stock slipped from position 17 to 22. At a price of €22.90 on December 30, 2008, market capitalization amounted to €824 million (down from €1,958 million).

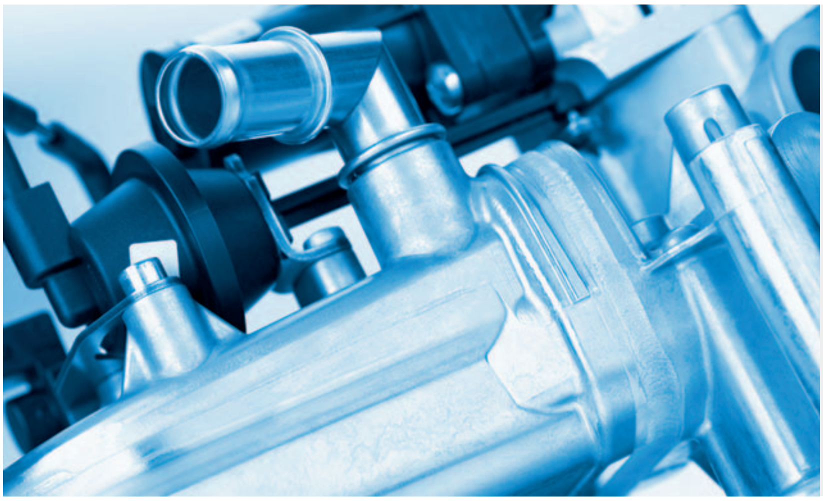
Ownership structure | An ownership analysis commissioned in January 2008 indicated a 52-percent majority of European stockholders, 31 percent North American and around 10 percent unidentified.

At the end of 2008, altogether 1,607,928 treasury shares (4.47 percent) were held by Rheinmetall (up from 1,051,417 or 2.92 percent). The Company crossed above the 3.0-percent reporting threshold on January 10, 2008. On February 27, 2009, Rheinmetall AG held an unchanged 1,607,928 treasury shares (4.47 percent). As of December 31, 2008, the members of the Supervisory and Executive Boards (including individuals related to them) held an aggregate 419,521 shares or 1.17 percent of the capital stock (up from 268,616 shares or 0.75 percent).

In addition to their contractual pay, executive and senior officers are granted a long-term incentive linked to the absolute value added to the Rheinmetall Group and part of which is disbursed in the form of Rheinmetall stock. In 2008, these beneficiaries received a total 79,940 shares. Under the employee stock purchase program, newly launched in 2008 for German subsidiaries, 2,346 employees out of a total 10,438 eligible staff participated, acquiring in three lots altogether 355,229 Rheinmetall shares at a discount.

Reporting thresholds | In fiscal 2008, investors notified Rheinmetall AG whenever they crossed above or below the reportable voting-interest threshold pursuant to Sec. 21 German Securities Trading Act (“WpHG”). Rheinmetall duly reported thereon according to Sec. 26 WpHG, details being disclosed in the notes to Rheinmetall AG’s separate financial statements. Current notifications are published on the Rheinmetall website.

International investor relations | Rheinmetall AG again cultivated ongoing and transparent dialog with all capital market players in 2008. Investor relations work is guided by the principle that comprehensive and proactive communication lays the groundwork for a fair capital market assessment of Rheinmetall stock. To this end, Rheinmetall organized some 360 talks with institutional investors and analysts, most of these in the course of altogether 15 conferences and 14 road shows. The venues included major financial centers in Europe and North America: on a number of occasions in Frankfurt/Main, London, and New York but also in Paris, Milan, Scandinavia, Zurich, Edinburgh, and Amsterdam. One-on-one discussions during investor calls on the Düsseldorf headquarters and teleconferences were also held.



Cooled recirculated exhaust gases: a strategy used by many automakers to fulfill Euro-5 standards. A similar system combined with high- and low-pressure gases will be used for ensuring compliance with Euro 6 which comes into force as from 2014.

Firm fixtures in the investor relations diary were the quarterly report teleconferences and the well-attended annual analysts conference held on March 19, 2008, in Frankfurt/Main. Another highlight was Automotive’s Capital Markets Day staged at the Neckarsulm headquarters in February and attended by numerous financial analysts. The detailed presentations of Kolbenschmidt Pierburg’s Executive Board and other management staff on the business situation, strategy and outlook as well as innovations regarding CO_2 reduction and emission control went down very well.

The year’s extensive investor relations work is reflected in the keen interest shown by the capital market community in Rheinmetall stock. During the period, Sal. Oppenheim, Exane BNP Paribas and MainFirst joined the ranks of international analysts covering Rheinmetall stock. Altogether 24 analysts, including six in London, regularly report on Rheinmetall and thus provide institutional investors with valuable decision-making aids.

Rheinmetall on the capital markets

Attractive dividend | The Supervisory and Executive Boards will propose to the annual general meeting on May 12, 2009, to distribute a cash dividend of €1.30 per share. The repurchased treasury stock does not rank for dividend. €1.30 had been paid for 2007 per common share, and hence Rheinmetall is consistently pursuing its investor-friendly path of past years.

Long-term liquidity safeguards and funding | On the basis of the Group's medium-term plan and monthly rolling, regularly updated, short-term cash budgets, business trends and the associated risks are analyzed and suitable actions taken as and when needed. For many years, Rheinmetall has used a financial strategy whose validity is endorsed especially in these crisis-ridden times and which, supported by the Company's investment grade rating, uses a wide variety of funding sources and financing instruments with a well-phased maturity range. By swiftly taking well-planned proactive steps, Rheinmetall not only ensures the solvency of all its subsidiaries at all times but also enables management to resort in future to the necessary financing alternatives.

Investment grade rating unwavering | The internationally renowned rating agency Moody's has rated the Rheinmetall Group investment grade (Baa2) since 2000 and thus underlined Rheinmetall's long-term credit standing. When the general trend toward the automotive industry's uncertain future emerged, outlook negative was added to the long-term credit rating in November 2008. The short-term Prime-2 grade was reaffirmed, thus remaining at the second-best level within Moody's Prime Rating System for short-term financial debts.

The Puma infantry fighting vehicle is worldwide the most effective and up-to-date of its kind. Its particular talents: versatility and flexibility. With its globally unique protection and assertive capabilities, it is best-in-class in serving infantry needs during missions.

Since the use of public capital market instruments was for the time being unpredictable, Rheinmetall decided in December 2008 to be graded in future just by one agency and therefore returned the same month the Standard & Poor's rating (last graded BBB–/A3).

€325 million corporate bond issue | It was in June 2005 that Rheinmetall AG last floated bonds on the international capital market, the 3.5-percent €325 million issue maturing June 21, 2010.

Syndicated credit facility available during the year | A major source of short-term finance during the year is the firmly committed €400 million syndicated facility, expiring in 2012 and granted by a syndicate of prime domestic and international banks since 2005 to meet the elevated cash requirements typically needed by Defence companies to transact business. Moreover, this facility backs up the €500 million commercial paper (CP) program, in existence unchanged since 2002, which for short-term direct borrowing enables Rheinmetall on a low-cost basis independent of banks to directly float short-term unsecured bonds with a maximum maturity of 364 days on the international money markets. Although the CP program had been shrinking as from October 2008 due to the financial market crisis, it was nonetheless in place until early December 2008. The syndicated facility was accordingly drawn upon in October 2008, with several more drawings to follow by December 2008. Thanks to the strong cash inflow in December, neither the CP program nor the syndicated facility were utilized as of December 31, 2008.

At its newly built corporate headquarters and logistics center in Neuenstadt, the Motor Service division's advanced building systems, short transport routes plus a state-of-the-art geothermal installation contribute toward protecting the environment and conserving natural resources.

Wide acceptance of ABS program | Since 1998 Rheinmetall has benefited from its asset-backed securities (ABS) program. Under the current 2004 program agreement, which has a fixed term expiring 2010 but is renewed automatically unless one of the parties gives notice of termination, thirteen European group companies from both corporate sectors sell their trade receivables every month without recourse, up to the maximum program volume of €170 million. As of December 31, 2008, this full program volume had been utilized but in January 2009, it was scaled back to €140 million since, given the Defence business ups and downs within a year, the maximum volume is not needed all year.

Rheinmetall on the capital markets

One way to achieve incremental fuel savings is by lowering friction within the engine through NanofriKS shaft coating based on nanotechnology for up to 50-percent reduced friction and wear over conventional coatings.

Relationship banking and bilateral credit agreements | For many years, it has been Rheinmetall's standard banking practice to establish and maintain as a key account longstanding relationships with its principal lenders (national and international bankers and insurers), all based on mutual trust, as well as on a sound balance between borrowing and off-balance transactions. This concept has been anchored to the syndicated credit facility described above.

Over and above the aforementioned syndicated credit facility, the Rheinmetall Group can draw on several firmly committed, bilateral credit agreements made with bankers (from the above-mentioned syndicate and others) and insurers (for guaranty bonds) and providing an overall volume of funds that has remained stable even after the financial turmoils escalated in fall 2008. 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. As of December 31, 2008, the unutilized credit volume available to Rheinmetall under these bilateral facilities came to €1.0 billion.

General economic conditions

Unprecedented economic landslide in the fall of 2008 | Following a good start to 2008 for the world economy the appreciably cooled ifo Business Climate Index in June already heralded an economic downturn. The dramatic deterioration of the global financial crisis then fed through to the global economy with great force in the fall of 2008. Escalating commodity and energy prices at times combined with rising inflation further slowed down economic activity. Both national economic research institutes and international organizations such as the International Monetary Fund (IMF), the World Bank and the Organization for Economic Cooperation and Development (OECD) revised their growth forecasts downwards, often repeatedly.

The Fuchs/Fox 1A8 is the German Armed Forces' safest wheel vehicle in operation. It has what it takes in terms of dependability, tactical agility and variety plus best possible protection against the impact of mines and improvised explosive devices. A contract has already been won for a batch of 21 for the Bundeswehr.

Whereas 2007 saw a rise in worldwide economic output of some 5 percent, according to the IMF, the global growth rate declined to 3.4 percent in 2008 based on preliminary estimates. The IMF summarized the great speed of the downturn with the formulation, "Global activity is slowing quickly". The traditional industrialized nations were especially hard hit by the downswing in the fall of 2008. As a consequence, the OECD also revised its economic forecasts for the world's leading 30 economies drastically downward. Whereas growth of 1.4 percent was most recently predicted for OECD states as a whole in 2008, the states of the eurozone were set to expand by just 1.0 percent. For both Germany and the USA, the OECD has calculated growth of 1.4 percent in each country for 2008, with Japan expanding by a mere 0.5 percent. In parallel with the sharp decline in demand in the "mature" industrial nations the growth momentum in emerging countries also weakened during the course of 2008. Whereas the IMF had calculated in 2007 growth rates for China and India of 13 and 9.3 percent, respectively, current calculations assume expansion of 9.0 and 7.3 percent for 2008.

Leading economic research institutes and economic organizations assess that the unfavorable trend will continue in 2009. For example, the World Bank warned in December 2008 of the most severe recession since the 1930s.

Defence sector largely immune to economic trends | Even against this background of global economic turbulence, military spending immunity to the state of the economy to a large extent ensured the Rheinmetall Group's strong performance in 2008. The international trend toward equipping armed forces with matériel which meets the requirements and the new threat scenarios from a generally rising number of foreign missions is proving sustained. Accordingly, spending on matériel procurement has risen in many countries over recent years and it is to be assumed that global defence expenditures in 2008 will again exceed the prior year's $1,340 billion.

General economic conditions

At $696 billion, US defence spending again represented by far the biggest single budget. It was in the US market that Rheinmetall Defence recorded a notable sales success in 2008 by winning a contract to supply training ammunition to the United States Marine Corps. Alongside the USA, Germany's other alliance partners and friendly nations again stoked their military spending in 2008. For example, defence budgets rose in the NATO partner states of Canada, France, Italy, Spain, the Netherlands, and Greece, in some cases substantially. In the UK, the country with the second-highest defence outlays after the USA, the budget just about reached the high prior-year level of €44 billion, while Germany's defence budget edged up from €28.4 billion in 2007 to €29.5 billion. Expenditures for new equipment and development increased by 9.8 percent to around €7 billion and hence accounted for 23.8 percent of the total (up from 22.5).

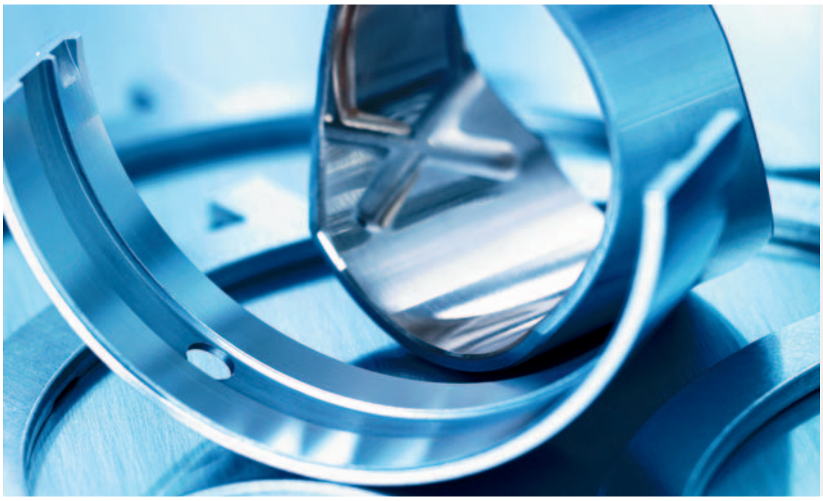
Mortar fire is a typical threat confronting forward operating bases on crisis missions. Until now, no really effective protection has existed. Rheinmetall's Skyshield air defence system has been refined to address the typical threat scenarios in such bases and safeguard the German Armed Forces from terrorist attacks.

Expenditure focus on field force protection | Systems and projects aimed at improving protection for soldiers are becoming an increasing focus of spending, with special attention being devoted to the land forces that are bearing the brunt of foreign missions. Equipment procurement therefore concentrated on vehicles offering specially increased protection against ballistic threats and improved mine protection, the fundamental modernization of infantry equipment and much more efficient air defence systems, which can also combat very small aerial targets—such as mortar fire. A further trend from which Rheinmetall Defence also benefited in 2008 was the outsourcing of tasks through so-called operator models from the armed forces to the private sector. This is exemplified by Rheinmetall's takeover of the practice and training unit at the German Army's Combat Training Center in Altmark, Saxony-Anhalt, in September 2008.

Industry consolidation continuing | The trend toward international joint project work continued over the past year, as did the process of consolidation within the industry through the establishment of joint ventures and takeovers. Rheinmetall has been participating in this process for many years by seizing new opportunities to strengthen core businesses when they arise. With the takeover of Stork PWV B.V. in the Netherlands, the supplier of the Boxer transport vehicle to the Dutch Armed Forces, Rheinmetall Defence last year strengthened its European position in the military wheeled vehicles market. Through the acquisition of a majority stake in South Africa's Denel Munitions (Pty) Ltd., which was completed during the year under review, Rheinmetall is expanding its traditionally strong position in the world market for large- and medium-caliber ammunition while consistently continuing the strategy of internationalization of defence technology activities.

Worldwide downswing in automotive industry | In spite of the crisis in the US market, the global automotive industry seemed still in good shape up to mid-2008. When the turmoil in financial markets emanating from the US subprime segment reached a head in September and October 2008, however, the automotive sector went into a clear downhill slide worldwide. As the President of the German Association of the Automotive Industry (VDA), Matthias Wissmann, put it in December 2008: “Automotive markets have nosedived at an unprecedented speed and to an unparalleled degree. Far from being confined to one country the crisis has gripped all key global markets.”

The long-term uptrend in the global production of passenger cars and light commercial vehicles came to an end in 2008. Whereas 68.6 million vehicles had been manufactured in 2007, worldwide production in this segment receded by 4.3 percent to 65.6 million units in 2008. The production figures in what is known as the triad of Western Europe, NAFTA and Japan were some 9.3 percent down on 2007. For Western Europe the automotive analysts of CSM Worldwide have calculated a decline of 8.4 percent, with Europe as a whole expected to contract by 5.2 percent to around 20.6 million vehicles. Auto output in the NAFTA region fell by 16.2 percent to some 12.7 million units, chiefly due to the dramatic slump among the “Big Three” (General Motors, Ford and Chrysler). Thanks to high exports, Japan’s auto production exceeded the prior-year level up to October 2008 only then to plummet by year-end, recording a fall of 1.0 percent over the entire year. Production figures in Germany declined by 2.7 percent overall in spite of growth during the first three quarters. The C&E European market may have lost momentum over 2008 but recorded a 5.9-percent climb in production for the year as a whole. China mirrored this trend, its rise in output of 5.3 percent falling short of the double-digit growth rate in 2007. The Indian auto market in contrast, with its fewer international capital links, showed comparatively buoyant growth momentum with a production increase of 7.6 percent, albeit well down on the strong prior-year 16-percent gain.



One consequence of scrap car regulations is the requirement to use zero-lead materials as employed in the bearings and bushings meanwhile available from Plain Bearings in its complete lineup of lead-free products.

General economic conditions

The newest generation of pistons is much lighter and sturdier. Compared with conventional gasoline engine pistons, the LiteKS 2 weighs up to 20 percent less and, with NanofriKS coating, represents another valuable contribution toward emission and fuel reduction.

Action package against the flagging auto industry | The Rheinmetall Group armed itself against the downturn in the automotive industry with a comprehensive package of measures in fiscal 2008. As an immediate response during the fourth quarter of 2008 the scope for flexible working hours was utilized at all plants, annual Christmas/New Year shutdowns were extended in some cases and the contracts of some 500 temporary employees and limited-term staff were not extended. In addition, the Automotive sector made all the necessary arrangements so as to downscale capacity through short-time from January 2009. Moreover, investing activities were halted, besides shrinking capital expenditures to well below the level of amortization/depreciation for fiscal 2009. Alongside these measures a program was launched aimed at quickly cutting input costs by €50 million, thus making a key contribution to the safeguarding of earnings in 2009.

Irrespective of the slump in production figures, within the international automotive business the trend in engine development toward fuel savings and reducing CO_2 and other harmful emissions generally accelerated. Against this backdrop the Automotive sector again succeeded in attracting forward-pointing orders in 2008. The Kolbenschmidt Pierburg Group benefited for example from its expertise in the manufacture of lightweight engine components as well as from its fuel-saving on-demand pumps, which are being used with hybrid-drive systems especially. As a world-leading supplier of exhaust gas recirculation systems, Rheinmetall is capitalizing on the trend toward pollutant reduction assisted by the restrictive emission limits being set in the EU states and the USA. With innovations in high-performance pistons and plain bearings Automotive is a key supplier in the engine “downsizing” segment, which is gaining ground among many auto makers. This involves achieving the highest possible engine performance from small displacement combined with lower consumption and pollutant emissions.

Rheinmetall Group business trend

Major events in 2008 | Effective as of January 1, 2008, Rheinmetall Waffe Munition GmbH, Unterlüss, Germany, acquired a 40-percent stake in Burkan Munitions Systems L.L.C., Abu Dhabi, United Arab Emirates. The company was set up for the purpose of ammunition manufacture and disposal in response to national needs. It started business in 2008.

Announced on February 8, 2008 and following antitrust authority approval, the takeover of a majority interest in Denel Munitions (Pty) Ltd., Pretoria, RSA, by Rheinmetall Waffe Munition GmbH, Unterlüss, became effective as of September 1, 2008. Rheinmetall Defence thus holds a 51-percent stake in Denel Munitions, which has sprouted from the state defence equipment contractor Denel (Pty) Ltd., Pretoria, where it constituted the munitions division. The remaining shares are still owned by the present holding company Denel (Pty) Ltd. This South African subsidiary operates as Rheinmetall Denel Munition (Pty) Ltd. and has been assigned to the Weapon and Munitions division. The move is another step toward the internationalization of defence operations, enhanced ammunition market presence and emphasizes Rheinmetall Defence's status as a foremost land forces systems supplier. In contrast to the latter's largely NATO-focused business, Rheinmetall Denel Munition's role will be that of a leading supplier of large-caliber ammunition and propellants in South Africa, Asia, the Middle East, and South America.

The Boxer is an advanced, high-mobility wheeled armored transport vehicle whose duties embrace infantry conveyance, combat medic functions, supplies in general and telecommunications. The outcome of a consortium effort, the it provides its occupants with maximum protection against tank mines and mid-caliber ammunition.

In the course of fiscal 2008, Rheinmetall Defence expanded its share of what is presently Europe's biggest cross-border military-vehicle building project. On February 12, 2008, Rheinmetall Landsysteme GmbH, Kiel, Germany, signed an agreement with Stork N.V., Amsterdam, Netherlands, to take over all the shares in Stork Pantser Weil Voertuig B.V. (Stork PWV), Amsterdam. The latter just as Rheinmetall Landsysteme GmbH are members of ARTEC GmbH, Munich, an industrial consortium which develops for the German and Dutch Armed Forces advanced armored Boxer transport vehicles of which a total of 472 are presently under construction and Stork PWV will supply 200 units worth around €500 million. Rheinmetall Defence is producing 85 of the total 272 vehicles destined for Germany. In acquiring Stork PWV, Rheinmetall is raising its share of the consortium from 14 to 64 percent. With the transfer of control to Rheinmetall Landsysteme GmbH as of June 1, 2008, the company was renamed Rheinmetall Nederland B.V., Amsterdam, and assigned to the Land Systems division.

Rheinmetall Group business trend

In May 2008, Rheinmetall Defence Electronics GmbH, Bremen, acquired 51-percent of the stake held by Jenoptik in LDT Laser Display Technology GmbH, Jena, Germany. This is a company that develops, manufactures and markets color laser projectors and is an international leader in laser projection systems. The acquiree will not only strengthen Rheinmetall Defence's position as leader in the market for simulators used in instructing and training aircraft crews: it also supplements the existing product range with high-performance viewing systems of outstanding technology. The subsidiary has been assigned to the Simulation and Training division.

As of September 1, 2008, Rheinmetall Defence Electronics GmbH in Bremen formed Rheinmetall Dienstleistungszentrum Altmark GmbH, Letzlingen, also assigned to Simulation and Training. The purposes of the company are to operate Germany's Army Combat Practice Center and conduct any related business, its customer being the Federal Office of Defense Technology and Procurement.

Against the backdrop of international emission legislation, variable-output oil pumps save between two and five percent fuel. On-demand lube oil circulation lowers pump fuel consumption and also engine friction.

April 2008 saw the opening by the Kolbenschmidt Pierburg Group of the North American Technical Center in Auburn Hills, Michigan, which will be used by five of the six Automotive sector divisions. A staff of over 70 are engaged in application engineering as well as the development and production of prototypes and the testing of products for customers worldwide.

As part of the further consolidation of its internationalization strategy, the Automotive sector amplified its presence in both India and China during 2008. On the heels of the Pierburg division, Pierburg Pump Technology is the second division to be represented in India—by the newly founded Pierburg Pump Technology India Private Ltd. based in Mumbai, Maharashtra. This will allow the Rheinmetall Group's Automotive sector to dig deeper into this increasingly important market and more easily exploit the region's growth potential.

Also reaching out into the Indian market has been KS Aluminum Technology, specifically the lightweight aluminum component segment with its ample growth potential: A license agreement was signed with Jaya Hind Industries Ltd., Pune, on the development and production of cylinder heads, engine blocks, bedplates, and other castings destined for (inter)national OEMs and their vendors.

On behalf of the MS Motor Service division, the newly set-up MS Motor Service Shanghai Trading Company Ltd. is supplying from its Shanghai base China and neighboring countries with aftermarket products. The company provides engineering competence in the form of local training and additional services while benefiting from cooperation with other Kolbenschmidt Pierburg companies already resident in Shanghai.

KS Kolbenschmidt and Metaldyne Corp., a subsidiary of the Japanese auto industry supplier Asahi Tec, have entered into a worldwide strategic partnership for jointly developing and marketing high-duty, lightweight and low-friction piston modules and assemblies. Two widely recognized partners are thus providing integrated R&D and project management with the aim of improved control in the development, supply and quality assurance of these engine components. KS Kolbenschmidt's R&D competence in piston module development is supplemented by the joint development and marketing agreement made back in 2007 with NPR Nippon Piston Ring.

Sales *€ million*

	2007	2008
Rheinmetall Group	**4,005**	**3,869**
Corporate sector Defence	1,757	1,814
Corporate sector Automotive	2,249	2,055

Rheinmetall Group's sales at €3.9 billion | During the past fiscal year the Rheinmetall Group generated sales of €3,869 million, down around 3 percent from the prior-year €4,005 million. Whereas the Defence sector reported another rise, Automotive suffered heavy sales losses due to the hostile market situation especially in Q4/2008. Rheinmetall Defence contributed 47 percent (up from 44) to total sales, the Automotive sector 53 percent (down from 56).

Exports by the Rheinmetall Group were at the 2007 level of 67 percent. Besides Germany, the chief geographical markets were Europe, followed by Asia and North America.

Rheinmetall Defence again reporting growth | The Defence sector's 2008 business volume climbed to €1,814 million (up around 3 percent from €1,757 million). First consolidated in 2008, Rheinmetall Nederland B.V., Rheinmetall Denel Munition (Pty) Ltd. and LDT Laser Display Technology GmbH contributed €53 million to the sector's sales. The 2007 sales had included telerob Gesellschaft für Fernhantierungstechnik GmbH, which was then sold at the close of 2007.

Exports edged up one percentage point to 66 percent of sales, underlining the increased international focus of Rheinmetall Defence. At 34 percent (down from 41) other European countries' portion, though shrinking, did again represent the lion's share of exports. The Asian and the Middle Eastern proportion of exports mounted sharply from 14 to a total of 19 percent. North America accounted for 10 percent (up from 9) of Defence's sales, other regions 3 percent (up from 1).

Rheinmetall Group business trend

A large slice of Land Systems' sales resulted from the delegation of German Armed Forces' vehicles accompanied by the related high value-adding repairs. Other significant revenue sources were derived from the initial invoices of vehicle programs for the Middle East and a European customer. The first sales were booked for command and function vehicles of the German-Dutch Boxer program. Major projects invoiced in Germany included development work and pre-series production services for the Puma infantry fighting vehicle, series-production shipments of the ultramodern command and information system for the German Army and deliveries of Wiesel 2 and BV 206 S in a variety of configurations.

Modernization and combat upgrade programs outside of Europe together with shipments of new systems formed the prime source of sales at Air Defence. Significant sales-generating items included partial shipments of air defence systems for large projects in the Near and Middle East. Further contributions to sales came from a development contract with the German Armed Forces for a forward operating base protection system that physically intercepts very small targets such as by countering incoming rocket, artillery and mortar (C-RAM) rounds.

The rising importance of the US market to Rheinmetall Defence was reflected in increased business in 40-mm practice ammunition sold by the Weapon and Munitions division. Relevant projects for export to Europe included the Leopard 2 weapon systems and various types of ammunition. In addition, light naval guns were delivered to the German Navy and countries of the Near and Middle East. Business at the Propellants division embraced sizeable deliveries of propellant powders for artillery and tank ammunition to Great Britain.

Rheinmetall Defence is among the foremost international manufacturers of military and civil facility protection products. Rosy is a vehicle protection system for all types of light vehicles against sudden attacks. It works by spontaneously discharging a screen of dense fog under cover of which occupants have time to retaliate.

The C^4ISTAR division shipped out fire command systems for the Leopard 2 battle tank to customers in Europe. Important contributions were originated from the start-up of series production of small unmanned air vehicles for target protection (KZO) for the German Armed Forces and from the delivery of an unmanned drone system to Canada. Additional sources of sales at home were the series shipments of cargo-loading systems as well as the initial invoices of project planning services related to the expanded version of the Future Soldier System. Training simulators for the new Tiger combat helicopter were a key European sales generator.

Sales down at Automotive | The corporate sector Automotive reported sales of €2,055 million for 2008, which was €194 million or 8.6 percent short of the 2007 figure. In the first nine months of the year it was especially the weak US market that brought about sales losses of €45 million or 2.6 percent. Sales for the full 12 months were chiefly hit by the Q4 plunge of €149 million (down by 26.8 percent) attributable both to ongoing US production shrinkage and the dramatic production cutbacks by European OEMs. Apart from the aftermarket operations, all the Automotive divisions were hurt by the business decline.

Slumping Q4/2008 demand at Pierburg meant that this division generated appreciably reduced sales from all its product groups, except air management. The only product group at the Pierburg Pump Technology division to show sales growth was water circulating pumps. Electric water pump sales were stable while vacuum and oil pump business wilted.

The Pistons division generated double-digit growth rates with its large-bore pistons yet without offsetting the weaker demand for the smaller variety. The Plain Bearings division reported lower sales of metallic and Permaglide bearings as well as continuous castings. The latter decline was chiefly due to falling raw material prices and a remixed product range.

The Aluminum Technology division encountered shrinking sales in all product groups. Aftermarket business at Motor Service proved resilient to the auto market recession thanks to the successful implementation of its growth strategy and prospering business operations in South America.

Exports at Automotive accounted for a substantially unchanged 67 percent (down from 68) of sector sales. European exports made up the largest sales share, 44 percent, just as in earlier years. Asia and the Middle East contributed 5 percent to Automotive's sales, North and Central America 11 percent, South America 6 percent, and other regions 1 percent.

Order intake *€ million*

	2007	2008
Rheinmetall Group	**4,040**	**3,780**
Corporate sector Defence	1,804	1,723
Corporate sector Automotive	2,236	2,057

Rheinmetall Group's order intake at €3.8 billion | For 2008 the Rheinmetall Group reports an order intake of €3,781 million (down from €4,040 million). At €1,723 million, orders booked by Defence dropped 4.5 percent; order inflow at Automotive slipped from €2,236 million to €2,057 million.

Rheinmetall Group business trend

Smallish and midsize orders predominant at Rheinmetall Defence | Order intake at Defence in fiscal 2008 added up to €1,723 million (down from €1,804 million). Whereas new business the previous year had chiefly been of the megacontract variety, in 2008, small and midsize orders were prevailing. In fact, only one contract ranged around €100 million in 2008. The newcomers Rheinmetall Nederland B.V., Rheinmetall Denel Munition (Pty) Ltd. and LDT Laser Display Technology GmbH together showed an order volume worth €32 million.

Land Systems booked export business from an Asian customer for the delivery of 11 armored recovery vehicles 3. Other new business included servicing and maintenance contracts plus a European order for four modular medium-caliber Lance turret systems. Orders for NBC reconnaissance systems were contracted from the USA and Europe. Within the context of the national Puma infantry fighting vehicle project, the pre-series contract was signed for six prototypes of the multiple-role lightweight guided missile system (MELLS).

The Skyguard was high up among the non-European orders placed with Air Defence; major contracts were awarded by Asian customers for revamping their air defence systems including logistics services and munition and from the Middle East for air defence logistics services and nine short-range detection radar systems (Shorar).

Weapon and Munitions raised its order intake for 40-mm practice ammunition to over €100 million by stepping up its marketing efforts in the USA and UK. Other activities were aimed at acquiring further export business involving light naval guns for the Middle East where a customer also placed an order for revamping a firing range. From Germany came two orders for the Mass naval protection system for two mine hunters comprising Mass launchers and control units.

New business at C^{4}ISTAR centered on orders for freight loaders placed in Germany as well as on optronics and sensors for various versions of the light autonomous target system (LaZ). Major export contracts included, from the Near East, reconnaissance systems for satellite communication, an unmanned drone system for Canada, and appendages to the Leopard 2 battle tank's command system ordered by a European customer, and from the Middle East, for fire control equipment destined for the light naval gun.

Simulation and Training scored a major success in winning the contract for the operation from 2008 to 2014 of the German battle training center (GÜZ) in Saxony-Anhalt. Important orders from Germany concerned a Eurofighter 2000 flight simulation system and a European export contract for two A400M freight loader training simulators.

Automotive order intake dented by plunging demand | Hit by the national and international auto market turmoils, order intake by the Kolbenschmidt Pierburg Group for the fiscal period dropped from €2,236 million in 2007 to €2,057 million.

Surge in group order backlog | At €3,683 million, order backlog at the Rheinmetall Group as of December 31, 2008, was up by around 14 percent; at Defence up from €2,868 million to €3,307 million, at Kolbenschmidt Pierburg up from €371 million to €376 million.

Order backlog *€ million*

	2007	2008
Rheinmetall Group	**3,239**	**3,683**
Corporate sector Defence	2,868	3,307
Corporate sector Automotive	371	376

Rheinmetall Defence with order backlog at new all-time high | At December 31, 2008, Defence's order backlog had mounted to €3,307 million (up 15 percent). Included are the newly consolidated Rheinmetall Nederland B.V. with a backlog of €488 million (chiefly the Boxer Nederland project) and Rheinmetall Denel Munition (Pty) Ltd., with a backlog of €37 million. The Defence sector's order backlog has traditionally included a number of large contracts extending over several years and is presently largely sufficient to achieve most of the sales budgeted for this year.

Order backlog at Automotive at prior-year level | At year-end the Kolbenschmidt Pierburg Group's order backlog amounted to €376 million, around the level 2007 and comprising short-notice on-demand orders under long-term agreements with OEMs.

EBIT by corporate sector *€ million*

	2007	2008
Rheinmetall Group	**270**	**246**
Defence	160	194
Automotive	120	62
Others/consolidation	(10)	(10)

Rheinmetall Group's EBIT at €246 million | Compared with 2007, group EBIT was down by €24 million and totaled €246 million. Defence's very solid performance of €194 million (up €34 million) failed to fully make good the impact on Kolbenschmidt Pierburg EBIT (down by €58 million to €62 million), caused by globally plunging auto industry production. Despite the unexpected steep slump in auto demand in December 2008, the Rheinmetall Group almost reached its October 2008 forecast of an EBIT of at least €250 million.

Adjusted EBIT *€ million*

	2007	2008
EBIT	**270**	**246**
Nonrecurring losses/gains from		
shareholdings	(12)	1
real estate	(6)	(1)
restructuring programs	17	16
Adjusted EBIT	**269**	**262**

Rheinmetall Group business trend

EBIT adjusted for nonrecurring losses/gains amounted to €262 million (down €7 million). Of the 2008 restructuring program cost and expenses, Pistons accounted for €9 million, another €3 million being incurred for closing down the Lainate, Italy, location of Weapon and Munitions.

Sharp EBIT rise at Rheinmetall Defence | In fiscal 2008, the Defence sector achieved an EBIT of €194 million (up from €160 million), a 21-percent improvement over the prior year. Sharing in this growth rate with in some cases double-digit advances were Land Systems, Air Defence, Weapon and Munitions as well as Simulation and Training. Propellants and C^4ISTAR, in contrast, reported a lower EBIT due to shrinking sales. The newly consolidated Rheinmetall Denel Munition (Pty) Ltd. contributed a black EBIT of €4 million as the net of a €15 million badwill and €11 million of operating losses, provisions and depreciation of hidden reserves from acquisition price allocation. With its EBIT growth rate outpacing that of sales, Defence's EBIT margin jumped from 9.1 to 10.7 percent.

Automotive's EBIT abraded by financial crisis | EBIT at Automotive in 2008 added up to €62 million, a drop of €58 million (including €42 million in Q4 alone). The nine-month shortfall of €16 million in 2008 was chiefly due to lower sales, especially in the USA. Other 3-quarter burdens were the Pistons location restructuring plan completed in June 2008 and accounting for a net total €4 million, as well as engine block and exhaust gas recirculation system start-ups, postponements in the manufacture of finished products and the reworking and refining of supplied materials. Q4 EBIT was mainly eroded by plunging sales.

Group net income of €135 million | With net interest expense climbing €5 million and a tax load ratio of 27 percent, the Group's net income for 2008 amounted to €135 million, thus short of the prior year's by €15 million or 10 percent. Deducting minority interests in profit of €1 million brings earnings per share (EpS) to €3.89 (down from €4.15).

Group net income *€ million*

	2007	2008
EBIT	**270**	**246**
Net interest expense	(57)	(62)
EBT	**213**	**184**
Income taxes	(63)	(49)
Group net income	**150**	**135**
thereof		
minority interests	5	1
Rheinmetall stockholders	145	134
Earnings per share *(€)*	**4.15**	**3.89**

Cash flow statement | In 2008, the net cash provided by operating activities soared to €351 million (up from €235 million). This €116 million improvement mainly resulted from a decrease in working capital (in contrast to the prior year's increase), substantially thanks to a considerably enhanced capital employed management at Defence. The operating free cash flow (defined as the net cash inflow from operating activities less the cash outflow for additions to tangible and intangible assets) amounted to €151 million (up from €21 million). After accounting for the cash inflow from fixed-asset disposal and divestments and the cash outflow for M&A transactions, the free cash flow came to €140 million (up from €45 million). The net cash of €100 million used in investing activities was €20 million above the prior year's, one major reason in comparison to 2007 being the additional €24 million cash outflow for treasury stock.

Cash flow statement *€ million*

	2007	2008
Net cash provided by operating activities	**235**	**351**
Cash outflow for additions to tangible and intangible assets	(214)	(200)
Cash inflow from the disposal of tangibles, intangibles and investment properties	51	18
Net cash outflow from financial investments in/divestments of consolidated subsidiaries and other financial assets	(27)	(29)
Net cash used in investing activities	**(190)**	**(211)**
Net cash used in financing activities	**(80)**	**(100)**

Asset and capital structure | In fiscal 2008, the Group's total equity mounted by a net €59 million or 6 percent to €1,118 million, the treasury stock repurchase reducing equity by €20 million. Financial liabilities inched up 2 percent or €9 million, the ratio of financial liabilities to equity sank from 38 to 36 percent. Net financial debt (financial liabilities less cash and cash equivalents) was scaled back by €31 million to €205 million as of December 31, 2008. Net leverage (ratio of net financial debt to equity) came to 18 percent (down from 22).

Capital structure *€ million*

	12/31/2007	%	12/31/2008	%
Total equity	**1,059**	**100**	**1,118**	**100**
Current financial liabilities	15	2	48	4
Noncurrent financial liabilities	384	36	360	32
Total financial liabilities	**399**	**38**	**408**	**36**
Cash and cash equivalents	163		203	
Net financial debt	**236**	**22**	**205**	**18**

The Rheinmetall Group's total assets moved up in 2008 by 4 percent or €140 million to €3,588 million. The asset structure (ratios of noncurrent and current assets to total assets) virtually remained unchanged. Intangibles rose €46 million to €530 million, largely due to the new Defence acquirees. Tangible assets hiked up €46 million to €1,092 million.

Rheinmetall Group business trend

As Defence expanded its business, total inventories swelled by €54 million to €756 million. Especially in the wake of the Q4 sales slump at Automotive, trade receivables shrank by €69 million to €710 million. Owing to the cash inflow at Defence, cash and cash equivalents climbed €40 million to €203 million.

The equity ratio was an unchanged 31 percent. The capital structure (ratios of noncurrent and current liabilities to total capital) remained substantially at the prior-year level. Particularly sinking supplies sourced by Automotive meant that trade payables dropped by €43 million to €511 million. The other current liabilities jumped €95 million to €507 million as prepayments received on orders and the negative fair values of financial derivatives surged. This rise in payables for financial derivatives (most with a hedging relationship) is, on the one hand, attributable to the bulging hedge volume and, on the other, to the wild swings of exchange rates and commodity prices.

Asset and capital structure *€ million*

	12/31/2007	%	12/31/2008	%
Noncurrent assets	1,688	49	1,790	50
Current assets	1,760	51	1,798	50
Total assets	**3,448**	**100**	**3,588**	**100**
Equity	1,059	31	1,118	31
Noncurrent liabilities	1,048	30	1,046	29
Current liabilities	1,341	39	1,424	40
Total equity and liabilities	**3,448**	**100**	**3,588**	**100**

Value added at prior-year level | In fiscal 2008, the Rheinmetall Group added value of €1,356 million. The Group's total operating performance came to €4,175 million (down from €4,200 million). At 32 percent the ratio of value added to total operating performance was virtually a repeat of 2007. Value added per capita (rounded) amounted to €68,000 (down from €71,000).

The workforce received 81 percent of the value added in 2008, the lion's share; the Treasury's slice shrank to 4 percent. Interest payable to lenders/banks in 2008 corresponded to an unchanged 5 percent. At €45 million, stockholders will receive 3 percent. The residual 7 percent (unchanged) of value added, equivalent to €90 million (down from €104 million), remains within the Rheinmetall Group.

Source and use of value added *€ million*

	2007		2008	
Source				
Group's total operating performance	4,200		4,175	
Input	(2,673)		(2,653)	
Amortization/depreciation	(168)		(166)	
Value added	**1,359**		**1,356**	
Use		%		%
Employees	1,063	78	1,092	81
Treasury	81	6	59	4
Lenders/banks	66	5	70	5
Stockholders	45	3	45	3
Rheinmetall	104	8	90	7
Value added	**1,359**	**100**	**1,356**	**100**

Rheinmetall Group business trend
Capital expenditures

Judicious expenditures—essential to future success | Rheinmetall's expenditure program in 2008 was dictated by the enactment of organic growth strategies. The strategic and operational targets for expanding market shares and securing technological competence were the guiding factors in the allocation of funds directed at plant and equipment, facilities, processes, and manufacturing capacities. Rheinmetall's additions in 2008 to tangible and intangible assets (excluding goodwill) amounted to €200 million (down from €202 million). In terms of total group sales this is a rise from 5.0 to 5.2 percent. Amortization and depreciation for the period came to €166 million (down from €168 million).

Capital expenditures by corporate sector *€ million*

	2007	2008
Rheinmetall Group	**202**	**200**
Defence	53	53
Automotive	148	146
Others/consolidation	1	1

Capital spending by Rheinmetall Defence at 2007 level | Defence's capital outlays in 2008 amounted to €53 million, the prior-year total. The emphasis was on replacement and rationalization expenditures for industrial plant and machinery, factory and office equipment and, to a lesser degree, expanding and updating the IT infrastructure, especially in R&D and Sales. As a share of the corporate sector's sales, expenditures at 2.9 percent were just short of the prior year's 3.0 percent. Included in the €53 million are development costs of €11 million (down from €12 million) capitalized in line with IAS 38.

A major project, launched back in 2005, was the development work on the GeFaS, a modular combat vehicle offering maximum protection and platformed to accept a multitude of mission-specific configurations. Another source of capitalized development costs was the Lance modular medium-caliber turret project with a variety of flexible protection, weaponry, optronics and crew count options tailored to a wide range of customer needs.

Sizable sums were absorbed by the ongoing development of the Skyshield air defence system into a short-range protection system for physically intercepting (countering) incoming rocket, artillery and mortar (C-RAM) rounds. In connection with this forward operating base protection system for the German Armed Forces, the development costs were capitalized. Also meriting mention is the development and provision of a new-architecture basic simulator system which limits the previous component count to a minimum.

Besides technology advances, expenditures were also directed at coping with rising production quantities. Air Defence's outlays served to improve infrastructure and expand the plant and machinery available for handling extra orders at the Zurich location.

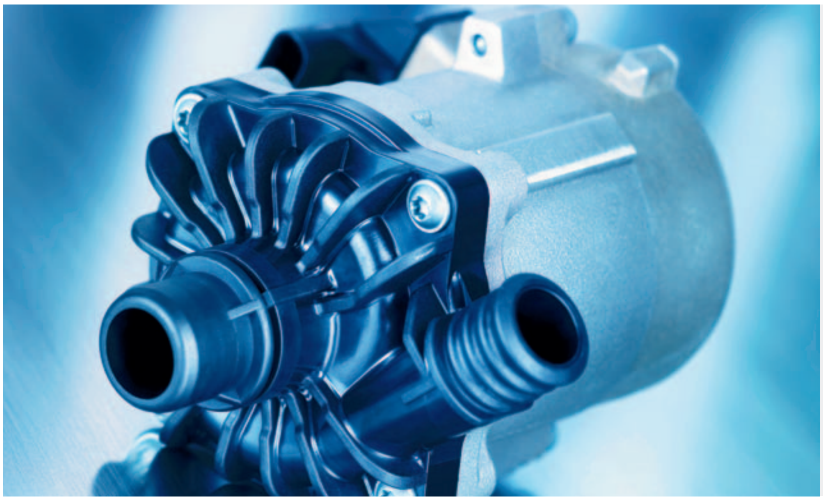
The expenditure emphasis at the Propellants division was the enlargement of production plant for surface treatment and drying of monobasic propellant powder at Wimmis. With roller modernization and process data acquisition carried out, the Aschau location completed the polybasic propellant powder quality production improvement program begun back in 2004.

Rheinmetall Group business trend
Capital expenditures

Expenditures for expanding 40-mm ammunition production are letting Rheinmetall Defence shore its position in growth segments offering sustainable profitability prospects. The measures included the extension of production capacities at Unterlüss and Trittau plus an infrastructure for American Rheinmetall Munitions Inc. at Camden, Arkansas. Steps to revamp mechanical production at Unterlüss continued alongside expenditures at Neuenburg for modernization and capacity expansions in red phosphorus production for obscurant, flare, and decoy ammunition.

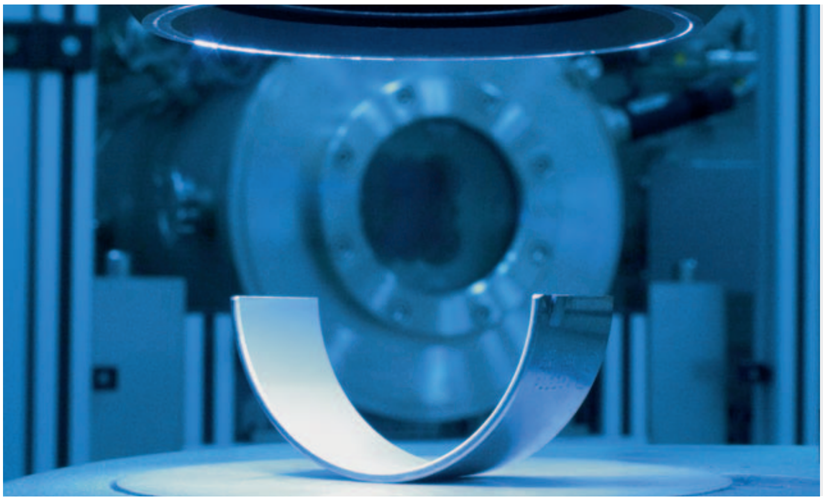
Rigorously managed Automotive expenditures | The Kolbenschmidt Pierburg Group invested €146 million (down from €148 million), with emphasis on the setting-up and expansion of facilities in the best-cost countries of India, Mexico and the Czech Republic, extending large-bore piston business, innovative production technologies, the development of customer projects and productivity improvements.

At Pune in India, an infrastructure investment project for setting up an industrial park is almost completed. This will be used in unison by the Kolbenschmidt Pierburg divisions including Pierburg Pump Technology for water, oil and vacuum pumps. In France and Italy, the expenditure bill included supplier tooling and new-product start-ups; in Germany, extended water circulating pump capacity with a new assembly line and winding shop.



Electric coolant pumps are used for the charge-air coolant system on turbocharged engines and on hybrid vehicles for the temperature-sensitive high-performance batteries and electric traction. Another cool use: fuel-cell systems.

Besides the outlays in Brazil and the USA for creating exhaust gas recirculation system production capacities, Pierburg invested in a second production shop at its Czech location. Finally, this division installed high-productivity manufacturing plant for the successful rollout of several cooling unit projects.



Sputter bearings' ability to cope with extreme heat and mechanical stress plus their inherent wear resistance is a valuable asset on today's high-pressure diesel engines.

At its German locations, the Pistons division allocated most of its outlays to additional large-bore and steel piston capacities and extended product features specified by customers. Other amounts were directed at equipment replacements. In the Czech Republic and besides replacement spending, the outlays targeted extra production capacities to fill the needs of a German OEM.

Expenditures at Plain Bearings were assigned to the setting-up of capacities for zero-lead products and to additional diesel engine plain bearing capacity at Papenburg.

Aluminum Technology's spending in 2008 was aimed at setting up capacity at Neckarsulm for new products destined for a premium carmaker. Additionally, there were numerous investment projects designed to enhance productivity and quality even more.

Rheinmetall Group business trend
Research and development

Technological and product developments unlock growth potentials | For Rheinmetall as a technology group, essential success ingredients in growth and sustainable competitiveness are, alongside ongoing product portfolio development efforts and accessing neighboring areas of business, the gestation of forward-pointing, marketable and user-friendly products. Technology, market and industry trends and their implications are permanently researched, analyzed, and assessed. Supplementing the Group's indigenous R&D efforts are close liaisons with university and other research institutes with the objective of benefiting from complementary know-how and knowledge sharing in such areas as automotive, production and electrical engineering.

In fiscal 2008 groupwide R&D accounted for €199 million (up from €179 million), including €175 million (up from €156 million) directly expensed and another €24 million (up from €23 million) capitalized as development costs. The ratio of R&D expenditures to sales was 5.1 percent in 2008 (up from 4.5).

R&D by corporate sector *€ million*

	2007	% of sales	2008	% of sales
Rheinmetall Group	**179**	**4.5**	**199**	**5.1**
Defence	53	3.0	61	3.4
Automotive	126	5.6	138	6.7

Defence, in order to safeguard its competitive edge and fortify its foremost market positions, engages in a wide range of R&D and technology projects. These comprise both internally funded and customer-commissioned development work; just the former is tabled above. Typical projects are portrayed in the following.

Expanded version of the Future Soldier System | The infantry soldier continues to perform a lead role as land forces become increasingly geared to new mission scenarios. Modern technologies can make a decisive contribution to improving survivability, command capability, endurance, mobility, and effectiveness in the field. The objective is a soldier who is better protected, equipped with effective systems of engagement and in possession of a complete situational picture and reliable means of communications. The Future Soldier System is one of the German Armed Forces' key modernization projects for which Rheinmetall Defence has developed the expanded version. The aim of this technology program, currently regarded as world-leading, is to comprehensively improve infantry soldier efficiency across the whole deployment spectrum while enhancing personal invulnerability. Following favorable results during the field trials conducted on the 20 systems supplied in mid-2008, the order for the optimization and lead-up stage is expected in the current fiscal year, on the basis of which series production of the system can be launched in 2011. The first of the 900-series systems currently planned are to be shipped to the German Armed Forces by the end of 2012.

Close-range systems capable of engaging extremely small targets | The Skyshield air defence system which is capable of engaging extremely small targets such as rocket, artillery and mortar shells (C-RAM), underwent successful practical testing against 120-mm and 82-mm mortar and 107-mm missile ammunition under real conditions in the spring of 2008. An elaborate simulation scenario conducted by an outside company we commissioned, confirmed the interception capability achieved. The C-RAM close-range air defence weapon system, which the German Armed Forces plan to use from 2011 for forward operating bases, is currently undergoing testing for official approval. In addition, a weapon deployment system is being developed for integration into a higher-level command system.

Wisent highly mobile command and multipurpose vehicle | Within the range of tasks facing the armed forces, conflict prevention and crisis management missions including the fight against international terrorism have become an everyday challenge, with emphasis also on the recovery and evacuation of troops in the field. The armed forces' focus on these missions calls for highly mobile and well-protected command and multipurpose vehicles. The Wisent currently under development offers alongside great off-road mobility a very high level of protection for the crew against small arms fire, mines and threats from improvised explosive devices (IED) and NBC substances. The comprehensive level of protection, which is concentrated on the three-man driver's cab as well as the armored, removable and autonomously usable container for command and multipurpose missions, is based on the findings of R&D-supporting simulations. In the technical design of the Wisent special importance was attached to modularity. High parts commonality also helps keep the life-cycle costs of the whole Wisent vehicle range very low.

AMPV lightweight vehicle | A new range of armored vehicles under the name AMPV, which is being developed with an industrial partner in a 50/50 joint venture, is geared to the threat situations in current and future armed forces missions. Having been designed from scratch, the new vehicles feature a highly protected passenger cell which guarantees a hitherto unachieved level of protection in this class especially against mines and IEDs. The vehicles offer the crew the option of self-defence under protection, a high payload and maximum mobility and flexibility in use. The AMPV models, which cover a weight range of 5.3 to 9.3 tonnes, are suitable in their varying versions as liaison vehicles, for patrol tasks and also as an equipment kit carrier for a wide variety of missions. Within the German Armed Forces they are intended to succeed the largely unprotected lightweight vehicle types used to date, the large-scale decommissioning of which is foreseeable.

The all-wheel-drive AMPV (Armored Multi-Purpose Vehicle) has been developed to take over the functions of the unprotected vehicles deployed by the German Armed Forces to date. Designed by a consortium largely involving Rheinmetall, it represents a new symbiosis of mobility and protection on military command and multifunctional vehicles while having abundant family growth potential.

Armored cabs for military trucks | Rheinmetall has been commissioned by a renowned truck manufacturer to develop an armored vehicle cabin which is to go into series production in large numbers from 2011. The integrated armor-plating made of ultramodern composite offers the crew effective protection against small arms fire, mines and IEDs.

Lance medium-caliber turret | The new Lance turret was unveiled to the public for the first time at Eurosatory 2008. With its innovative and modular design it marks the launch of a new generation of turrets in the medium-caliber segment. During a live firing test at the Unterlüss range, the system successfully underlined its high effectiveness to the assembled international guests. An initial order for the supply of four turret systems (manned configuration) has been placed by a European customer.

Rheinmetall Group business trend
Research and development

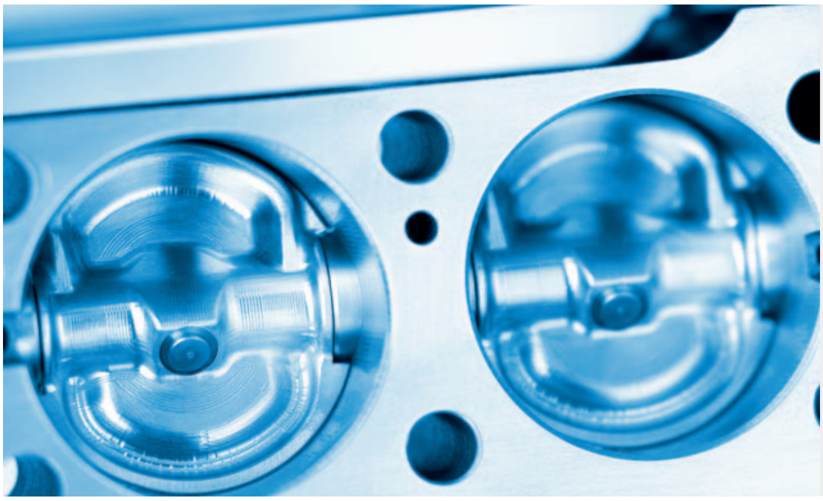
System demonstrator for convoy protection | In order to further improve the protection of convoy and patrol operations against asymmetric threats, technologies need to be identified and examined in terms of their suitability for installation on reconnaissance and security vehicles in a networked system. In order to prepare for these tests Rheinmetall Defence implemented in 2008 a system demonstrator with a modular equipment concept in the categories of command capability, news gathering and reconnaissance on the platform of the Fuchs/Fox 1 armored transport vehicle.

WABEP system for standoff engagement of single and pinpoint targets | In order to combat stationary and moving targets with pinpoint accuracy armed forces need modern systems which are able to carry out sustained long-range operations in air space with controllability by the operator. Studies show that Rheinmetall Defence's unmanned aerial reconnaissance system (KZO) combined with the combat drone of a partner company meets these requirements. Both systems were advanced last year to such an extent that the exchange of information and control of the whole system are guaranteed through networking. Following successful target identification the combat drone is deployed by reconnaissance systems which together with joint ground control stations ensure its controlled deployment against armored and unarmored targets on the basis of reconnaissance images and videos. The German Armed Forces will acquire two WABEP systems for the standoff engagement of single and pinpoint targets each with 40 effectors in the network-enabled KZO system.

Rheinmetall Defence's drone system provides infantry support through rapid and safe round-the-clock real-time air reconnaissance. For missions to safely succeed, an ability to identify situations instantly, assess and combat threats is essential.

R&D activities at **Automotive** in 2008 centered on long-term auto industry trends: curbing of CO_2 emissions, the introduction of tighter exhaust gas standards, such as Euro 5 and Euro 6, reduction of component costs through state-of-the-art manufacturing methods and optimized products, and extended environmental requirements such as zero-lead bearings.

Advanced components, modules and systems for every aspect of the engine | At the end of 2008 and besides its second-generation of motorized exhaust gas recirculation (EGR) valves, the Pierburg division shipped out to several customers new high-integration aluminum EGR cooler modules. Both product families are remarkable for enhanced customer benefits and optimized production processes. In view of the Euro 6 emissions standard to take effect on September 1, 2014, Pierburg engineers worked on EGR systems with upgraded efficiency. A determining factor within this context is the conceptual analysis of low-pressure EGR systems.



Pierburg is increasingly applying its engine technology and emission-reduction expertise to commercial vehicles in such forms as a series of heavy-duty exhaust gas recirculation valves.

Pierburg has a series of further developed successful secondary air pump and valve product lines designed to address rising demands for more effective systems that meet future US emission requirements in the form of SULEV (Super Ultra Low Emissions Vehicle) and PZEV (Partial Zero Emissions Vehicle). Vehicles engineered to such standards discharge up to 90 percent less emissions than average new vehicles. In response to the trend toward electronically controlled exhaust gas flaps, Pierburg has its next-generation actuators with less costly but more functional electronics. About to be marketed are types of actuator for exhaust-gas and swirl flaps in answer to the booming turbocharger market.

The emphasis in the case of solenoid valves was on turborcharging system actuators. A cost-optimized divert-air valve without any diaphragm or membrane was successfully industrialized. Readied for series production was the third generation of an electropneumatic transducer, a key component in optimized turbocharger actuation. A special hydraulic valve for the strongly expanding variable oil pump market is shortly to enter series production.

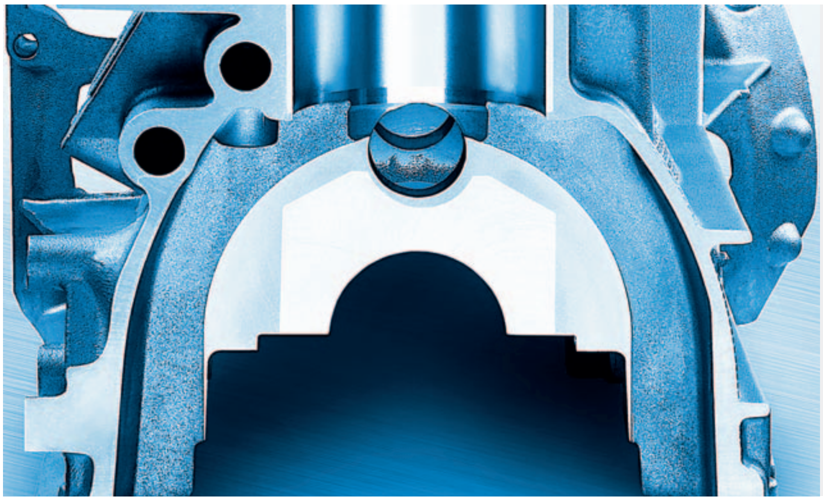
R&D efforts were stepped up on commercial vehicle components. Among the engineered assemblies was a modular system with dedicated exhaust gas flaps suitable for a broad range of commercial vehicle engines. Designed to minimize pressure losses, the system ensures reduced fuel consumption. Here, too, the charger plays a lead role in reduced emissions and fuel consumption. The system can also be flexibly adapted to worldwide differing commercial vehicle emission and output requirements.

Back in 2005, Pierburg GmbH had launched its exhaust-gas driven turbocharger activities and successfully developed the first prototypes. Presented at the IAA Commercial Vehicles 2008 in Hannover was a family of Pierburg turbochargers and prototypes designed for commercial vehicle, construction and farming machinery plus industrial and marine engines with capacities of 4.0 to 18.0 liters per turbocharger. The company is working on its first customer projects.

Rheinmetall Group business trend
Research and development

Innovative pump technologies | Pierburg Pump Technology's R&D efforts centered on a variable vane oil pump for both cars and commercial vehicles and able to cut fuel consumption by up to 4 percent. Patterned on an existing electric coolant pump, a small version for auxiliary coolant circuits was readied for series production. Among the possible functions of this innovative pump is to cool electric output stages on fuel-cell or hybrid vehicles. A newcomer to the product portfolio is an electric oil pump by means of which engine output losses and hence CO_2 emissions are lowerable. These are pumps with rising and broad-based demand and for which a modular system is currently being designed. Also developed was a new 2-stage magnetic-coupling water pump that satisfies Euro 5 emissions standards for commercial vehicles. Series production is scheduled for the start of 2009. Vacuum pump research addressed, in addition to ongoing applications, further refinements to the pump mechanisms with the aim of arriving at a marked reduction in power and hence fuel consumption.

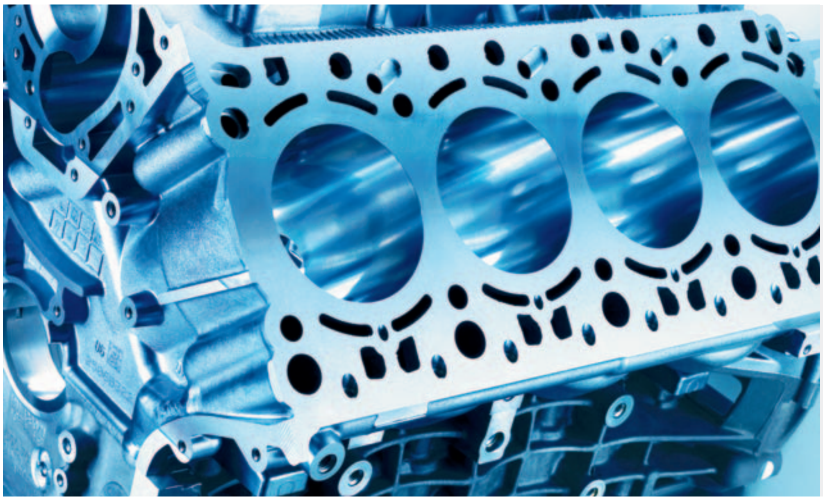
Customized pistons | With a new generation of aluminum materials, Pistons is refining its products to meet the heavier demands imposed on engine pistons. The newest manufacturing methods add reinforcement to the severely punished piston bowl lip and thus do much to extend the longevity of commercial vehicle engine pistons. Already well established among OEMs are the innovatively shaped coolant passages ContureKS und DynamiKS. Process innovations helped upgrade significantly the wear resilience of the steel pistons. New welding techniques are being tested for the purpose of raising piston rigidity.



The components on fuel-efficient downsized engines are often exposed to a quantum leap in mechanical and thermal stress. One solution: local application of aluminum-matrix composites for further functional advantages and added lightweight potential.

Unlike the friction-welded steel versions, the patented SpintekS pistons are made from a single forging. In fact, in the form of these products KS Pistons has created a totally new mode of production for monobloc steel pistons. Besides its US applications, this type of piston is used in European engines at very short compression heights. LiteKS-2 is a follow-up to the original lightweight LiteKS concept. The now refined design saves another 6 percent weight over the previous model and, compared with conventional pistons, even up to 15 percent. One outcome of basic research directed at reducing frictional losses within the engine was NanofriKS-1 and NanofriKS-2, two shaft coatings successfully established in series production processes. Other innovative products are pending.

Innovative high-grade plain bearing materials | High up on the R&D agenda at Plain Bearings were new kinds of zero-lead production materials. At the start of 2008, this division unveiled its zero-lead piston pin bushings which even now satisfy the requirements of the EU scrap car regulation coming into force as from 2011. The new and innovative substitute will also cope with more punishing working conditions and thus allows new applications to be tapped. Following a series of exacting tests, several engine builders are already about to release this material for series production purposes. With injection pressures mounting, more and more diesel injection pump makers are turning to plain bearings from materials used by Plain Bearings. A number of projects were launched in 2008 and in all of them, the new polyether ether ketone (PEEK) compound is in use. With a view to complying with statutory requirements, developments at the Permaglide product group focused on the introduction of a dispersion with reduced perfluorinated alkyl carboxylic acid (PFAO). Parallel to this, work started on a zero-PFAO upstream product that complies with the strict 2014 environmental standards well ahead of time.



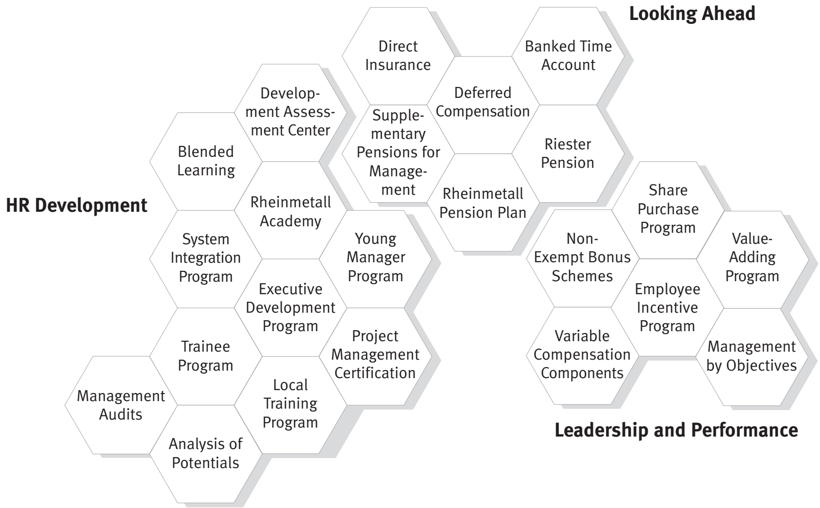
Weight savings represent a vast automotive engineering challenge. Aluminum engine blocks are a matching answer since they allow up to 50-percent weight reduction on this the engine's heaviest individual component.

Net-machined ALUSIL® engine blocks | The past fiscal year saw several successful start-ups of innovative ALUSIL engine blocks destined for notable German OEMs. Kolbenschmidt Pierburg much enlarged its share of the manufacture of the Porsche six-cylinder horizontally-opposed engine block by delivering from the Neckarsulm location to the customer's final assembly line a net-machined engine block ready for direct installation. Rising demand for small and lightweight high-performance engines built from pressure die-cast aluminum blocks is addressed by KS Aluminum Technology with an improved modular die-casting concept that allows production costs to be lowered. Developed for diesel engine blocks was a new permanent-mold gravity casting process for high-strength bearing blocks. This is a technology that permits even highly complex diesel engine cylinder heads to be cast. Future focal points are to access further areas of lightweight potential, added strength, less friction losses, enhanced wear resistance and the compatibility of both proven and new kinds of cylinder working surfaces with alternative fuels.

Rheinmetall Group business trend
Employees

21,020 employees representing Rheinmetall in customer and supplier relationships | Rheinmetall Group companies operate in fiercely competitive, dynamically developing markets calling for a high degree of specialty know-how. Experienced managers, highly qualified experts, hands-on specialists and ambitious junior staff largely contribute with their knowledge, skills, experience and motivation in the achievement of corporate goals and sustainably securing and expanding the Group's economic success.

An attractive place to work | Attracting able junior, specialist and managerial staff to the corporate sectors and management holding company and retaining them is a central function of HR work. Rheinmetall is characterized by the flexibility of a midsize company coupled with the professionalism of an internationally operating manufacturer. The Group offers demanding and challenging tasks in an international environment, fair, performance-related and competitive remuneration, extensive benefits, wide-ranging individual development opportunities, and interesting scope for advancement.



Thanks to active HR marketing, participation at recruitment fairs and contacts with universities as well as wide-ranging efforts aimed at offering an insight into the working world, Rheinmetall is positioning itself as an attractive employer.

Intensive personnel development | In a fiercely competitive international environment, a key factor in achieving the demanding growth targets set by the Rheinmetall Group is to develop human resources—up-and-coming talents as well as experienced specialist and managerial staff—in line with current and future requirements. Individual and specialized qualifications and skills, networked thinking and leadership qualities are gaining increasing importance, the competitive pressure from international markets requiring a continual readiness to learn. Regular and systematic selection and assessment processes such as management audits and potential analysis form the basis of planning for job succession and the relevant management or HR development programs that are designed to purposefully prepare staff for taking on new or extended tasks. As a result of this approach, Rheinmetall ensures that when vacancies occur key positions can in most cases be filled with qualified individuals from within the Group's own ranks.

Continuing training activities that are tailored to the skills of individuals and the needs of the various companies are conducted on a local basis. At Group level, the Rheinmetall Academy focuses on executive development as well as specific training courses of overarching importance devoted to such topics as leadership skills, preparation for international assignments or project management. In addition, the Rheinmetall Academy offers through its forums the framework in which specialized and managerial staff can learn from one another and pool their experience on such topics as quality management or patent strategy. It is increasingly necessary for training to be conducted not only effectively but also independently of time and place. As a consequence, blended learning and e-learning are being promoted as an effective combination of different learning methods.

Incentive-based, performance-commensurate pay systems | In its remuneration policy Rheinmetall offers attractive terms of employment while focusing on incentives and performance expectations. Modern concepts such as variable pay, profit-sharing and incentives tied to an increase in shareholder value are designed to promote motivation among senior executives. Besides a fixed amount, Rheinmetall offers Executive Board members, managers and executives incentives ranging between 0 and 200 percent depending on the achievement of personally agreed goals and quantitative corporate performance improvements. In order to strengthen long-term business prospects, officers and other senior management are entitled to a long-term incentive tied to the absolute increase in the Rheinmetall Group's shareholder value. The concept is also geared to the capital markets by being paid out partly in the form of Rheinmetall shares.

In addition to executives, exempt employees are also included in the Management by Objectives program, meaning that a variable component of their salary depends on the achievement of agreed goals as well as corporate success.

Employees take up Rheinmetall stock | Rheinmetall AG launched the "My piece of Rheinmetall" employee stock purchase program for the first time in 2008. Employees in Germany initially had the chance to buy company stock at a 30-percent discount during the months of April, July and November 2008. All in all, 2,346 employees, or 22.6 percent of those entitled to do so, purchased 355,229 Rheinmetall shares, which cannot be transferred or pledged for a two-year period. The high take-up of the stock purchase program demonstrates the confidence of employees in their company and their willingness to invest their personal funds in its future development.

Continued strong commitment to training | Our commitment to qualified and practice-oriented training, which we also regard as a responsibility to society, is undiminished. At the close of 2008, 595 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 apprenticeship ratio for the German locations was 5.5 percent of the workforce, thus matching the prior-year level.

Rheinmetall Group business trend
Employees

Pension plans—a key component of HR policy | The Rheinmetall Group assists its employees in planning and securing retirement income. The pension plan, known as “Rheinmetall Plus,” which applies to all domestic Rheinmetall locations, consists of a basic plan, an intermediate plan linked to performance and EBT increases, and a supplementary employee-financed defined contribution plan. A direct insurance or deferred compensation are additional options to effectively boost future retirement income. Country-specific pension arrangements also exist for employees outside of Germany.

Personnel indicators | As of December 31, 2008, Rheinmetall employed a global workforce of 21,020 (up from 19,185). Of these, 43.8 percent worked for the Defence sector, 55.6 percent for the Kolbenschmidt Pierburg Group, and the remaining 0.6 percent for Rheinmetall AG and the service enterprises. The percentage employed outside of Germany was 48 (up from 44). Personnel expenses mounted €27 million to €1,079 million, wages and salaries accounting for €887 million, social security taxes, pension expense and related employee benefits adding up to €192 million. Personnel expenses per capita (rounded) totaled €51,000 (down from €55,000). The ratio of personnel expenses to total operating performance inched up from 26 to 27 percent. Sales per capita (rounded) decreased from €209,000 to €184,000 in 2008.

Rheinmetall AG

Rheinmetall AG performing strategic holding functions | Listed Rheinmetall AG, headquartered in Düsseldorf, manages the Rheinmetall Group with its two corporate sectors, Defence and Automotive, and defines long-term strategies and corporate policies.

The Company’s prime tasks include to set targets and guidelines, streamline the portfolio of shareholdings, provide central financing and risk management services, and staff management positions within the Group. The corporate support and service functions exercised by Rheinmetall AG at group level comprise finance, human resources, communication, legal affairs, internal auditing, M&A transactions, etc. The Company ensures that groupwide standardized budgeting, planning, controlling and management methods and processes are used, and monitors at group level compliance with the law, guidelines, corporate policies and regulations according to uniform criteria.

The clearly demarcated Automotive and Defence core sectors, 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.

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 freeze. 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 2008 reference price of €47.49, altogether 10,053 shares were transferred on April 1, 2008, to Rheinmetall AG's Executive Board, including 5,027 shares to CEO Klaus Eberhardt and 2,513 shares each to Dr. Gerd Kleinert and Dr. Herbert Müller. These bonus shares are blocked from sale up to and including March 31, 2011.

€ '000	Fixed salary incl. fringes	Performance-related income	LTIP	Total	Annual post-retirement pension	Service cost
Klaus Eberhardt	796	365	1,039	2,200	297	330
Dr. Gerd Kleinert	515	58	18	591	195	378
Dr. Herbert Müller	372	145	520	1,037	151	86
Total	**1,683**	**568**	**1,577**	**3,828**		

Executive Board members are entitled to defined-benefit pensions, based on 25 percent of the annual target salary. The retirement age has been fixed at 63 years. The Company has accrued the present value of 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 2008 for his services on the Executive Board.

Board compensation report

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 €30,000, the variable portion being €200 for each euro cent of dividend in excess of €0.60 paid out, however, with a cap of €30,000.

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 €1,000, that for committee meetings not held the same day to €500. Meeting attendance fees in 2008 totaled €70,000. Subject to the vote by the annual general meeting on May 12, 2009, Supervisory Board members will receive the following remuneration for 2008:

€

	Fixed fee	Variable fee	Committee membership fee	Total remuneration 2008
Klaus Greinert	60,000	28,000	44,000	132,000
Joachim Stöber	60,000	28,000	22,000	110,000
Dr. Andreas Georgi	30,000	14,000		44,000
Dr. Siegfried Goll	25,250	11,783		37,033
Dr. Peter Mihatsch	30,000	14,000	11,000	55,000
DDr. Peter Mitterbauer	30,000	14,000		44,000
Henning von Ondarza	30,000	14,000		44,000
Prof. Dr. Frank Richter	30,000	14,000	22,000	66,000
Reinhard Sitzmann	30,000	14,000		44,000
Dr. Ludwig Dammer	30,000	14,000		44,000
Heinrich Kmett	30,000	14,000	11,000	55,000
Dr. Rudolf Luz	30,000	14,000		44,000
Wolfgang Müller	30,000	14,000		44,000
Harald Töpfer	30,000	14,000		44,000
Wolfgang Tretbar	30,000	14,000	11,000	55,000
Peter Winter	30,000	14,000	11,000	55,000
Total	**535,250**	**249,783**	**132,000**	**917,033**

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 | As of December 31, 2008, 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 subscription 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.

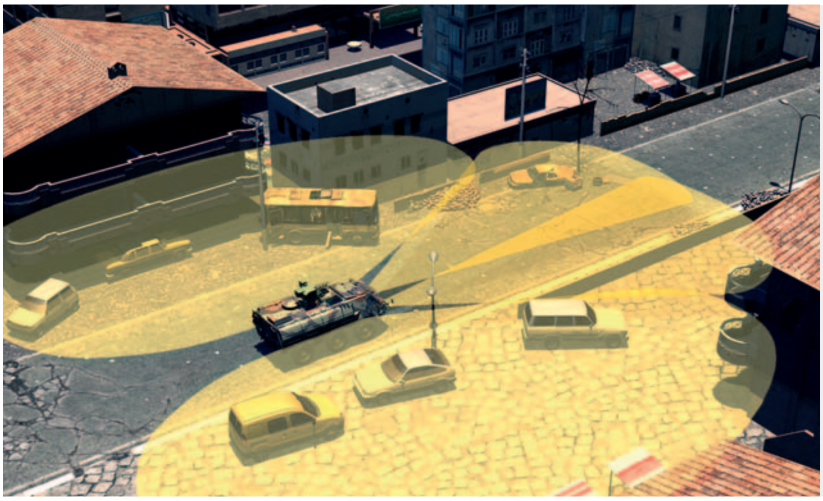
A current development project on behalf of the German Armed Forces: the Future Soldier system—in its extended format (IdZ-ES). The fully digital and modular equipment allows voice, data and video transmission and, combined with GPS-integrated digital position-information, real-time situational imaging. The availability of critical information can save lives in combat conditions.

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. Shares issued at a discount under the employee stock purchase program to eligible staff are subject to a 2-year resale freeze.

Statutory disclosures according to Art. 315(4) HGB

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.



Improvised explosive traps are among the most dangerous devices deployed by terrorists and extremists. One effective counter-measure: powerful microwave systems. For vehicle protection, Rheinmetall has devised a modular system that creates an electromagnetic shield encircling the vehicle and hence considerably abating the threat scenario.

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. The same applies mutatis mutandis to shares issued to eligible staff under the employee stock purchase program, i.e., these shares are just subject to a resale freeze but no restriction on the attaching rights of control exists.

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 to issue and repurchase stock | According to Art. 202 AktG, the general 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 annual general meeting of May 9, 2006, authorized the Executive Board, 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 exclusion of subscription rights that the Executive Board may resolve after obtaining Supervisory Board approval is governed by Art. 4(3) of the bylaws.

The repurchase of treasury stock is governed by Art. 71 AktG. According to the resolution by the annual general meeting of May 6, 2008, in Berlin, Rheinmetall AG's Executive Board is authorized pursuant to Art. 71(1) No. 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, 2009, unless otherwise resolved by the AGM before such date. As of December 31, 2008, Rheinmetall AG held 1,607,928 shares of treasury stock (up from 1,051,417), equivalent to around 4.5 percent of the capital stock.

News headlines nowadays repeatedly report on security threats in international waters. The MLG 27, a new mid-caliber standard naval gun, will in future be employed by the German Navy. This high-performing weapon and its ultramodern ammunition are ideal for protecting combat and support vessels operating in coastal and port proximity.

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 defense 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.

Risk report

Seizing opportunities—containing risks | The business policy of the Rheinmetall Group is designed to steadily and sustainably raise shareholder value, achieve the medium-term strategic, economic and financial goals and to secure the Group's survivability in the long term. The defence and automotive businesses of the internationally operating corporate sectors are faced with a large number of opportunities whose exploitation is inevitably tied to the shouldering of risks. An important element of entrepreneurial activity is to contain these risks while concurrently and vigorously seizing the opportunities.

Groupwide risk management | The standardized risk management system consists of multitiered and dovetailing planning, reporting, and control systems. A monthly report updates the Executive Board and senior executives on the status of and any essential changes in significant and reportable risk-related ventures and on the progress of any countermeasures already undertaken. Ad-hoc notifications refer to any sudden and/or unexpected risks.

Internal Auditing reviews on the basis of project plans approved by the Executive Board the propriety, reliability and effectiveness of business and organizational processes as well as the effectiveness of internal control mechanisms. Any risks and weak points detected in the course of these reviews are quickly remedied or removed in cooperation with the managers in charge.

Business risks | The various divisions are exposed to economic swings and market cycles in those regions, countries and markets in which they operate. Adverse trends may impact severely on the course of business. Thanks to Rheinmetall's presence on the markets of Europe, America and Asia, the diversified product portfolio and the unwavering efforts to internationalize, temporary economic setbacks in one region or market may be offset, albeit only in part, by more congenial trends elsewhere.

In the procurement of commodities, raw materials, parts and components, risks may surface in the form of unexpected shortages, delays, bottlenecks, quality problems or rising prices. Globally coordinated sourcing processes, long-term supply contracts and an ongoing review of the supplier pool plus establishing alternative supply sources are mechanisms for mitigating such potential risks. Contracts include, where possible, price escalator clauses in order to largely minimize the impact of higher procurement prices.

Backed by its keen technological competitiveness, the Group systematically and in answer to customer needs develops new and refines existing products in which it can successfully do business in the long term. At an early stage, customers are closely involved in the definition, development and testing of new products and this process combined with state-of-the-art project management for reviewing the technical and economic success criteria and securing technological positions through patents, helps reduce possible R&D-related risks such as misdevelopments and budget overruns.

Potential production risks are abated by adherence to exacting engineering and safety criteria. Production plant availability is insured through preventive maintenance accompanied by ongoing checks plus repeated revamping and equipment-targeted expenditures. For possible damage or loss and the ensuing production disruptions as well as for other conceivable loss occurrences and liability risks, insurance cover has been taken out to an economically reasonable degree and extent customary in the industry to ensure that the financial consequences are contained or completely offset. The extent of such insurance cover is regularly reviewed and, where expedient, adapted.

The very complexity of certain projects may harbor risks in the form of unexpected technical obstacles, problems with partners or subcontractors, and delays in acceptance and invoicing. These risks may be limited but not fully excluded by such measures as professional project management and extensive quality management efforts plus contractual stipulations.

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 generally avoided.

The central liquidity management system, combined with the use of such financing instruments as bond issues, commercial paper and the asset-backed securities program, ensures the general availability of sufficient financial resources for operating and investing activities.

The current financial market crisis may weaken the equity base of lenders and deprive certain product segments of their entire liquidity, thus drying up the cash sources usually available to borrowers. Moreover, the cost risk exists that new agreements will be predicated on higher charges, interest rate spreads and guaranty commissions. A broad array of different funding sources and financing instruments with staggered maturities which are closely monitored and therefore revolved, renewed or otherwise updated in good time, enables Rheinmetall to respond flexibly to such challenges. Based on a detailed long-term cash requirements plan, the liquidity risk is whittled down thanks to the availability of credit facilities with a year-on-year unchanged overall volume far beyond such requirements.

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 | Severe IT system disruptions may have serious impact on the control of business and production processes. Networks may fail, programming and operating errors or external factors may corrupt or delete data. Potential IT risks are abated by such factors as IT infrastructure standards, security mechanisms and adequate protection against data loss, unauthorized access or data misuse. Regular expenditures make sure that the installed software and hardware are state-of-the-art. Together with specialist service providers, the technical configuration, the security structure and the efficient operation of the IT systems are periodically reviewed and continuously improved.

Personnel risks | The degree to which the Rheinmetall Group achieves its ambitious corporate targets and sustainable success largely hinges on the qualifications, skills and knowledge of its employees. The turnover of staff in key positions or problems in recruiting skilled technical and managerial staff with the sought-for commercial, technical and industry-specific expertise may have a sustained adverse impact on the Group. So, in order to tie employees long term to Rheinmetall and attract new ones, the Company offers incentives, appealing pension plans, wide-ranging courses and individual development programs. Alongside systematic management development programs, steps are also taken to identify and nurture at an early stage up-and-coming talent plus potential holders of key positions .

Risk report

Compliance risks | Corporate compliance refers to the organizational procedures designed to ensure proper modes of conduct and behavior on the part of a company and its employees. These are built on proven principles governing entrepreneurial activities within the Rheinmetall Group. They are designed to prevent any disadvantages, loss or damage possibly accruing to the Group from malpractices or wrongdoing. For many years now, Rheinmetall has had comprehensive corporate policies aimed at continuous abidance by legal requirements, preventing the violation of applicable laws as well as ensuring actions in line with duty and prevailing circumstances. Depending on the requirements of their respective businesses, employees are regularly updated in the course of seminars and through other instruments of information on the relevant rules and regulations and any amendments. The Chief Compliance Officer regularly reports to the Executive Board and the Supervisory Board's Audit Committee about the status quo.

Legal risks | Legal risks encompass in particular those emanating from product liability, competition, cartel and antitrust laws, patent and tax legislation. Potential loss, damage and liability resulting from ordinary operations are adequately covered by insurances or accounting provisions. In such decisions and in the organization of business processes the Group resorts to both detailed advice from its own professionals and, in certain cases from outside experts. The outcome of judicial proceedings presently underway cannot be predicted with certainty and hence, court decisions and settlements may lead to expenses not or not fully allowed for and hence a burden on business and earnings.

Environmental risks | Environmental risks are generally limited since hazardous substances are used to only a slight extent. Environmental Officers monitor compliance with statutory requirements at the production locations.

Risks and rewards in the segments | Rheinmetall Defence specializes in arming the land forces with military vehicles, weapons and munition as well as electronic equipment and state-of-the-art air defence systems. The sector's market potential results mainly from the defence budgets of prospective customer nations. Opportunities for Rheinmetall Defence's six divisions are tied to the changing military requirements of the German Armed Forces, NATO, and the armed forces of the EU states. The Defence sector may also benefit from ad-hoc procurement needs triggered by 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 just as critical to winning orders abroad as is an innovative product range tailored to the new needs of the armed forces and on a par with international competition. Other growth opportunities can accrue to Rheinmetall Defence as a result of the expected ongoing consolidation process in the European ordnance market.

Defence's business areas are not directly dependent on the state of the economy. The chief risks are associated with a tightening of public sector budgets in Germany and certain customer countries and tougher transatlantic competition. Those export markets which are accessible are exposed to fierce international competition. Political factors and changes in customer countries, budget restrictions and funding/financing problems might lead to risks in the form of delays and/or non-award of contracts. Worldwide, politicians and central banks have intervened with comprehensive emergency and rescue packages designed to contain the fallout of the financial market crisis. The ensuing pressure imposed on the public-sector budgets could lead to cutbacks, shifts or delays in defence spending which, in turn, would hurt Rheinmetall Defence.

Other possible risk-related obstacles are higher advance funding due to deteriorated downpayment conditions and possible financial involvement in projects (e.g. public-private partnership models). Additionally, unexpected difficulties in project processing might surface and lead to unforeseen burdens.

The present global weakness of the auto industry is adding fuel to already existing trends and will bring about a change in the current structure of the auto-component industry. From its position of vast technological competence and financial solidity, this opens up an opportunity of emerging from the crisis strengthened. Restructuring and earnings-enhancement programs initiated at an early stage will secure profitability even if sales shrink. When shipments pick up again, the Kolbenschmidt Pierburg Group stands to gain from its leaner cost structure. The improved global production structure and the market shakeout following the exit of weaker competitors are further factors expected to lead to a broadening of business.

Alongside the ever tighter statutory emission standards and international CO_2 reduction pacts, there is a growing ecological awareness in Kolbenschmidt Pierburg's key markets and this opens up additional opportunities to increase shipments and market shares through existing and developing innovative emission-lowering products.

Despite the meanwhile crisis-related cheaper oil and fuel, the H1/2008 record prices have accelerated the trend toward fuel-efficient engines. This, in turn, unleashes new potentials for both diesel and low-consumption gasoline engines. Diesels still have a long way to catch up in certain regions of the world. Given its existing expertise, Kolbenschmidt Pierburg will benefit more than most from a general acceptance of diesel engine vehicles in these markets. In Europe, especially, the trend toward direct-injection gasoline engines and downsizing harbors incremental potential.

Other windows of growth are opening up through the expansion of the sector's business outside the car industry and into such markets as large-bore pistons built into marine and stationary power plant engines. Cost-pruning programs among various auto-industry OEMs and the related outsourcing activities may also stoke additional business.

Critical considerations in the Automotive sector's strategy are, alongside the fast-growing Asian markets which will continue to constitute the focus of international purchasing, production and marketing efforts, Kolbenschmidt Pierburg's presently saturated yet high-volume core markets in Western Europe and the USA.

The transformation process that the auto-component industry is undergoing also offers the opportunity of winning extra business from high-growth Asian OEMs presently underrepresented in the customer portfolio and, on the basis of a stable economic situation, digging deeper into the traditional core markets.

For the Kolbenschmidt Pierburg Group, there is also the opportunity by maintaining and sharpening its cost structure and optimizing the value-adding chain, combined with adherence to ultimate quality standards, of continuously expanding its business.

The Automotive sector companies together account for 53 percent of corporate sales. The automotive industry climate and the way this industry develops, have a major impact on the Kolbenschmidt Pierburg Group, its sales and profitability. In times of fiercer competition and greater market transparency, unexpected changes in regular order placement, product mix shifts, tighter competition and ongoing price pressure are all possible. The outcome: possible fluctuations in prices, shipments, and profit margins.

Risk report

Parallel to the shorter product life cycles, motor vehicle manufacturers find themselves encircled by tight competitive, innovative and cost-reduction constraints which they then pass on to their suppliers. Automotive's response to these trends is to invest in new products, deploy state-of-the-art manufacturing processes and cost-saving technologies, maximize internal process efficiency and implement saving and cost-reduction programs.

Possibly declining auto demand in certain countries is countered by amplifying international presence. Advantageous economic parameters for extending existing locations and expanding production capacities are exploited. Additionally, the heterogeneous customer structure allows production fluctuations among OEMs to be balanced out. Thanks to the broad product range and low reliance on individual carmakers, soft demand and price increases can be absorbed to a certain degree. The auto industry is affected to an unprecedented extent by the repercussions of the international financial market crisis. The developments on the national and international auto sector are not foreseeable. For 2009, pundits predict a double-digit decline in global auto production over 2008. This will have a dire impact on the industry suppliers and any consequent further shrinkage in demand will lead to a severe deterioration in the situation and development at Automotive.

Among the cost risks are excessive commodity price hikes. Such risks are contained by escalator clauses in the corresponding contracts—especially for aluminum and copper. Procurement timing and volumes are controlled and accompanied by the use of the relevant hedging tools. Rising energy costs are addressed by coordinated groupwide invitations to bid and, in some cases, long contract terms.

Acquisitions, strategic alliances, joint ventures and additions to tangible assets are moves that contribute to the future success of Rheinmetall while at the same time risk-related due to capital outlays and long-term tied-up capital. Meticulous reviews in advance of such takeovers (comprehensive due diligence), expenditures (cost-efficiency calculations) and new development projects (feasibility studies, cost-efficiency calculations) are conducted in a multitiered approval process in order to raise risk transparency.

The general risk situation | The aforementioned risks are not necessarily 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.

The Rheinmetall Group's risk management mechanisms have been reviewed by the statutory auditor in accordance with Art. 317 (4) HGB and found suitable for identifying early on any risks threatening the survival of the Group.

Taking into account the overall risk situation, major risks or developments with a potentially long-term unfavorable effect 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 individually or in their aggregate 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.

Prospects

Global recession and uncertainties in forecasting | During the winter months of 2008/2009, the global economy plunged into a deep recession, leading economic research institutes were agreed. There were differing views at most on the extent and duration of the damage. Experts assessed uncertainties in forecasting at the start of 2009 unusually high. This was due firstly to imponderables related to the actual scope of the financial market crisis and secondly to the world economy‘s surprisingly sharp downhill slide during the fourth quarter of 2008. In the period that ensued, economic researchers downgraded their forecasts for 2009, in some cases significantly. For example, the Kiel Institute for the World Economy (IfW) reduced its growth forecast for global economic output from 3.3 percent, as originally released in September 2008, to 0.4 percent. For the industrial nations, they predicted a contraction of 1.5 percent.

At the end of January 2009, the IMF also downgraded its already scaled-back growth forecast for world production from 2.2 to 0.5 percent, equivalent to the lowest growth since the end of WWII. According to the IMF's own definition, the world economy is already in recession if the growth rate falls below 3 percent. It judged as especially disturbing the fact that in addition to the downward trend among mature industrialized nations emerging countries such as China, India and Brazil are losing increasingly growth momentum. "2009 will not be a good year for the global economy even if we do see a recovery at the start of 2010," noted IMF Managing Director Dominique Strauss-Kahn.

Bad news also came from the Organization for Economic Cooperation and Development (OECD), which in January 2009 reported a substantial drop in its "composite leading indicator," suggesting that it will again revise its 2009 forecast downward. At the end of November 2008, the OECD predicted a decline in total GDP for its 30 member countries of 0.4 percent. According to the IMF's more recent figures, mature industrial nations even face a drop of 2 percent in 2009. For the USA, the IMF is predicting that economic output will contract by 1.6 percent, while GDP is set to slump by 2.0 percent in the eurozone and by 2.6 percent in Japan.

The European Union is also forecasting a year of recession for its member states. According to EU Commission estimates, economic output in the 16 states of the eurozone will decline by 1.9 percent, whereas negative growth of 1.8 percent is anticipated for all 27 EU countries combined. The recession will hit the German economy especially hard with GDP forecast to drop by 2.3 percent. The Federal Government's assessment of the situation is no more upbeat, its 2009 Annual Economic Report predicting a 2.25-percent fall in economic output. This would be the sharpest drop in the Federal Republic's history.

The outlook for 2009 has also clouded over significantly for the newly industrialized countries. For example, the IMF is forecasting growth of just 6.7 percent for China, the Chinese economy moving ever further from the double-digit growth rates of 2003 to 2007. India's GDP is expected to grow by 5.1 percent, leaving the Indian economy also unable to sustain the almost double-digit expansion rates of 2006 and 2007.

The hopes of a rapid recovery rest chiefly on a final end to the financial crisis and on the economic stimulus packages running into billions being launched in the industrial nations. In Germany alone, programs to support the economy and boost demand have reached a total value of over €80 billion. In addition, industrialized countries are hoping that plunging energy and commodity prices will inject momentum. Following a record of almost $150 per barrel in the summer of 2008, the price of crude oil slumped to a mere $40 in early January 2009.

Prospects

The unexpected rise in the ifo business climate index in January 2009 was viewed by some commentators as an initial, albeit uncertain, sign of hope. This was the first increase in the index since May 2008. The experts of the ifo institute warned, however, against excessive expectations because the indicator remained at a very low level. Uncertainty about when the economic engine might start up again was correspondingly high in early 2009. Whereas the Federal Government's Annual Economic Report anticipates a slight rally in growth rates from Q2/2009, a gradual recovery is only realistic starting from 2010 in the IMF's view.

For 2010 as a whole, the IMF has lowered its growth forecast for gross world product in spite of the global economic stimulus programs from 3.8 to 3.0 percent. Its experts are anticipating growth of 1.6 percent for the USA, with stagnation forecast for the eurozone and Germany at 0.2 and. 0.1 percent, respectively. Japan's GDP is predicted to edge up by 0.6 percent. The newly industrialized countries are expected to regain increasing momentum in 2010, according to current estimates. For China, the IMF is forecasting a growth rate of 8.0 percent and for the Indian economy gains of 6.5 percent.

Defence market's steady growth and predictability | Unlike most branches of the economy the defence technology market is one of high stability and planning predictability even during the current recession. This is attributable firstly to the technology involved, the great complexity of military technology procurement projects requiring long-term planning. Secondly, given the high number of unresolved conflicts and trouble spots the trend toward armed forces' modernization is unbroken among the western-style democracies. Soldiers on international military and peacekeeping missions can be ensured the most effective protection in the field only through ongoing investment in equipment and technology. In Germany, according to current budgetary plans, the proportion of matériel and R&D spending is therefore set to mount by 7.7 percent to over €7.5 billion in 2009, equivalent to 24.3 percent of the total budget volume (up from 23.8 percent), which is increasing from €29.5 billion to over €31 billion. In addition, military expenditures in the USA and UK, which constitute the two biggest defence budgets worldwide, are also set to advance in 2009. The Jane's Information Group analysts predict that US military spending will reach a new record high of $708 billion (up from $696 billion), with UK spending forecast to climb from $79.3 billion to $81.5 billion.

Automotive industry drawn into maelstrom of global crisis | In early January 2009, the assembly lines of the automotive industry ground to a temporary halt as manufacturers and component makers responded to the unusually sharp slump in year-end demand with unscheduled plant shutdowns. In the opinion of automotive associations and market research institutes, a rapid improvement is not in sight, as reflected in the correspondingly gloomy forecasts for 2009 so far. The industry experts of CSM Worldwide are forecasting that global production of cars and light commercial vehicles will decline by some 13 percent in 2009 on the previous year. A more significant decline of 16.4 percent is predicted in Western Europe and of 20.8 percent in the NAFTA region, with experts anticipating a 19.8-percent drop in Japanese production. Growth momentum in 2009—albeit in a much weakened form—is only expected from emerging economies such as China and India. Forecasts assume a production increase of 4.6 percent for the Chinese auto industry, with comparatively buoyant growth of 7.3 percent anticipated in India. In Brazil (down 3.9 percent) and Russia (down 9.8 percent), growth momentum will slow down on previous years, according to the CSM forecast, resulting in production reductions.

The prospects for 2010 are still very difficult to foresee, in the opinion of many industry experts. One general emerging trend however is that the state of the automotive industry will improve tangibly during the course of the year. For the entire year 2010, CSM's market researchers are forecasting an 11.9-percent increase in the production of cars and light commercial vehicles on the 2009 recession year. This growth will be fueled, however, more by Asian and North American markets than from within Europe, with production for 2010 among Western European auto manufacturers climbing 5.7 percent, well short of the 21.3-percent surge predicted by experts for Japan and the 10.8-percent gain in China. In addition, following the difficulties of the 2008 and 2009 crisis years, a sharp rebound is anticipated for North America for 2010 with production surging by 15.2 percent.

Strong Defence business still Rheinmetall's mainstay | The business and earnings trend of the two corporate sectors of Defence und Automotive will vary based on the prospects outlined for the global automotive market and the market for defence equipment. As in the previous fiscal year, the Rheinmetall Group's performance in 2009 will again largely hinge on how well the Defence sector fares. For fiscal 2009, Rheinmetall expects Defence to remain on its growth course, supported by a continued high order backlog with potential for new business. For this year, it is budgeting sales of €1.9 billion and an EBIT margin of 10 percent.

For Rheinmetall's Automotive sector, it is not currently possible to reliably predict the course of fiscal 2009 owing to the prevailing uncertainties in the development of the market. Through cost variation options, by means of short-time working for instance, and with a defined cost-cutting volume of at least €50 million as well as pruned capital expenditures and measures to shrink capacities, the sector is countering the downtrend in automotive production which has also blighted the first few months of the current fiscal year. Its future profit contributions will depend crucially on how its industry progresses.

In all, the operating conditions exist for Rheinmetall to achieve respectable results in fiscal 2009, albeit on a reduced scale compared with past years.

Subsequent events | There were no reportable subsequent events.

Düsseldorf, March 6, 2009

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 2008
Rheinmetall AG

Consolidated balance sheet as of December 31, 2008

ASSETS *€ million*

	Note	12/31/2007	12/31/2008
Intangible assets	(6)	484	530
Tangible assets	(7)	1,046	1,092
Investment properties	(8)	14	15
Investments	(9)	84	93
Other noncurrent financial assets	(13)	10	9
Other noncurrent assets	(12)	6	8
Deferred tax assets	(29)	44	43
Total noncurrent assets		**1,688**	**1,790**
Inventories	(10)	726	782
less prepayments received		(24)	(26)
		702	756
Trade receivables	(11)	779	710
Other current financial assets	(13)	38	25
Other current receivables and assets	(12)	70	81
Income tax assets		8	22
Cash & cash equivalents	(14)	163	203
Noncurrent assets held for sale	(7)	--	1
Total current assets		**1,760**	**1,798**
Total assets		**3,448**	**3,588**

EQUITY & LIABILITIES *€ million*

	Note	12/31/2007	12/31/2008
Capital stock		92	92
Additional paid-in capital		208	208
All other reserves		617	691
Group earnings (after minority interests)		145	134
Treasury stock		(46)	(66)
Stockholders' equity		**1,016**	**1,059**
Minority interests		43	59
Total equity	(15)	**1,059**	**1,118**
Accruals for pensions and similar obligations	(16)	522	523
Other noncurrent accruals	(17)	106	98
Noncurrent financial liabilities	(18)	384	360
Noncurrent other liabilities	(20)	12	21
Deferred tax liabilities	(29)	24	44
Total noncurrent liabilities		**1,048**	**1,046**
Current accruals	(17)	316	312
Current financial liabilities	(18)	15	48
Trade payables	(19)	554	511
Current other liabilities	(20)	412	507
Income tax liabilities		44	46
Total current liabilities		**1,341**	**1,424**
Total equity & liabilities		**3,448**	**3,588**

Consolidated income statement for fiscal 2008

€ million

	Note	2007	2008
Net sales		**4,005**	**3,869**
Net inventory changes and other work and material capitalized		(6)	58
Total operating performance	(21)	**3,999**	**3,927**
Other operating income	(22)	136	145
Cost of materials	(23)	(2,109)	2,005)
Personnel expenses	(24)	(1,052)	(1,079)
Amortization/depreciation/write-down	(25)	(168)	(166)
Other operating expenses	(26)	(543)	(578)
Operating result		**263**	**244**
Net interest expense [1]	(27)	(57)	(62)
Net investment income and other financial results [2]	(28)	7	2
Net financial result		**(50)**	**(60)**
Earnings before taxes (EBT)		**213**	**184**
Income taxes	(29)	(63)	(49)
Net income		**150**	**135**
thereof			
minority interests	(30)	*5*	*1*
group earnings (after minority interests)		*145*	*134*
EpS	(31)	€4.15	€3.89
EBITDA		438	412
EBIT		270	246
Adjusted EBIT	(32)	269	262

[1] *incl. €70 million interest expense (up from €66 million)*
[2] *incl. €5 million from investees carried equity (down from €7 million)*

Consolidated statement of cash flows for fiscal 2008

€ million

	2007	2008
Opening cash & cash equivalents (Jan. 1)	**197**	**163**
Net income	150	135
Net interest result from financing activities	30	34
Amortization/depreciation/write-down/write-up of intangibles/tangibles and investment properties	168	166
Change in pension accruals	4	0
Gross cash inflow	**352**	**335**
Net gain/loss from fixed-asset disposal	(26)	(3)
Change in other accruals	(9)	(25)
Change in inventories	6	(16)
Change in receivables, nonfinancial liabilities and prepaid & deferred items	(118)	70
Other noncash expenses and income, net	30	(10)
Net cash provided by operating activities [1]	**235**	**351**
Cash outflow for additions to tangible/intangible assets and investment properties	(214)	(200)
Cash inflow from the disposal of tangible/intangible assets and investment properties	51	18
Cash outflow for additions to consolidated subsidiaries and financial assets	(66)	(35)
Cash inflow from the disposal of consolidated subsidiaries and financial assets	39	6
Net cash used in investing activities	**(190)**	**(211)**
Capital contributions by third parties	--	7
Rheinmetall AG dividend payout	(35)	(45)
Other profit distribution	(4)	(6)
Repurchase of treasury stock	(7)	(39)
Sale of treasury stock	--	8
Cash outflow for interest	(38)	(41)
Cash inflow from interest	8	8
Financial liabilities incurred	10	41
Financial liabilities repaid	(14)	(33)
Net cash used in financing activities	**(80)**	**(100)**
Net change in cash & cash equivalents	**(35)**	**40**
Parity-related change in cash & cash equivalents	1	0
Total change in cash & cash equivalents	**(34)**	**40**
Closing cash & cash equivalents (Dec. 31)	**163**	**203**

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

[1] *included are net income taxes paid at €40 million (down from €42 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*	Total OCI	Group earnings after minority interests	Treasury stock	**Stock-holders' equity**	Minority interests	**Total equity**
Balance at December 31, 2006	**92**	**208**	**488**	*(37)*	*65*	**28**	**120**	**(42)**	**894**	**43**	**937**
Defined benefit asset (IFRIC 14)	--	--	2	--	--	--	--	--	2	--	2
Balance at January 1, 2007	**92**	**208**	**490**	*(37)*	*65*	**28**	**120**	**(42)**	**896**	**43**	**939**
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/January 1, 2008	**92**	**208**	**581**	*(43)*	*79*	**36**	**145**	**(46)**	**1,016**	**43**	**1,059**
Dividend payout	--	--	(45)	--	--	--	--	--	(45)	(6)	(51)
Currency translation differences	--	--	--	*(8)*	--	(8)	--	--	(8)	(1)	(9)
Consolidation group changes	--	--	--	--	--	--	--	--	--	22	22
Transfer to/from reserves	--	--	145	--	--	--	(145)	--	--	--	--
Accumulated OCI	--	--	6	--	*(24)*	(24)	--	(20)	(38)	--	(38)
Group net income	--	--	--	--	--	--	134	--	134	1	135
Balance at December 31, 2008	**92**	**208**	**687**	*(51)*	*55*	**4**	**134**	**(66)**	**1,059**	**59**	**1,118**

For comments on equity, see Note (15).

Net comprehensive income amounts to €108 million (down from €162 million) and is the net of currency translation differences, accumulated OCI (excluding treasury stock) and group net income. The accumulated OCI reflects mainly changes in fair value and other remeasurement.

Notes (Group)
Segment reports

€ million

Corporate sectors		Defence		Automotive		Others/ Consolidation		Group	
		2007	2008	2007	2008	2007	2008	2007	2008
Balance sheet as of 12/31									
Equity	(1)	612	714	523	566	(76)	(162)	**1,059**	**1,118**
Pension accruals	(2)	249	252	247	244	26	27	**522**	**523**
Net financial liabilities	(3)	10	(96)	71	72	155	229	**236**	**205**
Capital employed (CE)	(1)+(2)+(3)	871	870	841	882	105	94	**1,817**	**1,846**
Additions to CE		77	77	169	169	(122)	(122)	**124**	**124**
CE as of 12/31		948	947	1,010	1,051	(17)	(28)	**1,941**	**1,970**
Annual average CE	(4)	860	948	996	1,031	7	(23)	**1,863**	**1,956**
Income statement									
Net external sales		1,757	1,814	2,249	2,055	(1)	--	**4,005**	**3,869**
thereof German (%)		*34.9*	*34.1*	*32.3*	*32.8*	--	--	***33.4***	***33.4***
thereof abroad (%)		*65.1*	*65.9*	*67.7*	*67.2*	--	--	***66.6***	***66.6***
Net P/L from investees carried at equity		3	1	4	4	0	0	**7**	**5**
EBITDA		211	237	237	185	(10)	(10)	**438**	**412**
Amortization/depreciation/write-down		(51)	(43)	(117)	(123)	0	0	**(168)**	**(166)**
thereof write-down		*(9)*	--	*(4)*	*(8)*	--	--	***(13)***	***(8)***
EBIT	(5)	160	194	120	62	(10)	(10)	**270**	**246**
Interest income		10	11	3	4	(4)	(7)	**9**	**8**
Interest expense		(32)	(38)	(29)	(30)	(5)	(2)	**(66)**	**(70)**
Net interest expense		(22)	(27)	(26)	(26)	(9)	(9)	**(57)**	**(62)**
EBT		138	167	94	36	(19)	(19)	**213**	**184**
Income taxes		(47)	(32)	(32)	(17)	16	0	**(63)**	**(49)**
Net income/(loss)		91	135	62	19	(3)	(19)	**150**	**135**
EBIT margin (%)		9.1	10.7	5.3	3.0	--	--	**6.7**	**6.4**
Other data									
ROCE (%)	(5)÷(4)	18.6	20.5	12.0	6.0	--	--	**14.5**	**12.6**
Capital expenditures		53	53	148	146	1	1	**202**	**200**
R&D expenditures		53	61	126	138	--	--	**179**	**199**
Order intake		1,804	1,723	2,236	2,057	--	--	**4,040**	**3,780**
Order backlog (as of 12/31)		2,868	3,307	371	376	--	--	**3,239**	**3,683**
Prepayments received		477	478	23	22	--	--	**500**	**500**
Employees at 12/31 (FTE)		7,175	9,217	11,895	11,682	115	121	**19,185**	**21,020**

€ million

Regions	Germany		Other Europe		North America		Asia		Other Regions/ Consolidation		**Group**	
	2007	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**	**2008**
Net external sales Defence	612	618	713	612	154	176	240	336	38	72	**1,757**	**1,814**
Net external sales Automotive	727	674	991	912	279	223	107	100	145	146	**2,249**	**2,055**
Total net external sales	1,339	1,292	1,704	1,524	433	399	347	436	182	218	**4,005**	**3,869**
in % of group sales	33	33	43	40	11	10	9	11	4	6	--	--
Segment assets	1,009	1,022	342	401	110	114	24	37	59	63	**1,544**	**1,637**

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

Notes (Group)
Fixed-asset analysis

Fixed-asset analysis *€ million*

2007	Gross values				
	1/1/2007	Additions	Disposals	Book transfers	Changes in consolidation group/share-holding
Intangible assets					
Development costs	69	23	(1)	--	--
Concessions, franchises, industrial property rights and licenses	85	9	(0)	1	0
Other intangible assets	0	--	--	--	16
Goodwill	365	0	--	--	26
Prepayments on intangibles	1	1	--	(1)	--
	520	**33**	**(1)**	**0**	**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	(0)	(81)	--
	3,098	**169**	**(115)**	**(4)**	**6**
Investment properties	**29**	**0**	**(9)**	**4**	**--**
Total	**3,647**	**202**	**(125)**	**0**	**48**

2008					
	1/1/2008	Additions	Disposals	Book transfers/ step-up	Consolidation group change
Intangible assets					
Development costs	91	24	(9)	0	--
Concessions, franchises, industrial property rights and licenses	94	5	(2)	0	0
Other intangible assets	16	--	--	0	20
Goodwill	391	--	--	--	28
Prepayments on intangibles	1	1	--	0	--
	593	**30**	**(11)**	**0**	**48**
Tangible assets					
Land, equivalent titles, and buildings (incl. buildings on leased land)	926	12	(16)	23	0
Production plant and machinery	1,650	60	(38)	38	6
Other plant, factory and office equipment	480	32	(30)	8	3
Prepayments on tangibles, construction in progress	68	66	(4)	(60)	0
	3,124	**170**	**(88)**	**9**	**9**
Investment properties	**24**	**--**	**(0)**	**2**	**--**
Total	**3,741**	**200**	**(99)**	**11**	**57**

The *Book transfers/step-up* column covers an overall €11 million increase in the fair value of essential land.

		Amortization/depreciation/write-down								Net values
Currency translation differences	**12/31/2007**	1/1/2007	Additions	Disposals	Book transfers	Write-up	Changes in consolidation group/share-holding	Currency translation differences	**12/31/2007**	**12/31/2007**
0	91	21	16	--	--	--	--	0	37	54
(1)	94	60	10	(0)	0	--	0	(1)	69	25
--	16	0	3	--	--	--	--	0	3	13
0	391	--	--	--	--	--	--	--	--	391
0	1	--	--	--	--	--	--	--	--	1
(1)	**593**	**81**	**29**	**(0)**	**0**	**--**	**0**	**(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
0	480	365	32	(21)	0	--	1	1	378	102
0	68	--	--	--	--	--	--	--	--	68
(30)	**3,124**	**2,041**	**138**	**(81)**	**(2)**	**--**	**2**	**(20)**	**2,078**	**1,046**
0	**24**	**14**	**1**	**(6)**	**2**	**0**	**--**	**(1)**	**10**	**14**
(31)	**3,741**	**2,136**	**168**	**(87)**	**--**	**0**	**2**	**(22)**	**2,197**	**1,544**

Currency translation differences	**12/31/2008**	1/1/2008	Additions	Disposals	Book transfers	Write-up	Consolidation group change	Currency translation differences	**12/31/2008**	**12/31/2008**
2	108	37	11	--	--	--	--	1	49	59
0	97	69	9	(2)	0	--	0	0	76	21
(1)	35	3	3	--	0	--	--	0	6	29
0	419	--	0	--	--	--	--	--	0	419
0	2	--	--	--	--	--	--	--	--	2
1	**661**	**109**	**23**	**(2)**	**0**	**--**	**0**	**1**	**131**	**530**
17	962	437	21	(16)	0	0	--	13	455	507
20	1,736	1,263	86	(37)	0	--	0	15	1,327	409
(3)	490	378	35	(29)	0	--	1	(2)	383	107
(1)	69	--	--	--	--	--	--	--	--	69
33	**3,257**	**2,078**	**142**	**(82)**	**0**	**0**	**1**	**26**	**2,165**	**1,092**
0	**26**	**10**	**1**	**(0)**	**0**	**--**	**--**	**0**	**11**	**15**
34	**3,944**	**2,197**	**166**	**(84)**	**--**	**0**	**1**	**27**	**2,307**	**1,637**

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 consolidated financial statements and group management report are filed with, and published in, the digital version of the Federal Gazette.

The following mandatory revised IASB Standards have been applied in 2008 for the first time but have no significant impact on the consolidated financial statements. The transitional provisions have been duly complied with.

IFRS 7 (revised)	*Financial Instruments: Disclosures*
IAS 39 (amended)	*Financial Instruments: Recognition and Measurement*

The following Standards and Interpretations have been applied early:

IFRS 2 (amended)	*Share-Based Payments*
IFRS 8	*Operating Segments*
IFRIC 14	*IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*

IFRS 2, *Share-Based Payments*, makes a distinction between cash-settled and equity-settled share-based payment transactions. For either instrument, fair value is determined when the instruments are granted. The early application of IFRS has no effect on the consolidated financial statements.

IFRS 8, *Operating Segments*, supersedes IAS 14, *Segment Reporting*, and requires companies to disclose certain financial and narrative information about their reportable operating segments; for these, separate sets of financial information must be available to be periodically reviewed by the company's senior management body to assess performance and decide on the allocation of resources. Generally, financial information should be based on the internal controlling system. IFRS 8 must be applied in the financial statements for fiscal years beginning on or after January 1, 2009, earlier application being permitted. Rheinmetall has opted for the early application of IFRS 8, commencing with the consolidated financial statements 2008, and restated its prior-year comparatives accordingly.

IFRIC 14, *IAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, deals with the measurement of economic benefits of excess cover of pension obligations. Its application is obligatory for fiscal years commencing on or after January 1, 2008, the EU having endorsed the Interpretation on December 16, 2008. Therefore, this Interpretation must be applied starting from the first fiscal year after December 31, 2008. Beginning with the consolidated financial statements 2008, Rheinmetall applies the Interpretation early and therefore recognizes an asset from its plan-funded pension obligations. Since the transitional provisions require retrospective application, the prior-year comparatives have been restated accordingly.

The revised IAS 1, *Presentation of Financial Statements*, whose first-time application is obligatory for fiscal years beginning on or after January 1, 2009, is not applied early by Rheinmetall. The Standard has been revised to improve comparative and other analyses by users of financial statements. IAS 1 provides the rules for the presentation and classification of financial statements and specifies minimum disclosure requirements. The revision primarily refers to the presentation of comprehensive income other than from transactions with stockholders.

The revised IAS 23, *Borrowing Costs*, also requires application for fiscal years commencing on or after January 1, 2009, but is not applied early by Rheinmetall. The amendments refer to the capitalization of borrowing costs incurred for assets which are made over an extended period of time. Application of the revised Standard will change the Rheinmetall Group's accounting and valuation principles since to date, borrowing costs have always been expensed. For Rheinmetall, the amended rules affect the capitalization of development costs and impact on the amount of contract costs under PoC contracts. However, the effects are not deemed significant.

The following Standards published by the IASB in 2008 were adopted (accepted) by the EU in January 2009:

IFRS 1 (amended)	*First-Time Adoption of IFRS*
IAS 1 (amended)	*Presentation of Financial Statements*
IAS 27 (amended)	*Consolidated and Separate Financial Statements*
IAS 32 (amended)	*Financial Instruments: Presentation*
IFRS improvements	Amendments of 20 IFRS Standards

The IFRS 1 and IAS 27 amendments were published together and offer equity interest valuation conveniences when applying the IFRS for the first time.

The IAS 1 and IAS 32 amendments extend the definition of equity for certain puttable financial instruments and financial instruments entitling to an interest in the prorated net liquidation assets. Moreover, additional disclosures in the notes are required for financial instruments affected by the amendments. Application of the amended Standards is obligatory for fiscal years commencing on or after January 1, 2009, their earlier application being permitted. The effects of these amended Standards on the presentation of Rheinmetall's consolidated financial statements are deemed to be not material.

The *Improvements to IFRS* document summarizes several minor modifications of current Standards and is subdivided into two parts. The first section deals with amendments of potential impact on the presentation, recognition or valuation, the second one with terminological and editorial improvements. Unless a specific Standard provides otherwise, the amendments must be applied to financial statements for fiscal years commencing on or after January 1, 2009, their earlier application being permitted. Rheinmetall presumes that such amendments will not significantly affect the presentation of its financial statements.

The following Standards and Interpretations, published by the IASB in 2008, have not yet been adopted by the EU:

IFRS 3 (amended)	*Business Combinations*
IAS 27 (amended)	*Consolidated and Separate Financial Statements*
IAS 39 (amended)	*Financial Instruments: Recognition and Measurement*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 17	*Distribution of Noncash Assets to Owners*

Once adopted by the EU, application of the amended Standards and new Interpretations is obligatory as from fiscal 2009 or 2010.

Notes (Group)
Accounting principles

The IFRS 3 and IAS 27 amendments were published together and refer to the accounting for newly acquired non-controlling equity interests in an enterprise, providing two measurement options. Any non-controlling interest in an acquiree may either be measured at fair value or as such interest's prorated share of the acquiree's net identifiable assets. In addition, acquisitions or the disposal of part of the shares without loss of control should be disclosed as transaction between owners, without being recognized in the income statement. Acquisition incidentals must be expensed in full. The revised Standards require application to business combinations transacted in fiscal years commencing on or after July 1, 2009, any earlier application being permitted for such transactions in fiscal years which begin on or after June 30, 2007. Currently, Rheinmetall does not believe in the application of such revised Standards having a significant effect on the Group's results of operations.

The amendment to IAS 39 highlights the application of basic hedge accounting principles in two specific scenarios, i.e., the designation of inflation risks as underlying and the designation of a unilateral risk in an underlying. The new rule must be applied in financial statements for fiscal years beginning on or after July 1, 2009, earlier adoption being permitted. Presently, Rheinmetall does not expect that applying the amended version has any significant effect on the presentation of its financial statements.

No effects on the consolidated financial statements are expected to result from the new Interpretations.

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 presented in the total-cost format.

Adopting IFRIC 14 has resulted in the recognition of a defined benefit asset of €3 million since in Switzerland, plan assets outcover the present value of the defined benefit obligation. The DBA has been directly recognized retroactively as of January 1, 2007, without affecting the income statement. The noncurrent other assets and reserves retained from earnings have been adjusted accordingly, with due regard to deferred taxes.

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.

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 2008:

Rheinmetall Berlin Verwaltungsgesellschaft mbH
Rheinmetall Verwaltungsgesellschaft mbH
Rheinmetall Industrie Ausrüstungen GmbH
Rheinmetall Industrietechnik 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 GmbH (vormals KS Aluminium-Technologie AG)
KS ATAG Bearbeitungsgesellschaft mbH
KS ATAG Beteiligungsgesellschaft 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
GVH Grundstücksverwaltung Hamburg GmbH & Co. KG
Pierburg Pump Technology GmbH
Rheinmetall Waffe Munition GmbH
Rheinmetall Defence Electronics GmbH
Rheinmetall Dienstleistungszentrum Altmark GmbH
Rheinmetall Technical Publications GmbH
Rheinmetall Landsysteme GmbH
Oerlikon Contraves GmbH
Eurometaal Holding Deutschland 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.

Notes (Group)
Accounting principles

(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 on which a controlling influence is exercised) and joint ventures are stated at equity.

Consolidation group – Companies included

	12/31/2007	Additions	Disposals	**12/31/2008**
Fully consolidated companies				
Germany	44	4	(3)	45
abroad	48	8	--	56
	92	**12**	**(3)**	**101**
Investees carried at equity				
Germany	14	3	(2)	15
abroad	9	2	(1)	10
	23	**5**	**(3)**	**25**

The fully consolidated subsidiaries newly added in 2008 refer to four acquirees (thereof two abroad) and eight newly organized enterprises (including six abroad). Since the land and buildings were acquired by three special-purpose property lease firms, their inclusion according to SIC 12 has become irrelevant.

March 2008 saw the takeover of a 51-percent voting interest in LDT Laser Display Technology GmbH. The Company is a world leader for laser projection systems. The price amounted to €2 million. Considering the existing call and put option on the remaining stake (at a bargain price), all of the shares (100 percent) have been consolidated.

In May 2008, all of the shares in Stork PWV B.V., a Dutch tank builder, were acquired at a price of €40 million. The acquisition price allocation produced goodwill of €28 million. In June 2008, the subsidiary was renamed Rheinmetall Nederland B.V.

In September 2008, a deal for the takeover of a 51-percent stake in Denel Munitions (Pty) Ltd., a South African manufacturer of ammunition, was closed at a price of €0 million. The allocation of the acquisition price resulted in badwill of €15 million. Since October 2008, the company has operated as Rheinmetall Denel Munition (Pty) Ltd.

The acquired assets and liabilities of LDT Laser Display Technology GmbH, Stork PWV B.V. and Denel Munitions (Pty) Ltd. are stated at fair value in the balance sheet and break down as follows:

€ million

	Pre-acquisition book values	Adjustments	Fair values
Goodwill	--	28	28
Other intangible assets	--	20	20
Tangible assets	9	--	9
Inventories	32	6	38
Cash and cash equivalents	10	--	10
Other current assets	21	--	21
Other current liabilities	43	3	46
Other noncurrent liabilities	--	8	8

The fair values of intangible assets had the greatest impact on acquisition price allocation and cover mainly order backlog and know-how. For fiscal 2008, LDT Laser Display Technology and Rheinmetall Nederland each contributed an EBIT of €0 million, and Rheinmetall Denel Munition a red EBIT of €11 million, to the Group's. Offsetting the €15 million badwill, Rheinmetall Denel Munition is on balance included with a black EBIT of €4 million in the Group's.

(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 acquisition 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 acquisition price and minority interests is recognized as goodwill.

Notes (Group)
Accounting principles

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

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. Due to the presently unpredictable repercussions of the global economic crisis on the automotive industry, no reliable plan could be finalized in 2008 for the Automotive sector. The slumps in demand forecasted for this industry can be used for budgeting to a limited extent only since bona fide assessments and estimates cover just a short period. In order to calculate the values in use of cash-generating units (CGUs), Rheinmetall is applying flat-rate markdowns to its current data, based on provisional assessments of the adverse impact on the ailing automotive market.

Rheinmetall's current WACC is used as discount rate:
Corporate sector Defence: 9.8 percent (up from 9.6)
Corporate sector Automotive: 10.0 percent (up from 9.6)

For the period after the last planning year, the following growth allowance is deducted from the risk-specific pretax discount rate:
Corporate sector Defence: 1.0 percent (unchanged)
Corporate sector Automotive: 0.0 percent (unchanged)

Neither the discount rate increase, nor the growth allowance decrease, by 0.5 percentage points impair 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 gains 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 and profits/losses 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 separate financial statements of consolidated companies, each foreign-currency transaction is recognized at the historical rate. Monetary assets and liabilities originally denominated in a foreign currency are translated at the current rate. If carried at cost, other assets and liabilities are translated at the historical transaction rate and, if carried at fair value, at the rate current at the date of fair value determination. 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 | Purchase cost includes the purchase price and all direct purchase incidentals. Where applicable, cost equals the fair value of the asset given in, as of the date of, an exchange of assets transaction, any cash compensation being accounted for accordingly.

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.

Notes (Group)
Accounting principles

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 amortized 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 date.

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*.

If the value of goodwill written down rebounds, it is never written up.

Intangible assets | Intangible assets are capitalized at cost. Research costs are always expensed. Development costs are not capitalized unless and until 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.

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 within tangible assets:

	Years
Buildings	20–50
Other structures	8–30
Equivalent titles	5–15
Production plant and machinery	3–20
Other plant, factory and office equipment	3–15

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. External appraisal reports are as a rule obtained every three years, the latest being the valuation as of December 31, 2008.

Capital leases | Tangible assets obtained under capital leases are capitalized at cost (i.e., at the lower of their fair values or the present value of minimum lease payments) and depreciated on a straight-line basis 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, 2008), is stated in Note (8).

Financial assets | Securities throughout belong 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*.

Notes (Group)
Accounting principles

Inventories and prepayments received | Inventories are recognized at cost, which as a rule equals average prices. 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.

Deferred taxes | Taxes are deferred for 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 30 percent (down from 40) is applied to calculate German deferred taxes (corporate income tax, solidarity surtax thereon and municipal trade income tax). Deferred taxation rates outside of Germany range between 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 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. In addition, the Rheinmetall Group participates to a minor extent in some multi-employer plans which, albeit generally based on defined benefit obligations, are accounted for as defined contribution plans under the terms of IAS 19:30 since no information is available that would suffice for defined benefit plan accounting. The plan assets of two subsidiaries (one Swiss and one Dutch) cannot be clearly allocated and, therefore, deficient cover of the plans cannot be excluded as of December 31, 2008. Presently there are no plans to increase employer contributions and consequently no risks exist that Rheinmetall might be held liable for additional contributions.

The remaining accruals provide for all identifiable 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 minimum lease payments.

Recognition of sales | Sales are typically revenue from the sale of finished products, work in process and services, the latter being provided as support/aftersales services, maintenance and contracted development work. Sales are recognized at the fair value of consideration (to be) received, less cash and other discounts, allowances or other deductions, upon performance of the contract for goods/services or upon passage of risk to the customer if the amount can be reliably estimated and the inflow of benefits is reasonably certain. Under (longer-term) manufacturing contracts with customers, sales are prorated according to the percentage of completion. If the result can be reliably estimated, revenue from service contracts is recognized pro rata of their progress. Revenue from contracted development work is as a rule recognized according to work progress.

Notes (Group)
Accounting principles

Other operating income | Other operating income is recognized upon performance of the contract for goods/ services or upon passage of risk to the customer.

Expenses | Operating expenses are recognized when caused or when the underlying service, etc. is used.

Interest and dividends | Interest income and expense are recognized on an accrual basis, while dividends are when the legal claim to payment has arisen.

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, and carried at, their fair values. Financial derivatives with a positive or negative fair value are disclosed under *other financial assets or other liabilities*, respectively.

Fair value changes of financial derivatives are generally recognized immediately in the income statement 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. Any ineffective hedge portion is immediately recognized in the income statement. 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.

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 prospectively 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 €199 million were incurred (up from €179 million). Thereof, development costs of €24 million met the capitalization criteria according to IFRS (up from €23 million).

Breakdown of capitalized goodwill:

€ million

	12/31/2007	12/31/2008
Defence sector	**222**	**250**
thereof Rheinmetall Air Defence AG	73	73
thereof Rheinmetall Defence Electronics GmbH	79	79
thereof Rheinmetall Landsysteme GmbH	40	68
thereof Rheinmetall Waffe Munition GmbH	30	30
Automotive sector	**169**	**169**
thereof Kolbenschmidt Pierburg AG	123	123
thereof KS Kolbenschmidt division	26	26
thereof other	20	20
	391	**419**

The write-down of intangible assets came to €4 million (down from €10 million) and affected development costs only (down from €9 million).

(7) Tangible assets | The total disclosed as depreciation in 2008 includes write-down of €3 million (virtually unchanged), including €1 million charged to production plant and machinery (down from €2 million) and €2 million to other plant, factory and office equipment (up from €1 million).

In accordance with the revaluation method, essential plots of land are stated at fair value, which generally equals their market values. The fair value of such land, carried at €208 million (up from €194 million), includes step-up of €109 million (up from €98 million). Regarding the movement of the revaluation reserve, see the comments on total equity in Note (15).

The disposal of €37 million of tangible assets (down from €65 million) is restricted by land charges, similar encumbrances and the assignment as security.

Moreover, standard commercial liens totaling €2 million (down from €4 million) rest on capitalized production plant and machinery which are held under capital leases.

Notes (Group)
Notes to the consolidated balance sheet

As a rule, such leases include a purchase option. The remaining lease terms vary between 1 and 4 years (down from 1–5 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:

Capital leases *€ million*

	2007				2008			
	2008	2009–2012	after 2012	Total	2009	2010–2013	after 2013	Total
Lease payments	2	3	--	5	1	2	--	3
Discount	--	--	--	--	--	--	--	--
Present values	**2**	**3**	**--**	**5**	**1**	**2**	**--**	**3**

The purchasing obligation from firm capital expenditure contracts totals €26 million (up from €25 million).

Real estate of €1 million (up from nil) has been reclassified as noncurrent assets held for sale.

(8) Investment properties | The investment properties have a total fair value of €32 million (up from €27 million), largely determined on the basis of external appraisal reports as of December 31, 2008. In the year under review, rental income of €1 million (unchanged) was earned, contrasting with direct operating expenses of an unchanged €1 million. Write-down was charged at €1 million (up from nil).

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

Joint ventures *€ million*

		2007	2008
Assets	(Dec. 31)	140	182
thereof noncurrent		*24*	*75*
Equity	(Dec. 31)	30	34
Debt	(Dec. 31)	110	148
thereof noncurrent		*4*	*11*
Income		143	210
Expenses		141	209
Net income		2	1

Associated affiliates *€ million*

		2007	2008
Assets	(Dec. 31)	45	91
Equity	(Dec. 31)	18	20
Debt	(Dec. 31)	27	71
Net sales		62	60
Net income		5	4

Analysis of investees carried at equity *€ million*

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**

2008	Book value 1/1/2008	Addition	Change not affecting IS	Prorated net profit	Dividend payment	Book value 12/31/2008
Joint ventures	37	--	9	1	(2)	45
Associated affiliates	47	--	--	4	(3)	48
	84	**--**	**9**	**5**	**(5)**	**93**

Defence's key joint ventures are PSM Projekt System & Management GmbH and ARTEC GmbH (two project management companies for the Puma and Boxer contracts), as well as HIL Industrie-Holding GmbH as a public-private partnership (PPP) model for repair logistics for the army.

The two joint ventures Kolbenschmidt Shanghai Piston Co. Ltd. and Kolbenschmidt Pierburg Shanghai Non-ferrous Components Co. Ltd. are destined for Automotive's access to the Chinese market for pistons and other engine components.

(10) Inventories

€ million

	12/31/2007	12/31/2008
Raw materials and supplies	246	259
Work in process	330	330
Finished products	75	83
Merchandise	48	60
Prepayments made	27	50
	726	**782**
less prepayments received	(24)	(26)
	702	**756**

Notes (Group)
Notes to the consolidated balance sheet

The book value of inventories stated at the lower NFV (net fair value: FV less costs to sell) totals €73 million (up from €54 million). Write-down was charged in fiscal 2008 at €14 million (up from €4 million). In the year under review, inventories previously written down were written up at €2 million (up from €0 million) as NRV had risen. Unchanged, inventories do not collateralize any liabilities.

(11) Trade receivables

€ million

	12/31/2007	12/31/2008
Trade receivables	546	461
thereof with a remaining term >1 year	*9*	*1*
thereof from joint ventures and associated affiliates	*17*	*11*
PoC receivables	233	249
	779	**710**

Breakdown of PoC receivables

€ million

	12/31/2007	12/31/2008
Production cost to date	2,168	2,533
plus profit margin/(less losses)	478	523
	2,646	**3,056**
Billed on account/as milestone	(2,413)	(2,807)
PoC receivables	**233**	**249**

PoC payables are included in the sundry other liabilities and break down as follows:

€ million

	12/31/2007	12/31/2008
Production cost to date	55	34
Losses according to PoC	(5)	(4)
Anticipated losses	(2)	0
	48	**30**
Billed on account/as milestone	(50)	(30)
PoC payables	**2**	**0**

The prorated revenue recognized in net sales for 2008 totaled €739 million (down from €795 million).

(12) Other receivables and assets

€ million

	12/31/ 2007	thereof current	thereof noncurrent	12/31/ 2008	thereof current	thereof noncurrent
Non-income tax assets	23	22	1	24	23	1
Prepayments made	3	3	--	3	3	--
Subsidies/grants receivable	13	13	--	32	32	--
Tooling costs refundable	8	8	--	3	3	--
Defined benefit asset (DBA)	3	--	3	3	--	3
Prepaid expenses and deferred charges	10	8	2	11	7	4
Sundry assets	16	16	--	13	13	--
	76	**70**	**6**	**89**	**81**	**8**

(13) Other financial assets

€ million

	12/31/ 2007	thereof current	thereof noncurrent	12/31/ 2008	thereof current	thereof noncurrent
Receivables						
Purchase prices receivable	3	3	--	--	--	--
Loans	11	3	8	8	1	7
Other	10	9	1	9	9	--
FI available for sale						
Securities	3	3	--	1	--	1
FI held for trading						
Financial derivatives (no hedge)	8	8	--	8	7	1
Financial derivatives in hedges	13	12	1	8	8	--
	48	**38**	**10**	**34**	**25**	**9**

Securities of €1 million (down from €3 million) have been stated at fair value. The loans of €8 million (down from €11 million) are carried at amortized cost in accordance with IAS 39.

(14) Cash & cash equivalents

€ million

	12/31/2007	12/31/2008
Cash on hand and in bank (incl. checks)	163	203

The disposal of €0.035 million of cash & cash equivalents is restricted (down from €0.450 million). The term “cash & cash equivalents” covers the same assets in balance sheet and cash flow statement.

Notes (Group)
Notes to the consolidated balance sheet

(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 €687 million (up from €581 million), as well as the accumulated other comprehensive income (OCI) which breaks down into unrealized losses of €51 million from currency translation (up from €43 million) and unrealized gains of €55 million from the statement at fair value and other remeasurement (down from €79 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, 2007	**63**	**2**	**65**
Change in fair value	--	5	5
Disposals/book transfers	(4)	2	(2)
Tax rate change	11	--	11
Dec. 31, 2007/Jan. 1, 2008	**70**	**9**	**79**
Change in fair value	8	(26)	(18)
Disposals/book transfers	--	(6)	(6)
Dec. 31, 2008	**78**	**(23)**	**55**

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

€ million

	12/31/2007	**12/31/2008**
Step-up	98	109
Deferred taxes	(28)	(31)
	70	**78**

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.

Breakdown of closing equity:

€ million

	12/31/2007	12/31/2008	Change
Stockholders' equity	1,016	1,059	43
Minority interests	43	59	16
	1,059	**1,118**	**59**
Equity ratio in %	31	31	--

Breakdown of changes in equity:

€ million

	2007	2008
Dividend payout	(39)	(51)
Net income	150	135
Currency translation differences	(7)	(9)
Change in treasury stock	(4)	(20)
Remaining accumulated OCI	20	4
	120	**59**

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 on or before October 31, 2009, 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 8, 2007, and renewed by AGM resolution of May 6, 2008, was exercised. As of December 31, 2008, the portfolio of treasury stock amounted to 1,607,928 shares (up from 1,051,417), repurchased at a total cost of €66 million (up from €46 million), which was deducted from equity in one sum.

Rheinmetall's separate financial statements close the fiscal year with net earnings of €45 million (down from €72 million), €45 million thereof being earmarked for the distribution of a cash dividend (virtually unchanged), the balance of €0 million to be transferred to the other reserves (down from €27 million). The proposed cash dividend amounts to €1.30 per share of common stock (unchanged).

The minority interests mainly refer to the Automotive sector at €4 million (virtually unchanged), and to Defence at €55 million (up from €39 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 €64 million (virtually unchanged) was paid to DCPs, specifically the Statutory Social Security Insurance in Germany.

Notes (Group)
Notes to the consolidated balance sheet

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, retirees and 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.

Movement analysis of the present value of the DBO and the plan assets (as time series):

€ million

	12/31/2005	12/31/2006	12/31/2007	12/31/2008
Present value of the DBO	1,522	1,428	1,344	1,405
Plan assets	903	887	878	828
Plan-unfunded pension obligations	**619**	**541**	**466**	**577**

The following actuarial parameters have been assumed:

Parameters %

	12/31/2007			12/31/2008		
	Germany	USA	Switzerland	Germany	USA	Switzerland
Discount rate	5.50	6.15	3.25	6.00	6.30	3.50
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	--	--	1.75	--	--
Expected return on plan assets	--	8.50	4.25	--	8.50	3.75
Health care expense rise	--	6.0–11.0	--	--	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

	2007	2008
Balance at January 1	**519**	**522**
Pension payments	(31)	(33)
Employer contributions to plans	(10)	(8)
Pension expense	45	42
Currency translation differences/other	(1)	0
Balance at December 31	**522**	**523**

Pension accruals *€ million*

	2007			2008		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Analysis of the PV of the DBO						
PV of the DBO at Jan. 1	547	881	**1,428**	506	838	**1,344**
Currency translation differences	--	(31)	**(31)**	--	87	**87**
Current service cost	12	7	**19**	10	7	**17**
Interest cost	25	30	**55**	27	30	**57**
Employee contributions	--	5	**5**	--	5	**5**
Entry payments	--	23	**23**	--	8	**8**
Pension payments	(29)	(52)	**(81)**	(31)	(61)	**(92)**
Effects of plan curtailments/settlements	--	(11)	**(11)**	--	(6)	**(6)**
Actuarial gains and losses	(49)	(14)	**(63)**	(3)	(12)	**(15)**
PV of the DBO at Dec. 31	**506**	**838**	**1,344**	**509**	**896**	**1,405**
thereof wholly or partly plan-funded	--	*807*	***807***	--	*866*	***866***
thereof internally funded	*506*	*31*	***537***	*509*	*30*	***539***
Analysis of plan assets						
Fair value of plan assets at Jan. 1	--	887	**887**	--	878	**878**
Currency translation differences	--	(30)	**(30)**	--	88	**88**
Expected return on plan assets	--	39	**39**	--	41	**41**
Employer contributions	--	10	**10**	--	8	**8**
Employee contributions	--	5	**5**	--	5	**5**
Entry payments	--	23	**23**	--	8	**8**
Pensions paid by plans	--	(50)	**(50)**	--	(59)	**(59)**
Effects of plan curtailments/settlements	--	(11)	**(11)**	--	(6)	**(6)**
Actuarial gains and losses	--	5	**5**	--	(135)	**(135)**
Fair value of plan assets at Dec. 31	**--**	**878**	**878**	**--**	**828**	**828**
Plan-unfunded pension obligations at Dec. 31	**506**	**(40)**	**466**	**509**	**68**	**577**
Unrecognized actuarial gains/(losses)	(8)	(12)	**(20)**	(5)	(52)	**(57)**
Effects of the asset cap (IAS 19:58)	--	73	**73**	--	--	**--**
Defined benefit asset (IFRIC 14)	--	3	**3**	--	3	**3**
Pension accrual as of Dec. 31	**498**	**24**	**522**	**504**	**19**	**523**

The unrecognized actuarial losses of €57 million (up from €20 million) are largely attributable to previous parameter adjustments. In the year under review, the plan assets actually returned a loss of €94 million (down from a €44 million income) before the exchange-related (currency translation) losses recognized in equity only.

Notes (Group)
Notes to the consolidated balance sheet

Plan asset structure:

%

	2007	2008
Equities	28	25
Treasuries and corporates/securities	19	16
Real estate and property investment funds	32	39
Other	21	20
Total	**100**	**100**

Analysis of empirical adjustments %

	12/31/2006	12/31/2007	12/31/2008
Present value of the DBO	0.3	0.4	1.2
Plan assets	2.0	0.6	–16.3

The long-term return is determined by the investment strategy defined for each asset class.

Breakdown of pension expense:

€ million

	2007			2008		
	Germany	Abroad	**Total**	Germany	Abroad	**Total**
Service cost	12	7	**19**	10	7	**17**
Actuarial gains and losses	1	1	**2**	--	(1)	**(1)**
Past service revenue	--	(1)	**(1)**	--	--	**--**
Effects of the asset cap (IAS 19:58)	--	9	**9**	--	10	**10**
Reversed discount of expected pension obligations	25	30	**55**	27	30	**57**
Expected return on plan assets	--	(39)	**(39)**	--	(41)	**(41)**
Total	**38**	**7**	**45**	**37**	**5**	**42**

The effects of the asset cap to be recognized as DBA 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.

Movement analysis of the asset cap:

€ million

	2007	2008
Balance at Jan. 1	55	73
Currency translation differences	(2)	3
Amortized actuarial gains/losses	11	(86)
Change in asset cap	9	10
Balance at Dec. 31	**73**	**--**

The defined benefit asset pursuant to IFRIC 14 amounts to an unchanged €3 million and has been capitalized among the other assets.

The contributions expected for 2009 will substantially be the same as in 2008.

Notes (Group)
Notes to the consolidated balance sheet

(17) Other accruals

Analysis of accruals *€ million*

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

2008	Personnel	Restruc-turing	War-ranties	Identifi-able losses	Contract-related costs	All other	Total
Balance at Jan. 1, 2008	**136**	**46**	**55**	**24**	**88**	**73**	**422**
Utilized	82	10	14	6	46	30	188
Released	7	2	10	3	7	12	41
Added/provided for	78	18	22	7	40	39	204
Compounded	--	--	--	1	--	1	2
Currency translation differences/other	4	--	--	--	1	6	11
Balance at December 31, 2008	**129**	**52**	**53**	**23**	**76**	**77**	**410**
Cash outflows							
short-term (<1 year)	**96**	**21**	**44**	**13**	**74**	**64**	**312**
long-term	**33**	**31**	**9**	**10**	**2**	**13**	**98**
thereof 1–5 years	29	30	9	10	2	12	92
thereof >5 years	4	1	--	--	--	1	6

The restructuring accruals mainly 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 (virtually unchanged), €9 million of discounts, allowances and rebates (up from €8 million), and €5 million due to environmental risks (down from €6 million).

(18) Financial liabilities

€ million

	12/31/ 2007	thereof current	thereof noncurrent	12/31/ 2008	thereof current	thereof noncurrent
Bonds	324	--	324	325	--	325
Due to banks	66	12	54	76	46	30
Lease payables	5	2	3	3	1	2
Other	4	1	3	4	1	3
	399	**15**	**384**	**408**	**48**	**360**

€24 million due to banks (down from €26 million) is collateralized by land charges and similar encumbrances, as is another €10 million (down from €11 million) 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:

€ million

				12/31/2007		12/31/2008	
Interest terms	Weighted rate (%)	Currency (ISO code)	Maturing in	Book value	Fair value	Book value	Fair value
Bonds							
Fixed	3.5	EUR	2010	324	313	325	320
Due to banks							
Fixed	4.6	EUR	2010/2011	1	1	0	0
Fixed	4.9	EUR	2008/2013	21	21	1	2
Fixed	3.7	EUR	2016	5	5	5	5
Fixed	4.4	EUR	2020	10	9	10	10
Fixed	3.7	EUR	2026	5	5	5	5
Variable		INR	2009	0	0	8	8
Variable		USD	2008/2009	2	2	8	8
Variable		BRL	2008/2009	3	3	1	1
Variable		EUR	2008–2011	19	19	38	38
				66	**65**	**76**	**77**
Lease payables							
Fixed	6.5	EUR	2008	2	2	--	--
Fixed	6.5	EUR	2010–2012	3	3	3	3
				5	**5**	**3**	**3**
Other financial liabilities							
Variable		EUR	sdry. ≤2017	4	4	4	3
Total				**399**	**387**	**408**	**403**

Notes (Group)
Notes to the consolidated balance sheet

(19) Trade payables

€ million

	12/31/2007	12/31/2008
Trade payables	554	511
thereof to joint ventures and associated affiliates	3	4

€1 million of trade payables has a remaining term of more than one year (up from nil). The book value of trade payables substantially equals their fair value.

(20) Other liabilities

The *other liabilities* break down as follows:

€ million

	12/31/ 2007	thereof current	thereof noncurrent	12/31/ 2008	thereof current	thereof noncurrent
Prepayments received	243	243	--	280	280	--
Social security	13	11	2	12	11	1
Due to board members and employees	12	12	--	12	12	--
Non-income taxes	29	29	--	44	39	5
Monies in transit from debt collection	81	81	--	90	90	--
Financial derivatives (excl. hedge accounting)	3	3	--	13	13	--
Financial derivatives in CFHs	5	5	0	39	28	11
Deferred income	12	6	6	8	4	4
Sundry	26	22	4	30	30	--
	424	**412**	**12**	**528**	**507**	**21**

€83 million of the prepayments received on orders has a remaining term above one year (down from €97 million). The payables for financial derivatives have been marked to market, the carrying amount of the remaining liabilities approximating their fair value.

The payables for financial derivatives comprise the current negative fair values of such derivatives, which are mainly used to hedge against currency and commodity price risks from operating activities. These fair values would only be realized if the derivatives were terminated early, which is unlikely at present. The rise in payables for financial derivatives is attributable not only to a higher notional volume but also to seesawing exchange rates and commodity prices in 2008. See Note (37) for details of Rheinmetall's hedging strategies.

Notes (Group)
Notes to the consolidated income statement

(21) Total operating performance

€ million

	2007	2008
Net sales from		
products and work in process	3,630	3,443
services	199	199
contracted development work	176	227
Total net sales	**4,005**	**3,869**
Change in inventories of finished products and WIP	(39)	26
Other work and material capitalized	33	32
	3,999	**3,927**

(22) Other operating income

€ million

	2007	2008
Gains from fixed-asset disposal/divestment	27	5
Income from the release of accruals	36	41
Income from recognition of badwill	--	15
Income from bad-debt allowances reversed	2	2
Income from compensation and refunds	3	7
Sundry rental income	9	8
Income from grants and subsidies	2	14
Income from canteens and ancillary operations	2	3
Income from credit notes for prior years	7	14
Income from prototype and tooling costs refunded	5	2
Income from residue utilization	7	5
Other secondary income	36	29
	136	**145**

(23) Cost of materials

€ million

	2007	2008
Cost of raw materials, supplies, and merchandise purchased	1,910	1,769
Cost of services purchased	199	236
	2,109	**2,005**

Notes (Group)
Notes to the consolidated income statement

(24) Personnel expenses

€ million

	2007	2008
Wages and salaries	855	887
Social security and related employee benefits	113	112
Pension expense	84	80
	1,052	**1,079**

Annual average headcount (FTE)

	2007	2008
Defence	7,027	7,922
Automotive	11,921	11,865
Rheinmetall AG/Others	120	123
	19,068	**19,910**

(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 breaks down as follows:

€ million

	2007	2008
Intangible assets	10	4
Tangible assets	3	3
Investment properties	--	1
	13	**8**

(26) Other operating expenses

€ million

	2007	2008
Losses on fixed-asset disposal/divestment	1	2
Exit plans, termination benefits, preretirement part-time work	11	13
Selling expenses	73	69
Maintenance and repair (M&R)	81	83
Promotion and advertising	14	18
Other general administration	144	154
Rents	34	37
Payroll incidentals	27	30
Facility cleaning, security/vigilance	9	10
Outsourced services	15	15
Audit, legal and consultancy fees	31	36
Write-down of receivables	3	4
Non-income taxes	17	10
Additional provisions	53	56
All other	30	41
	543	**578**

(27) Net interest expense

€ million

	2007	2008
Other interest and similar income	9	8
Total interest income	**9**	**8**
Interest expense for capital leases	(1)	(1)
Interest expense for pension obligations	(25)	(26)
Compounding of noncurrent other accruals	(2)	(2)
Other interest and similar expenses	(38)	(41)
Total interest expense	**(66)**	**(70)**
Net interest expense	**(57)**	**(62)**

(28) Net investment income and other financial results

€ million

	2007	2008
Investment income		
Net profit from joint ventures and associated affiliates	7	5
	7	**5**
Other financial results		
Net currency/exchange (loss)/gain	(3)	14
Net gain/(loss) from financial derivatives	4	(13)
Guaranty commissions	(1)	(1)
Sundry	0	(3)
	0	**(3)**
Net financial result	**7**	**2**

The net gain or loss from financial derivatives is substantially attributable to derivatives without hedging relationship since the underlying is also recognized in the income statement, the two transaction types thus having an inherent compensatory effect. The losses on financial derivatives refers at €9 million mainly to currency forwards (down from a €2 million gain) and contrast with same-amount foreign exchange gains (losses in 2007) and at €3 million to interest rate hedges (down from a €2 million gain), which contrasts with corresponding interest income (in 2007, interest expense), as well as at €1 million (up from €0 million) to commodity futures, this loss contrasting with a correspondingly lower cost of material.

(29) Income taxes

€ million

	2007	2008
Current income tax expense	37	30
Earlier-period income taxes	(3)	(1)
Deferred taxes	29	20
	63	**49**

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 a tax rate of 30 percent (down from 40). This rate covers German corporate income tax, the solidarity surtax thereon, and municipal trade tax.

€ million

	2007	2008
EBT	213	184
Expected income tax expense (tax rate of 30%; down from 40%)	**85**	**55**
Foreign tax rate differentials	(8)	(2)
Effects of loss carryovers and write-down of deferred taxes	(7)	6
Reduction of tax expense due to previously unrecognized loss carryovers and temporary differences	(1)	(3)
Tax-exempt income	(8)	(10)
Nondeductible expenses	5	6
Differences due to tax rate changes	2	0
Earlier-period income taxes	(3)	(1)
Other	(2)	(2)
Effective tax expense	**63**	**49**
Effective tax rate *in %*	**30**	**27**

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

€ million

	12/31/2007		12/31/2008	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Loss carryovers and tax credits	64	--	46	--
Fixed assets	11	79	15	94
Inventories and receivables	18	36	7	39
Pension accruals	22	2	22	6
Other accruals	24	--	21	1
Liabilities	12	15	22	2
Sundry	8	7	10	2
	159	**139**	**143**	**144**
Offset	(115)	(115)	(100)	(100)
	44	**24**	**43**	**44**
thereof noncurrent	36	11	21	11
thereof not affecting net income	1	32	10	33

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 €437 million (down from €445 million) which are not utilizable or whose deferred tax assets were adjusted by write-down. Thereof, €289 million (down from €297 million) is allocable to German, another €142 million (up from €137 million) to foreign, loss carryovers and another €6 million to tax credits (down from €11 million). The German loss carryovers are not subject to expiration, out of the foreign ones, €23 million (down from €74 million) is not either. Most of the foreign loss carryovers subject to expiration can be utilized for more than 9 years (unchanged). The adjustment/write-down of deferred tax assets changed in 2008 by €9 million (up from €2 million). Outside of Germany, companies have capitalized deferred tax assets of €26 million (down from €27 million) which have been incurring ongoing losses due to realigned business operations.

A negative €31 million of the deferred taxes recognized in equity only (up from €29 million) is allocable to land revaluation, a black €8 million to hedges (up from a red €2 million).

In addition, €2 million of income tax assets (virtually unchanged) 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 €5 million (down from €6 million), those in loss to €4 million (up from €1 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, 2008 nor 2007, 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 (basic) EpS equals diluted EpS. The weighted average number of shares accounts for the repurchased shares of treasury stock.

	2007	**2008**
Net earnings after minority interests *€ million*	145	134
Weighted number of shares *million*	34.99	34.54
Earnings per share	**€4.15**	**€3.89**

(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

	2007	**2008**
Accounting EBIT	**270**	**246**
Nonrecurring expenses, losses, income, gains related to		
shareholdings	(12)	1
real estate	(6)	(1)
restructuring	17	16
Adjusted EBIT	**269**	**262**

Notes (Group)
Note to the cash flow statement

(33) Cash flow statement | Noncash income includes the €15 million from the recognition of the Rheinmetall Denel Munition (Pty) Ltd. badwill.

The cash outflow for acquiring consolidated subsidiaries totaled €33 million (down from €51 million) and substantially concerned the acquisition of Stork PWV B.V., LDT Laser Display Technology GmbH and Denel Munitions (Pty) Ltd. In contrast to the prior-year cash inflow of €28 million, the cash outflow in 2008 for the disposal of consolidated subsidiaries totaled €3 million and referred to a reduction in the purchase price of the 2007 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 €9 million were taken over in the M&A transactions (up from €8 million).

Notes (Group)
Note to the segment reports

(34) Segment reports | The Group bundles its operations in two corporate sectors, viz. Defence and Automotive, which are organized and run as independent segments where the respective products, services and customer profiles are grouped accordingly. Reporting on these operating segments is in accordance with the Rheinmetall Group's internal organizational and reporting structures. This segmentation also reflects the distribution of potential risks and rewards and, therefore, the adoption of IFRS 8 has not resulted in any changes in comparison to the previously applicable IAS 14.

Included under the Defence segment are all the land forces equipment operations. Rheinmetall Defence markets a broad portfolio of product platforms and components available to the armed forces as individual items or as networked systems. The core capabilities cover the Land Systems, Weapon and Munitions, Propellants, Air Defence, C^4ISTAR and Simulation & Training divisions.

Included under the Automotive segment are the Rheinmetall Group's auto-component operations which supply the automotive industry with systems and modules for every aspect of the engine: pistons, pumps, plain bearings, engine blocks plus emission-control and air-management systems. In addition to what is supplied to the auto manufacturers, the Automotive segment also operates in the aftermarket business by which wholesalers/resellers, engine repair shops and independent workshops are provided with parts through a global distribution network.

The *Others/Consolidation* column includes, besides the Group's parent (Rheinmetall AG), intragroup service and other nonsegment companies, plus consolidation transactions.

The Rheinmetall Group controls and manages its segments according to the performance indicators EBIT and EBT as well as to segment sales, besides order intake, order backlog and net financial debt as additional key parameters. Segment profitability is assessed by management on the basis of annualized ROCE, obtained by dividing the December 31 averages of capital employed of the prior and current years into EBIT.

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, and net financial debt, the additions to CE mirroring goodwill amortization and write-down accumulated in the past.

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

The indicators for internal controlling and reporting purposes are based on the accounting principles described in Note (3) to the IFRS consolidated financial statements. The intersegment transfers are principally priced as if at arm's length.

Notes (Group)
Note to the segment reports

The table below reconciles the segments' net financial debt to the Group's, as well as segment EBIT to the Group's EBT:

€ million

	12/31/2007	12/31/2008
Net financial debt		
Net financial debt of the segments	81	(24)
Others	327	367
Consolidation	(172)	(138)
Net financial debt of the Group	**236**	**205**
EBIT		
Total segment EBIT	280	256
Others	291	(31)
Consolidation	(301)	21
Net interest expense of the Group	(57)	(62)
EBT of the Group	**213**	**184**

The segmentation of financial information by geographical markets is based on the country of destination for sales to international Defence customers. Segment assets include tangible and intangible assets and investment properties according to the subsidiaries' location.

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 which basically expired in mid-August 2008 exists for the debts assigned under the split-up in 2003 of Bremen-based STN Atlas Elektronik GmbH. In a pending action for damages (with a value at issue of €30 million) against the other joint and several obligor, the parties have agreed in 2008 in the obligee's favor on an extension up to the close of 2009 of the period allowed for claims. An action against Rheinmetall for the sole purpose of preventing the time limit from expiring has thus been avoided. 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 the liability upon recourse, Rheinmetall is only liable for its own share of products and services. Moreover, a letter of comfort involving a joint and several liability has been issued to secure the funding of a joint venture's investments. No cash outflows are expected.

In addition, Rheinmetall has furnished guaranties in favor of, for credit facilities granted to, certain joint ventures and associated affiliates, Rheinmetall's liability being confined to the equity interest held. No cash outflows are here expected either.

In the judicial review proceedings pending since 1998, the share exchange ratio determined during the Kolbenschmidt Pierburg merger (with Rheinmetall Beteiligungen) 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. While required to wait for the decision by this court of appeal, Kolbenschmidt Pierburg presumes 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 €37 million (up from €34 million) paid under operating leases were expensed, which also include all rents paid for computer hardware and software. Apart from business property leases, the other standard contracts cover the rental of vehicles and business, factory and office equipment.

Notes (Group)
Supplementary disclosures

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

€ million

	2007				2008			
	2008	2009–2012	after 2012	**Total**	2009	2010–2013	after 2013	**Total**
Buildings	22	61	47	**130**	23	60	42	**125**
Other leases	9	16	0	**25**	11	18	2	**31**
	31	**77**	**47**	**155**	**34**	**78**	**44**	**156**

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 €9 million (up from €8 million).

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

Further, the obligation to pay up €1 million for shares in an associated affiliate still exists as the capital has yet not been called (down from €2 million).

(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.

The table below breaks down recognized financial assets and liabilities by valuation category and class, additionally stating their current fair values.

Financial instruments *€ million*

2007		Book value	Loans and receivables/ payables	FI available for sale	FI held for trading	FI not covered by IAS 39	Fair value
Financial assets							
Trade receivables	(11)	779	779	--	--	--	779
Other financial assets	(13)	48					
securities			--	3	--	--	3
derivatives with no hedging relationship			--	--	8	--	8
derivatives in hedges			--	--	--	13	13
all other financial assets			24	--	--	--	24
Cash and cash equivalents	(14)	163	163	--	--	--	163
		990	**966**	**3**	**8**	**13**	**990**
thereof carried at							
amortized cost			966	--	--	--	
fair value			--	3	8	13	
Financial payables							
Financial liabilities	(18)	399					
financial liabilities excl. leases			394	--	--	--	382
payables under leases			--	--	--	5	5
Trade payables	(19)	554	554	--	--	--	554
Other liabilities	(20)	424					
nonfinancial payables		(316)					
financial payables		108					
derivatives with no hedging relationship			--	--	3	--	3
derivatives in hedges			--	--	--	5	5
all other financial payables			100	--	--	--	100
		1,061	**1,048**	**--**	**3**	**10**	**1,049**
thereof carried at							
amortized cost			1,048	--	--	5	
fair value			--	--	3	5	

Notes (Group)
Supplementary disclosures

Financial instruments *€ million*

2008		Book value	Loans and receivables/ payables	FI available for sale	FI held for trading	FI not covered by IAS 39	Fair value
Financial assets							
Trade receivables	(11)	710	710	--	--	--	710
Other financial assets	(13)	34					
securities			--	1	--	--	1
derivatives with no hedging relationship			--	--	8	--	8
derivatives in hedges			--	--	--	8	8
all other financial assets			17	--	--	--	17
Cash and cash equivalents	(14)	203	203	--	--	--	203
		947	**930**	**1**	**8**	**8**	**947**
thereof carried at							
amortized cost			930	--	--	--	
fair value			--	1	8	8	
Financial payables							
Financial liabilities	(18)	408					
financial liabilities excl. leases			405	--	--	--	400
payables under leases			--	--	--	3	3
Trade payables	(19)	511	511	--	--	--	511
Other liabilities	(20)	528					
nonfinancial payables		(366)					
financial payables		162					
derivatives with no hedging relationship			--	--	13	--	13
derivatives in hedges			--	--	--	39	39
all other financial payables			110	--	--	--	110
		1,081	**1,026**	**--**	**13**	**42**	**1,076**
thereof carried at							
amortized cost			1,026	--	--	3	
fair value			--	--	13	39	

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 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 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 payables 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 | Under an ABS program, the Rheinmetall Group sells trade receivables on a revolving basis. As of December 31, 2008, the principal of receivables sold came to €170 million (virtually unchanged). The maximum volume of sold receivables was downscaled in January 2009 from the previous €170 million to €140 million as Automotive's volume of receivables had shrunk.

According to IAS 39, these sold receivables are derecognized since the residual recourse risks are insignificant for Rheinmetall, an asset and an associated liability of €2 million each accounting for the maximum continuing involvement (down from €3 million).

Collateral furnished | Liens of €1 million (down from €2 million) rest on financial assets to protect employees from insolvency risks in connection with pension systems.

Further income statement disclosures | The other interest income of €8 million (down from €9 million) and other interest expense of €41 million (up from €38 million) largely result from loans and receivables as well as financial payables carried at amortized cost.

The net loss on loans and receivables came to €5 million (up from €2 million) and breaks down as follows:

€ million

	2007	2008
Other financial income and expenses	(1)	(3)
Write-up	2	2
Write-down and additional allowances	(3)	(4)

Expenses of €1 million (virtually unchanged) are allocable to *financial payables stated at amortized cost* and mainly refer to guaranty commissions; they are included in the *other financial results*.

The net currency/forex gain totaled €14 million (up from a €3 million loss) 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 €0 million (down from €1 million) from the write-down, write-up and disposal of securities. The loss resulting from financial derivatives held for trading totaled €13 million (down from a €4 million gain) and is included in the *other financial results*, too.

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. The effectiveness is subject to ongoing monitoring, using the critical terms match method prospectively and the dollar offset testing method retrospectively.

Inherent financial risks are proactively managed to ensure that at the balance sheet date, no significant risks emanate from financial instruments. Financial-risk management is of particular importance in light of the imponderabilities associated with the present global financial crisis, as well as with the extent and duration of economic downturn. Compounding the situation as shown by the current volatility of financial and commodity markets is the fact that the extent to which government aid packages will actually stabilize financial markets and the real economy is not predictable. Future risks may mainly arise from external funding problems, mounting refinancing costs, and higher hedge contracting expenses. Especially at Automotive, the future default risks attaching to trade receivables from customers will depend on how these face the challenges posed by the financial crisis.

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 and Norwegian krone purchasing and sales transactions. In certain cases natural hedging options exist, too. These hedges are measured as of the balance sheet date and recognized at a fair value which is determined according to the DCF method. 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, 2008, the notional volume of cash flow hedges (CFHs) totaled €368 million (up from €258 million). In 2008 fair value changes of €28 million (up from €11 million) were recognized in OCI only while €4 million (down from €6 million) was recycled from OCI to the income statement (mainly net sales). There were no ineffective portions of currency hedges.

As of December 31, 2008, OCI from currency hedges amounted to a black €25 million (up from a red €9 million) before proratable deferred taxes.

No hedge accounting was applied to hedges covering a notional volume of €277 million (up from €218 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 market values	
	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008
No hedging relationship						
Currency forwards	216	275	22	17	2	(3)
Other	2	2	--	--	--	--
	218	**277**	**22**	**17**	**2**	**(3)**
Hedging relationship						
Currency forwards	254	313	71	86	10	(26)
Other	4	55	--	--	1	3
	258	**368**	**71**	**86**	**11**	**(23)**

What-if analysis | If the exchange rates for the respective functional currency had been 10 percent higher or lower at the closing date, the net gain or loss from financial derivatives without hedging relationship would have changed by €5 million (up from €3 million), and the OCI (before deferred taxes) by €19 million (up from €17 million).

Notes (Group)
Supplementary disclosures

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, 2008, the interest rate hedges listed in the table below existed, with the notional volumes, remaining terms and fair values as indicated, most presenting no hedging relationship. Being marked to 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 market values**	
	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008
Interest rate options	160	50	160	50	2	--
Interest rate swaps	36	34	32	32	2	(2)
	196	**84**	**192**	**82**	**4**	**(2)**

What-if analysis | If the yield curve had been 100 basis points higher or lower at December 31, the net financial result would have changed by €1 million (down from €3 million), and OCI would not have been affected at all since in 2008 or 2007, 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, 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 2008.

In the year under review, a total fair value gain of €8 million (up from a €5 million loss) was recognized in OCI only and another gain of €1 million recycled from OCI to the cost of materials (up from a €3 million loss).

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 market values	
	12/31/2007	12/31/2008	12/31/2007	12/31/2008	12/31/2007	12/31/2008
No hedging relationship						
Commodity futures	2	0	--	--	0	0
Hedging relationship						
Commodity futures	23	19	--	--	(2)	(9)

What-if analysis | If the forward price curve (assuming it to remain constant over the hedged term) of each hedged metal had changed by 10 percent, the related OCI would have risen or dropped by €1 million (prior-year range: €0 to a €4 million decrease) while the net financial result would not have been affected since at December 31, virtually all open contracts had a hedging relationship.

Notes (Group)
Supplementary disclosures

Default (credit) risk | 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 unblemished prime standing. By setting these high standards on counterparties, the risk of such uncollectible debts is minimized.

Aged analysis of trade receivables past due *€ million*

	12/31/2007	12/31/2008
Trade receivables unimpaired but past due		
for 30 days or less	89	70
for 180 days or less	31	35
for >180 days	17	12
	137	117
impaired	7	5
neither impaired nor past due	404	343
	548	**465**
specific allowances/write-down	(2)	(4)
	546	**461**

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, minor loans 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.

The table below discloses as of December 31 all contractually agreed payments for recognized financial payables, as well as the financial derivatives and their fair value.

€ million

	12/31/2007			12/31/2008		
	2008	2009–2012	after 2013	2009	2010–2013	after 2014
Bonds	11	348	--	11	336	--
Due to banks	14	33	28	47	11	25
Payables under capital leases	2	3	--	1	2	--
Other financial debts	1	2	2	1	2	1
	28	386	30	60	351	26
Financial derivatives with						
negative fair value	7	1	--	38	13	--
positive fair value	(16)	(4)	--	(15)	(1)	--

The associated cash flow risk is confined to cash outflows.

The current fair values of financial derivatives should be seen in the context of the associated underlyings, whose value generally show an opposite trend. The derivatives would only produce a cash outflow at the amount shown above if they were terminated early.

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 | The Rheinmetall Group has launched a long-term incentive program (LTIP) 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 average adjusted EBT for the preceding three fiscal years outstrips the prior 3-year period's. The number of shares granted is determined on the basis of the average 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 2008 for stock-based compensation totaled €4 million (virtually unchanged). On April 1, 2008, LTIP participants received a total 79,940 shares for 2007.

In 2008, a Rheinmetall stock purchase program was newly launched under which eligible staff of German Rheinmetall companies may purchase Rheinmetall AG stock at a discount. Such shares are subject to a qualifying period of 2 years. Eligible staff are offered within defined subscription windows the opportunity to buy a limited number of Rheinmetall shares at a 30-percent discount off the applicable market price. In the year under review, Rheinmetall employees purchased altogether 355,229 shares for a total €8 million. Expenses of €3 million were incurred in 2008 for this program, recognized as personnel expenses.

Notes (Group)
Supplementary disclosures

Subscription window	Share price in €	Discount per share in €	Shares purchased by staff	Payment received from staff in € million
04/03–04/16/2008	44.15	13.24	153,429	5
07/01–07/15/2008	45.75	13.73	19,546	1
10/28–11/11/2008	20.01	6.00	182,254	2

(39) Other details of related-party transactions | For the Rheinmetall Group, corporate related parties are the joint ventures and associated affiliates which are carried at equity. Especially the joint ventures contribute to the expansion of Defence and Automotive operations. The volume of products/services provided to related companies is mainly reflected in sales of finished products and work in process to project venturers, as well as in revenue from services provided as part of a public-private partnership (PPP) model for repair logistics for the army within the Defence sector (disclosed here for the first time, prior-year data adjusted). Moreover, the volume of unpaid items includes loans of €3 million to joint ventures (virtually unchanged), interest income from such loans amounting to an unchanged €0 million. The table below shows the volume of related party transactions.

€ million

	Volume of products/ services provided		Volume of products/ services received		Volume of unpaid items	
	2007	**2008**	**2007**	**2008**	**12/31/ 2007**	**12/31/ 2008**
Joint ventures	85	111	13	10	15	(10)
Associated affiliates	12	5	23	9	(1)	--
	97	**116**	**36**	**19**	**14**	**(10)**

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

	2007	**2008**
Short-term payments due	5,418	3,700
Deferred compensation	328	128
	5,746	**3,828**
Postretirement benefits in addition	754	795

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

Supervisory Board fees amounted to €0.987 million in fiscal 2008 (up from €0.733 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 (virtually unchanged). €0.586 million (down from €0.710 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 an unchanged €6 million.

(40) Statutory auditor's fees | In fiscal 2008 and 2007, the following fees of the statutory auditor (PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft) were expensed in Germany:

€ '000

	2007	2008
Statutory audits	1,903	2,031
Other verification/appraisal services	208	41
Tax consultancy	132	81
Other services	93	461
	2,336	**2,614**

The auditing fees cover Rheinmetall AG's separate and consolidated financial statements and the accounts of all subsidiaries audited by PwC in Germany. The fees for other verification/appraisal services were mainly paid in connection with due diligence work while those for tax consultancy and other services covered project-related services.

(41) Corporate Governance Code | In December 2008, 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 6, 2009
The Executive Board

Eberhardt Dr. Kleinert Dr. Müller

Notes (Group)
Major Group companies

Company		Interest held direct (%)	Interest held indirect (%)
Fully consolidated subsidiaries			
Holding companies/service companies/other			
EMG EuroMarine Electronics GmbH, Bremen, Germany			100
Facula Grundstücks-Vermietungsgesellschaft mbH & Co. Objekt Rheinmetall Allee 2 KG, Düsseldorf, Germany			100
Facula Grundstücks-Vermietungsgesellschaft mbH, Düsseldorf, Germany			100
LIGHTHOUSE Grundstücks-Vermietungsgesellschaft mbH & Co. KG, Düsseldorf, Germany			100
MEG Marine Electronics Holding GmbH, Bremen, Germany			100
Rheinmetall Berlin Verwaltungsgesellschaft mbH, Berlin, Germany		100	
Rheinmetall Bürosysteme GmbH, Düsseldorf, Germany		100	
Rheinmetall Immobiliengesellschaft mbH, Düsseldorf, Germany		100	
Rheinmetall Industrie Ausrüstungen GmbH, Düsseldorf, Germany		100	
Rheinmetall Industrietechnik GmbH, Düsseldorf, Germany		100	
Rheinmetall Maschinenbau GmbH, Düsseldorf, Germany		100	
Rheinmetall Versicherungsdienst GmbH, Düsseldorf, Germany		100	
Rheinmetall Verwaltungsgesellschaft mbH, Düsseldorf, Germany			100
SUPRENUM Gesellschaft für numerische Superrechner mbH, Bremen, Germany			100
Defence			
American Rheinmetall Munitions Inc., Stafford, USA	USD		100
Benntec Systemtechnik GmbH, Bremen, Germany			49
BIL Industriemetalle GmbH & Co. 886 KG, Grünwald, Germany		94	
Contraves Advanced Devices Sdn Bhd, Melaka, Malaysia	MYR		100
Contraves Sdn Bhd, Melaka, Malaysia	MYR		100
Eurometaal Holding Deutschland GmbH, Düsseldorf, Germany			100
Eurometaal Holding N.V., Hengelo, Netherlands			100
Eurometaal N.V., Hengelo, Netherlands			100
I.L.E.E. AG, Urdorf, Switzerland	CHF		100
LDT Laser Display Technology GmbH, Jena, Germany			51
Nitrochemie AG, Wimmis, Switzerland	CHF		51
Nitrochemie Aschau GmbH, Aschau, Germany			55
Nitrochemie Wimmis AG, Wimmis, Switzerland	CHF		55
Oerlikon Contraves GmbH, Stockach, Germany		100	
Oerlikon Contraves Pte. Ltd., Singapore, Singapore	SGD		100
Rheinmetall Air Defence AG (formerly Oerlikon Contraves AG), Zurich, Switzerland	CHF	100	
Rheinmetall Canada Inc., St.-Jean-sur-Richelieu, Canada	CAD	100	
Rheinmetall Chempro GmbH, Bonn, Germany			51
Rheinmetall Defence Electronics GmbH, Bremen, Germany		100	
Rheinmetall Denel Munition (Proprietary) Limited, Pretoria, South Africa	ZAR		51

Company		Interest held direct (%)	Interest held indirect (%)
Rheinmetall Dienstleistungszentrum Altmark GmbH, Letzlingen, Germany		100	
Rheinmetall Hellas S.A., Athens, Greece		100	
Rheinmetall Italia S.p.A., Rome, Italy			100
Rheinmetall Landsysteme GmbH, Kiel, Germany		100	
Rheinmetall Nederland B.V., Amsterdam, Netherlands			100
Rheinmetall Schweiz AG, Zurich, Switzerland	CHF		100
Rheinmetall Technical Publications GmbH, Bremen, Germany		100	
Rheinmetall Waffe Munition ARGES GmbH, Schwanenstadt, Austria			100
Rheinmetall Waffe Munition GmbH, Unterlüss, Germany		100	
RM Euro B.V., Hengelo, Netherlands		100	
RTP-UK Ltd., Bristol, Great Britain	GBP		100
RWM Beteiligungsverwaltung Austria GmbH, Schwanenstadt, Austria			100
RWM Schweiz AG, Zurich, Switzerland	CHF		100
RWM Zaugg AG, Lohn-Ammannsegg, Switzerland	CHF		100
Automotive			
GVG Grundstücksverwaltung Gleitlager GmbH & Co. KG, Neckarsulm, Germany			100
GVH Grundstücksverwaltung Hamburg GmbH & Co. KG, Neckarsulm, Germany			100
GVN Grundstücksverwaltung Neckarsulm GmbH & Co. KG, Neckarsulm, Germany			100
Karl Schmidt Unisia Inc., Marinette, USA	USD		92
Kolbenschmidt de México S. de R.L. de C.V., Celaya, Mexico	MXN		100
Kolbenschmidt K.K., Yokohama, Japan	JPY		100
Kolbenschmidt Liegenschaftsverwaltung GmbH Berlin, Berlin, Germany			100
Kolbenschmidt Pierburg AG, Neckarsulm, Germany			100
KS Aluminium-Technologie GmbH, Neckarsulm, Germany			100
KS ATAG Bearbeitungsgesellschaft m.b.H., Neckarsulm, Germany			100
KS ATAG Beteiligungsgesellschaft m.b.H., Neckarsulm, Germany			100
KS ATAG GmbH, Neckarsulm, Germany			100
KS ATAG Romania S.R.L., Bucharest, Romania	RON		100
KS Bronzinas Ltda., Nova Odessa, Brazil	BRL		100
KS France S.A.S, Basse-Ham (Thionville), France			100
KS Gleitlager GmbH, St. Leon-Rot, Germany			100
KS Gleitlager USA Inc., Fountain Inn (Greenville), USA	USD		100
KS Grundstücksverwaltung Beteiligungs GmbH, Neckarsulm, Germany			100
KS Grundstücksverwaltung GmbH & Co. KG, Neckarsulm, Germany			100
KS International Investment Corp., Southfield, USA	USD		100
KS Kolbenschmidt Czech Republic a.s., Ústí, Czech Republic	CZK		100
KS Kolbenschmidt France S.A.S., Basse-Ham (Thionville), France			100
KS Kolbenschmidt GmbH, Neckarsulm, Germany			100
KS Large Bore Pistons Inc., Marinette, USA	USD		100
KS Produtos Automotivos Ltda., Nova Odessa, Brazil	BRL		100
KSPG Automotive Brazil Ltda., Nova Odessa, Brazil	BRL		100

Notes (Group)
Major Group companies

Company		Interest held direct (%)	Interest held indirect (%)
KSPG Finance & Service Ltd., St. Julians, Malta			100
KSPG Malta Holding Ltd., St. Julians, Malta		21	79
KSPG Netherlands Holding B.V., Amsterdam, Netherlands			100
KSUS International LLC., Marinette, USA	USD		100
KUS Canada Inc., Leamington, Canada	USD		92
MS Motor Service Deutschland GmbH, Weinstadt, Germany			100
MS Motor Service France S.A.S., Goussainville, France			100
MS Motor Service International GmbH, Neuenstadt, Germany			100
MS Motor Service Istanbul Dis Ticaret ve Pazarlama A.S., Istanbul, Turkey	TRL		51
MS Motor Service Shanghai Trading Company Ltd., Shanghai, China	CNY		100
Pierburg Gestión S.L., Abadiano, Spain			100
Pierburg GmbH, Neuss, Germany			100
Pierburg Inc., Fountain Inn (Greenville), USA	USD		100
Pierburg India Private Limited, Mumbai, Maharashtra, India	INR		100
Pierburg México S.A. de C.V., Chihuahua, Mexico	MXN		100
Pierburg Pump Technology Brazil Produtos Automotivos Ltda., Nova Odessa, Brazil	BRL		100
Pierburg Pump Technology GmbH, Neuss, Germany			100
Pierburg Pump Technology India Private Limited, Mumbai, Maharashtra, India	INR		100
Pierburg Pump Technology Italy S.p.A., Lanciano, Italy			100
Pierburg Pump Technology S.à r.l., Basse-Ham (Thionville), France			100
Pierburg Pump Technology S.A. de C.V., Chihuahua, Mexico	MXN		100
Pierburg Pump Technology UK Ltd., Laindon Basildon, Essex, Great Britain	GBP		100
Pierburg S.A., Abadiano, Spain			100
Pierburg s.r.o., Ústí, Czech Republic	CZK		100
Société Mosellane de Services S.C.I., Basse-Ham (Thionville), France			100
Werkzeugbau Walldürn GmbH, Walldürn, Germany			100

Company		Interest held direct (%)	Interest held indirect (%)
Investees carried at equity			
Holding companies/service companies/other			
LIGHTHOUSE Development GmbH			10
Unternehmerstadt GmbH, Düsseldorf, Germany			50
Defence			
ADS Gesellschaft für aktive Schutzsysteme mbH, Lohmar, Germany			25
Advanced Pyrotechnic Materials Private Ltd., Singapore, Singapore	SGD		49
AIM Infrarot-Module GmbH, Heilbronn, Germany			50
ARGE RDE/CAE (GbR), Bremen, Germany			50
ARTEC GmbH, Munich, Germany			64
Burkan Munitions Systems L.L.C., Abu Dhabi, UAE	AED		40
DynITEC GmbH, Troisdorf, Germany			45
EuroSpike GmbH, Röthenbach, Germany			40
GIWS Gesellschaft für Intelligente Wirksysteme mbH, Nürnberg, Germany			50
Hartchrom Defense Technology AG, Steinach, Switzerland	CHF		38
Hellenic Simulation and Training Systems Commercial and Industrial Société Anonyme (HSTS S.A.), Agia Paraskevi, Greece			50
HFTS Helicopter Flight Training Services GmbH, Hallbergmoos, Germany			25
HIL Industrie-Holding GmbH, Bonn, Germany			33
LOG Logistik-Systembetreuungs-Gesellschaft mbH, Bonn, Germany			25
N2 Defense LLC, Arlington, Virginia, USA	USD		50
Oy Finnish Defence Power Systems AB, (FDPS), Helsinki, Finland			30
PSM Projekt System & Management GmbH, Kassel, Germany			50
SysFla GmbH, Unterschleissheim, Germany			50
Werk Aschau Lagerverwaltungsgesellschaft mbH, Aschau, Germany			28
Automotive			
Advanced Bearing Materials LLC., Greensburg, USA	USD		50
Kolbenschmidt Pierburg Shanghai Nonferrous Components Co. Ltd., Shanghai, China	CNY		50
Kolbenschmidt Shanghai Piston Co. Ltd., Shanghai, China	CNY		50
Shriram Pistons & Rings Ltd., New Delhi, India	INR		20

Management representation

We represent that, to the best of our knowledge and in accordance with applicable accounting principles, the consolidated financial statements present a true and fair view of the Rheinmetall Group's asset and capital structure, financial position and results of operations, as well as that the group management report describes fairly, in all material respects, the Group's business trend and performance, the Group's position, and the significant risks and rewards of the Group's future development.

Düsseldorf, March 6, 2009

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, 2008. 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 9, 2009

PricewaterhouseCoopers
Aktiengesellschaft
Wirtschaftsprüfungsgesellschaft

(Peter Albrecht)	(Uwe Schwalm)
Wirtschaftsprüfer	Wirtschaftsprüfer

Balance sheet of Rheinmetall AG as of December 31, 2008

ASSETS *€ million*

	12/31/2007	12/31/2008
Fixed assets		
Intangible assets	0.048	0.091
Tangible assets	30.357	28.988
Financial assets	788.682	904.403
	819.087	**933.482**
Current assets		
Receivables and sundry assets	417.210	381.227
Securities	46.180	36.822
Cash on hand and in bank	76.230	101.338
	539.620	**519.387**
Prepaid expenses & deferred charges	**1.368**	**0.578**
	1,360.075	**1,453.447**

STOCKHOLDERS' EQUITY & LIABILITIES *€ million*

	12/31/2007	12/31/2008
Capital stock	92.160	92.160
Additional paid-in capital	208.262	208.262
Reserves retained from earnings	195.208	182.639
Net earnings	72.192	45.009
Stockholders' equity	**567.822**	**528.070**
Untaxed/special reserves	**3.214**	**3.131**
Accruals	**120.089**	**115.347**
Liabilities		
Bonds	325.000	325.000
All other liabilities	343.950	481.899
	668.950	**806.899**
	1,360.075	**1,453.447**

Income statement of Rheinmetall AG for fiscal 2008

€ million

	2007	2008
Income from investments	172.898	63.038
Net interest expense	(8.906)	(6.294)
Write-down of treasury stock	--	(30.427)
Net financial result	**163.992**	**26.317**
Other operating income	64.155	58.331
Personnel expenses	(27.107)	(29.754)
Amortization of intangible and depreciation of tangible assets (incl. write-down)	(1.742)	(1.675)
Other operating expenses	(32.742)	(37.338)
EBT	**166.556**	**15.881**
Income taxes	(13.424)	(10.448)
Net income	**153.132**	**5.433**
Transfer from reserves retained from earnings	2.128	78.722
Transfer to reserves retained from earnings	(83.068)	(39.146)
Net earnings	**72.192**	**45.009**

Corporate governance report

The German Corporate Governance Code (the “Code”) comprises statutory regulations, legislative provisions and (inter)nationally accepted standards of the governance of listed corporations, besides providing the rules of interaction of all corporate bodies. The Code aims to promote the trust and confidence placed by stockholders, business counterparts, financial markets, employees and the general public in the management and supervision of listed companies. Transparency, confidence, reliability: the corporate governance principles set out in the Code are a firm fixture of Rheinmetall AG’s self-perception. Rheinmetall’s transparent, responsible, reliable and fair corporate governance has had a longstanding tradition and centers around the respect for stockholder interests, a close, trusting inter-board collaboration, due and proper accounting and auditing in line with generally accepted standards, a bona fide risk management system, the due compliance with the law and intragroup policies, as well as outspoken and transparent corporate communications.

Declaration of conformity 2008 | On June 6, 2008, the German Corporate Governance Code Government Commission restated the Code. On December 9, 2008, the Company’s Executive and Supervisory Boards issued the annual declaration of conformity under the terms of Art. 161 AktG, which states that Rheinmetall has fully carried out the recommendations of the German Corporate Governance Code Government Commission as amended up to June 14, 2007, and will fully carry out all the recommendations of the Code as amended up to June 6, 2008. The current and all other annual declarations of conformity issued since 2002 have been published on the Company’s website (www.rheinmetall.com) on the Group’s Corporate Governance pages.

Corporate compliance | Corporate compliance covers all organizational procedures, processes and policies of the Rheinmetall companies designed to ensure compliance with local laws and regulatory frameworks. It is a firm fixture of Rheinmetall’s corporate culture, and each and every Rheinmetall employee is obligated to comply with such principles. Periodical training sessions update the staff on current developments. The corporate compliance program, which is supplemented by various groupwide policies and guidelines, is periodically reviewed, and updated wherever required, by the Compliance Team whose members comprise delegates from the Group’s divisions and the parent’s departments. The Chief Compliance Officer regularly reports to the Executive Board and the Supervisory Board’s Audit Committee on the adequacy and effectiveness of the corporate compliance program.

Stockholders and their meeting | Rheinmetall AG’s stockholders exercise their rights at the general meeting, to which the Executive or Supervisory Board invites as required by the law or wherever deemed expedient to safeguard the Company’s interests. One share grants one vote. Each stockholder is entitled to attend general meetings, speak there about any business on the agenda, ask pertinent questions and propose motions. Stockholders may either exercise their voting right personally at a general meeting or appoint a proxy at their discretion or give voting power to a Rheinmetall-appointed voting proxy. The Executive Board submits to the annual general meeting (AGM) Rheinmetall’s separate and consolidated financial statements. The AGM votes on matters such as profit appropriation, capital moves, approval of intercompany agreements or similar moves, Supervisory Board remuneration, amendments of the articles of incorporation or bylaws, and elects the stockholder representatives on the Supervisory Board, besides appointing the statutory auditor. The entire AGM documentation and information of relevance to voting are published on Rheinmetall AG’s website where shortly after the meeting’s close, also the Executive Board presentation and the voting results are available online.

The two boards | Through constructive frequent dialogs, Rheinmetall AG's Executive and Supervisory Boards closely work together in an atmosphere of mutual trust in the best interests of the entire Group. 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 Code. Supervisory Board members do not include any former Executive Board members of Rheinmetall AG.

Except for Dr. Siegfried Goll's term (which expires at the close of the AGM 2013), the office of the Supervisory Board's stockholder and employee representatives terminates at the close of the AGM which votes on the official approval of board member acts and omissions for fiscal 2011.

In 2008 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 126–128.

Supervisory Board committees | Rheinmetall AG's Supervisory Board has formed committees from among its members that prepare matters for decision by the plenary Board.

The Personnel Committee is responsible for relations between Executive Board members and the Company, including the negotiation, execution, termination and amendment of employment contracts with, and a periodical review of the compensation guidelines for, Executive Board members.

The Audit Committee is in charge of preparations for Supervisory Board resolutions on the adoption of the separate financial statements and the approval of the consolidated financial statements, by conducting in advance an internal review of the financial statements and management reports. Moreover, the Audit Committee examines the profit appropriation proposal and discusses the financial statements and audit reports with the statutory auditor, besides deciding on the statutory auditor's selection and independence, issuing the audit engagement letter, defining focal audit areas and agreeing on audit fees. In addition, the Audit Committee monitors annual and interim financial reporting and the effectiveness of the risk management system, apart from dealing with accounting, corporate governance and corporate compliance issues. When electing the Audit Committee members, the Supervisory Board has made sure that they have the required experience and knowledge regarding the application of accounting standards and internal control processes.

Corporate governance report

The Codetermination Committee formed according to Art. 27(3) German Codetermination Act submits to the plenary Supervisory Board a slate of candidates for Executive Board membership if these have not received the required two-third majority of Supervisory Board member votes in the first poll.

The Slate Submittal Committee submits to the plenary Supervisory Board a slate of suitable Supervisory Board candidates for election by the AGM.

Efficiency review | Rheinmetall AG's Supervisory Board periodically reviews the efficiency of its own work, as required by the Code.

Compensation of board members | Details of the individual remuneration of Executive and Supervisory Board members in 2008 and the underlying compensation structures are described and explained in the board compensation report (within the group management report) on pages 43 et seq. The Supervisory Board Chairman briefed the annual general meeting on May 6, 2008, on the basic elements and components of Executive Board remuneration, which have also been disclosed on the Company's website.

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

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. The reportable transactions in 2008 were duly disclosed on the Company's website.

As of December 31, 2008, the members of Rheinmetall AG's Executive and Supervisory Boards (including related parties) owned an aggregate 419,521 shares or 1.17 percent of the Company's capital stock, including 74,871 shares (0.21 percent) and 344,650 shares (0.96 percent) held by Executive Board and Supervisory Board members, respectively.

All reportable securities transactions have been published on the Internet at www.rheinmetall.com in the Investor Relations section for long-term perusal.

Systematic risk management | Seizing opportunities in dynamic markets does not work without incurring risks. A key business management objective is the control of such risks while concurrently and consistently taking advantage of opportunities. Risk policy focuses on general business risks, financial risks and the specific risks of divisions. The Executive Board determines the Group's risk strategy and defines accountabilities, reporting structures, documentation and management of identified risks, besides setting limits or tolerances. The groupwide uniform risk management system, which consists of several interactive and interdependent budgeting, planning, control and information systems, ensures that management decisions and day-to-day operations stay within defined risk limits and comply with the law. The Executive Board periodically reports to the Supervisory Board (especially the Audit Committee) on current risks and their trend. 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.

Accounting and auditing | 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) and also govern dividend payout.

PricewaterhouseCoopers AG Wirtschaftsprüfungsgesellschaft, Frankfurt/Main, Düsseldorf branch, performed the statutory audits for 2008. As proposed by the Audit Committee, the Supervisory Board issued the audit engagement letter after agreeing with the statutory auditor elected by the AGM on focal audit areas and audit fees. In general, the Supervisory Board 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 2008 annual audit has not indicated any such reportable facts.

Corporate communications | Up-to-date, fair and consistent corporate communications are a matter of course within the Rheinmetall Group and address the rights and interests of stockholders, the media, 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. Periodic conferences and road shows for investors and financial analysts ensure an ongoing information interchange with the financial and capital markets. Any information likely to impact on stock exchange quotations is promptly published in an ad-hoc notification as required by the law. Reportable securities transactions are published by Rheinmetall in the statutory media and on its website. The Annual Document (also published at www.rheinmetall.com) lists all mandatory publications by Rheinmetall AG from fiscal 2008.

Supervisory Board

Klaus Greinert
Mannheim
Businessman
Chairman

Advisory board of Gebr. Röchling KG
(Chairman)
DURAVIT AG
(Chairman)
DURAVIT S.A.

Joachim Stöber *)
Biebergemünd
Vice-Chairman

Member of the Metalworkers Union's General Secretariat
GEA Group AG
Pierburg GmbH
(Vice-Chairman) (up to August 25, 2008)

Dr. Ludwig Dammer *)
Düsseldorf

Head of Production System/Technology
Pierburg GmbH

Kolbenschmidt Pierburg AG
(up to March 4, 2008)

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.
(Chairman)
Dresdner Bank (Schweiz) AG
(President)
Dresdner Bank ZAO
Felix Schoeller Holding GmbH & Co. KG
Oldenburgische Landesbank AG
(Chairman) (up to December 3, 2008)
Oldenburgische Landesbank AG
(as from December 4, 2008)
Reuschel & Co. KG
(Chairman)
RWE Dea AG

Dr. Siegfried Goll
Markdorf
(as from February 28, 2008)
Consulting engineer
Former CEO of
ZF Friedrichshafen AG

Rohwedder AG
SAF-Holland S.A.
Voss Holding GmbH & Co. KG
Witzenmann GmbH
Leuze electronic Geschäftsführungs-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
(up to June 17, 2008)
Kolbenschmidt Pierburg AG
(Vice-Chairman)

Dr. Peter Mihatsch
Sindelfingen
Consulting engineer

Arcor AG
Giesecke & Devrient GmbH
(Chairman)
Strabag Property and Facility Services GmbH
Vodafone Deutschland GmbH
Vodafone D2 GmbH

*) *employee representative*

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 GmbH

KS Aluminium-Technologie GmbH
KS ATAG GmbH

Henning von Ondarza
Bonn
Retired general

Professor Dr. Frank Richter
Ulm
Professor, Chair of Strategic Corporate Governance and Finance Ulm University

Advisory board of Gebr. Röchling KG
GSW Gemeinnützige Siedlungs- und Wohnungsbaugesellschaft Berlin mbH
Ulm University

Reinhard Sitzmann
Weichs
General manager of IRS Profil GmbH
General manager of Hirschmann Multimedia Holding B.V.
Shareholder committee of Opti M&A GmbH
Advisory board of 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:

Kolbenschmidt Pierburg AG
(Chairman)

Hirschmann Automotive GmbH
(as from September 18, 2008)

MTU Aero Engines Holding AG
(Chairman)

MTU Aero Engines GmbH
(Chairman) (as from January 1, 2008)

Nitrochemie AG
(President) (up to Dezember 15, 2008)

Nitrochemie Wimmis AG
(President) (up to Dezember 15, 2008)

Oerlikon Contraves AG
(President) (up to June 12, 2008)

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 GmbH
(Chairman)

KS ATAG GmbH
(Chairman)

KS Gleitlager GmbH
(Chairman)

KS Kolbenschmidt GmbH
(Chairman)

KS International Investment Corp.

Läpple AG
(Chairman)

Läpple Beteiligungs 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

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, C^4ISTAR, Simulation and Training

Ingo Hecke
Meerbusch
Human Resources

Shaun Liebenberg
Meerbusch
(as from July 1, 2008)
International Business Development

Executive Board Automotive

Dr. Gerd Kleinert
Gottmadingen
Chairman
Strategy, Marketing, Operations

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

Peter-Sebastian Krause
Erkrath
HR, Law

Financial diary 2009

March 25, 2009
Annual accounts press conference

March 25, 2009
Analysts conference

May 8, 2009
Report on Q1/2009

May 12, 2009
Annual general meeting

August 13, 2009
Report on H1/2009

November 10, 2009
Report on Q3/2009

Imprint

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Rheinmetall's website 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.

Annual Report 2008 Rheinmetall AG