

Q2

Rheinmetall AG

Interim report as of June 30, 2006



RHEINMETALL

The Rheinmetall Group in figures

Rheinmetall Group indicators € million

	H1/2005	H1/2006
Net sales	1,617	1,725
Order intake	1,919	1,676
Order backlog (June 30)	3,032	2,866
EBITDA	150	152
EBIT	72	73
EBT	47	49
Net income	34	37
Cash flow	117	123
Net financial debt	344	453
Net interest expense	(25)	(24)
Capital expenditures	82	81
Depreciation/amortization	78	79
Accounting equity	797	861
Total assets	3,270	3,270
EBIT margin	4.5%	4.2%
Earnings per common share (€)	0.88	1.01
Market capitalization (June 30)	1,498	1,962
Headcount (June 30)	18,403	19,004

Rheinmetall again showing growth

Value enhancement through profitable growth is the focal point of Rheinmetall's corporate development efforts. With sales clearly rising and earnings steady, Rheinmetall continued on course in the first half of 2006.

- Group sales rising by 7 percent to €1,725 million
- EBIT at €73 million repeating the previous year's level
- Group net income climbing from €34 million to €37 million
- EpS mounting from €0.88 to €1.01

News flashes Q2/2006

April 2006



■ At the Defence Services Asia Exhibition in Kuala Lumpur, the Defence sector presents a broad range of products and services as well as capability-oriented system solutions designed to meet the current and future requirements of armed forces internationally.

■ At road shows held in New York and Paris, Rheinmetall presents itself to international analysts and investors.

■ Breakthrough for telerob: following an international invitation to bid, the Federal Interior Ministry orders six ultramodern telemax EOD (Explosive Ordnance Disposal) robots, which were even used to provide greater security at soccer stadiums during the World Cup.

■ The renowned Society of Automotive Engineers (SAE) stages a major automotive technology conference in Detroit. In the Diesel, Gas and Hybrid section, the Automotive sector presents technologies and innovations aimed at reducing emissions and fuel consumption, improving engine performance and efficiency and minimizing engine noise and vibrations.

■ The NATO Munitions Safety Information Analysis Center confers its coveted Insensitive Munition Award on Rheinmetall Waffe Munition and Nitrochemie for its achievements in the field of improved gun propellant powder and propellant systems.



May 2006



■ Over 300 stockholders attend Rheinmetall AG's annual general meeting on fiscal 2005 in Berlin.

■ As part of the celebrations to mark the 50th anniversary of the establishment of the German Army, the prototype of the German armed forces' new Puma infantry fighting vehicle is unveiled to the public for the first time in the presence of hundreds of personages from politics, the military, industry, and the media.

■ The world's biggest carmaker General Motors once again presents its Supplier of the Year Award to KS Kolbenschmidt, thus acknowledging the excellent quality and service provided by the Neckarsulm-based piston manufacturer.

■ Following Germany and Greece, Finland opts for the Asrad-R. The both stationary and flexibly deployable air defence system for protecting military systems and installations is field tested, culminating in live-firing.

■ Under the motto "Plain and Roller Bearings—Design, Calculation, Application," KS Gleitlager presents its R&D expertise and innovative resources in the field of engine bearings at the VDI Knowledge Forum held in Heidelberg.

■ Rheinmetall Defence Electronics supplies another TACOS gunnery training and combat simulator system to Thailand's armed forces, providing it with one of the most up-to-date networked simulation centers for the army in Asia.



June 2006



■ The 10th Papenburg Industry Conference turns to the automotive industry. Some 100 representatives from industry and politics find out at KS Gleitlager about the production techniques involved in the manufacture of high-precision components and inspect Europe's largest vertical continuous red brass casting facility during a plant tour.

■ Rheinmetall Defence's exhibition stand at Eurosatory in Paris attracts notable visitors: French Defence Minister Michèle Alliot-Marie finding out about the numerous new developments and advancements that are making a major contribution to the armed forces' modernization.

■ Official rollout of the F-0711-1 prototype on the campus in Vaihingen: 30 motor sport enthusiasts studying vehicle and engine technology at the University of Stuttgart present their first completely independently developed and built racing car. Kolbenschmidt Pierburg is providing the racing team with financial support.

■ Living and working in the city: the urban development of the Rheinmetall site in the Derendorf district of Düsseldorf is continuing. Emerging in several phases is a modern mix of upscale residential and office buildings together with attractive green areas.

■ In cooperation with Lufthansa Flight Training GmbH, Rheinmetall Defence Electronics is re-equipping an Airbus A340 full flight simulator with the AVIOR laser projection system. Following approval by the Braunschweig-based Federal Aviation Authority, AVIOR is the second projection system worldwide to be licensed for high-quality level-D simulators.



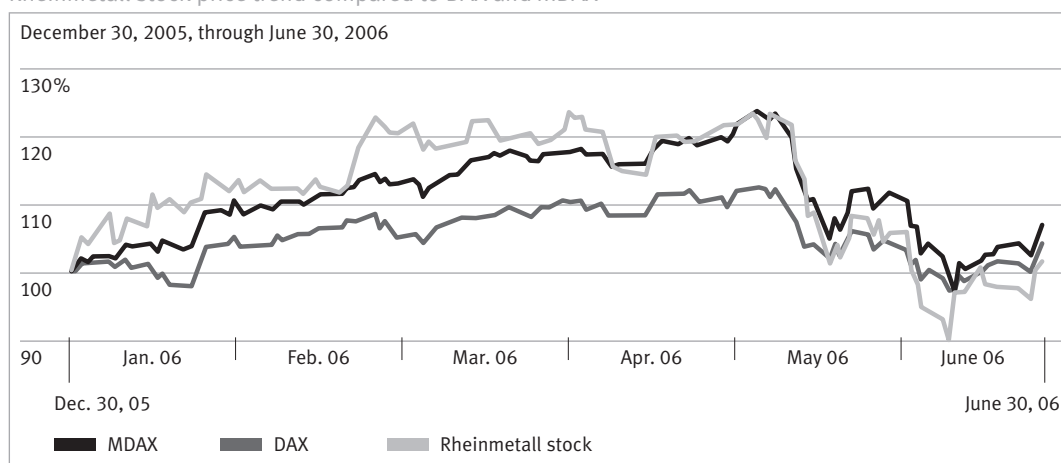
Rheinmetall stock

Clear price gain in a year-on-year comparison. Rheinmetall stock likewise succumbed to the generally weak Q2/2006 world stock markets. Driven by interest rate and inflation scares and the related fear of flattening economies, the prices of major stock indexes dipped in some cases by over 10 percent as reflected in the DAX which between April and June 2006 slid by around 5 percent to 5,683 points, the MDAX showing an even sharper loss. This mid-cap index, which includes Rheinmetall, shed around 9 percent, closing the quarter at 7,887 points.

Rheinmetall stock price in Q2/2006 fell by 15 percent, albeit showing a strong 31-percent advance in a 12-month comparison. As of June 30, 2006, the price had reached €54.51 on the Xetra trading system. During Q2/2006, stockholders also benefited from the €0.90 dividend per share distributed on May 10.

The market capitalization of the 36 million shares of stock amounted to €2.0 billion as of June 30, 2006 (up from €1.5 billion), Rheinmetall stock thus ranking 15th and 23rd in terms of capitalization and trading volume, respectively, as published in the most recent MDAX statistics of Deutsche Börse AG at the end of June 2006. The average Q2/2006 daily trading volume was around 245,000 (up from 80,000 a year ago).

Rheinmetall stock price trend compared to DAX and MDAX

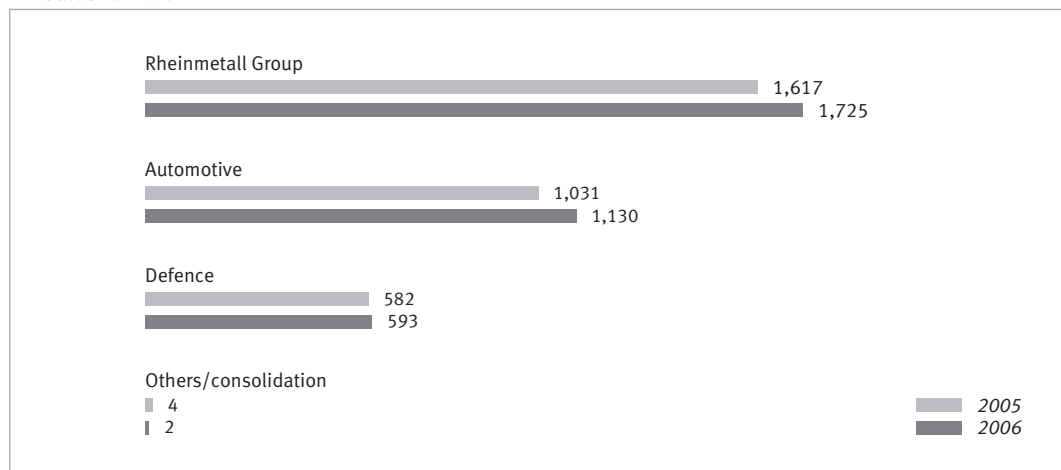


Rheinmetall Group

International position strongly upheld

Clear sales growth. In the second quarter of 2006, Rheinmetall repeated its strong Q1/2006 performance and again very well held its ground on the international markets. The Group's sales volume was clearly stepped up. Both sectors—Automotive and Defence—generated higher sales, with Automotive easily outpacing the market as such.

H1 sales € million



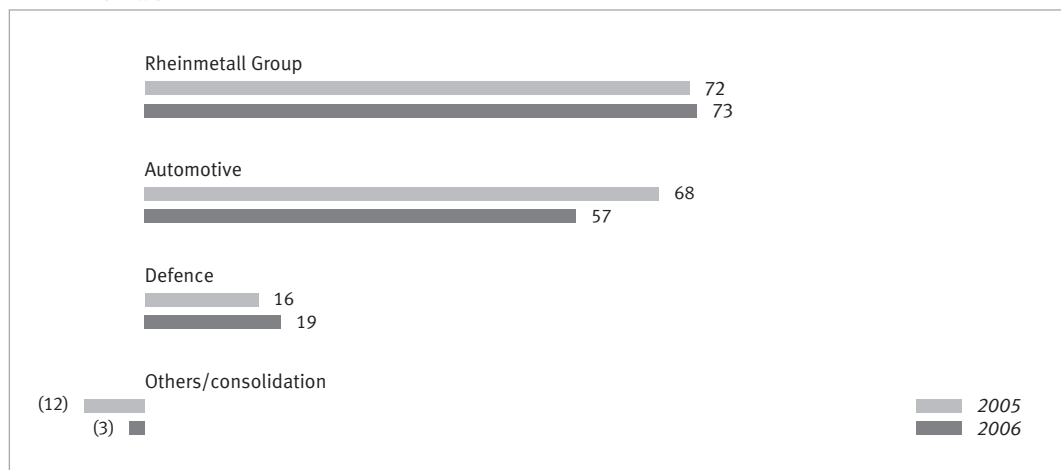
In H1/2006, the Rheinmetall Group generated sales of €1,725 million, following €1,617 million one year earlier, equivalent to a 7-percent growth.

A major contribution to this uptrend came from the Automotive sector, with sales outpacing the year-earlier level by 10 percent. The lion's share of Defence's sales (up 2 percent over the prior year) will be generated in the second half of the year.

Order intake as yet below the previous year. In the first half of 2006 and at €1,676 million, order intake in the Rheinmetall Group was still below H1/2005, a consequence of the year-earlier inflow having been boosted by two megaorders worth around €300 million.

For the current fiscal year, Defence has budgeted high-volume order influx from Germany and abroad not before the second half of the year. In Germany, the focus will be on the contracts for the Boxer armored transport vehicle and for the army command information system. International orders are expected especially for state-of-the-art air defence systems.

H1 EBIT € million



Sustained progress at a high level. H1/2006 EBIT for the Rheinmetall Group reached €73 million, virtually as one year before.

The clear €9 million improvement by Others (subsuming the activities of the holding and services companies) is mainly ascribable to the one-time expenses of €8 million burdening the H1/2005 EBIT for financial restructuring.

With net interest expense down by €1 million, EBT climbed from €47 million to €49 million. Due to a lower tax load, Group net income rose by €3 million to €37 million, earnings per share improving by 15 percent to €1.01.

Earnings per share

	Q2/2005	Q2/2006	H1/2005	H1/2006
Group earnings after minority interests (€ million)	19	20	31	35
Weighted average number of shares outstanding (million)	35.4	35.1	35.4	35.1
EpS (€)	0.54	0.56	0.88	1.01

Prospects: confident as to 2006. In the current fiscal year, Rheinmetall again expects a stable uptrend and confirms its target of an average organic growth of at least 5 percent annually. Based on its H1 sales and earnings, Rheinmetall still predicts for all of 2006 a repeat of the previous year's earnings, an essential prerequisite, however, being abated commodity prices.

Automotive sector

Again outpacing international market growth

Stable automotive climate. H1/2006 showed in all a healthy climate on the international automotive markets: in the first six months of the current year, worldwide production of passenger cars and light commercial vehicles was stepped up by a good 4 percent to 33 million. The triad markets of Western Europe, North America and Japan, of special significance for Rheinmetall's Automotive sector, however, saw only a slight increase in production volume of around one percent. Most automotive production momentum was again generated in Southeast Asia, South America, and C&E Europe.

Automotive raises sales. In 2006 and at €1,130 million, H1 sales of the Automotive sector topped the 2005 level by €99 million or 10 percent. Around one-half of this rise resulted from the downloading of commodity price increases and exchange effects. Even after deducting these enhancing effects, the Automotive sector still achieved a rate above international production growth.

Earnings burdened by price increases in raw materials. In H1/2006, Automotive generated an EBIT of altogether €57 million (down from €68 million)—with all divisions contributing a profit. Compared to one year earlier, EBIT was squeezed by around €13 million due to higher commodity prices. Most of the materials price increases are passed on to the customers, albeit only after a time lag. Moreover, at €4 million, restructuring also had an eroding effect.

Outlook for all of 2006. In fiscal 2006, Automotive sales will again outgrow automotive production. Assuming that the commodity markets calm down quickly and lastingly and exchange rates stay in line with actual economic conditions, Automotive expects to close the year—because of the rigorous internationalization efforts—with annual results slightly short of the strong 2005 figures.

Automotive indicators € million

	H1/2005	H1/2006
Net sales	1,031	1,130
Order intake	1,049	1,126
Order backlog (June 30)	330	348
Headcount (June 30)	11,533	12,098
EBITDA	127	118
EBIT	68	57
EBT	59	47
EBIT margin	6.6%	5.0%
Capital expenditures	68	63
Depreciation/amortization	59	61

Defence sector

Sales and earnings increased

Transformation of the armed forces a growth generator. The realignment of the armed forces according to their changed challenges within the framework of international missions and crisis operations is proceeding in full swing in almost all the industrial nations. Despite the strained situation in many public-sector budgets, this transformation of the armed forces, partly coupled with massive mutations in matériel concepts, continues to be the growth generator on the market for defence industry products and services. Added to this there are extra business opportunities resulting from the government's sale of defence equipment, which needs to be repaired and in some cases revamped prior to final shipment.

Sales growth in Defence business. The Defence sector managed to step up sales by 2 percent to €593 million in H1/2006, a period usually much weaker for invoice timing reasons.

At €547 million, order intake is according to expectations for the first half. For all of 2006 order inflow is predicted to outnumber the overall sales rise.

Profitability upgraded. In the period under review, Defence topped the previous year's EBIT of €19 million by €3 million, thus boosting the EBIT margin to 3.2 percent already in the first half of the year (up from 2.7 percent).

Prospects: high order backlog securing growth. For all of 2006, Defence expects an above-average growth in sales and order intake and sees good opportunities to consolidate the previous year's performance and once again improve earnings.

Defence indicators € million

	H1/2005	H1/2006
Net sales	582	593
Order intake	866	547
Order backlog (June 30)	2,701	2,518
Headcount (June 30)	6,766	6,782
EBITDA	34	37
EBIT	16	19
EBT	8	12
EBIT margin	2.7%	3.2%
Capital expenditures	14	18
Depreciation/amortization	18	18

Consolidated balance sheet as of June 30, 2006

Assets € million

	12/31/2005	6/30/2005	6/30/2006
Intangible assets	417	404	428
Tangible assets	1,052	1,027	1,046
Investment properties	13	24	13
Investees carried at equity	64	32	67
Noncurrent financial assets	7	16	7
Sundry noncurrent assets	5	4	4
Deferred tax assets	61	67	68
Total noncurrent assets	1,619	1,574	1,633
Inventories	638	703	728
less prepayments received	(32)	(31)	(37)
	606	672	691
Trade receivables	481	452	472
Current financial assets	26	24	18
Sundry current receivables and assets	271	311	355
Income tax assets	12	19	16
Cash and cash equivalents	408	218	85
Total current assets	1,804	1,696	1,637
Total assets	3,423	3,270	3,270

Equity & liabilities € million

	12/31/2005	6/30/2005	6/30/2006
Capital stock	92	92	92
Additional paid-in capital	208	208	208
Other reserves	449	443	525
Net income after minority interests	113	31	35
Treasury stock	(34)	(22)	(41)
Stockholders' equity	828	752	819
Minority interests	47	45	42
Total equity	875	797	861
Pension accruals	514	493	521
Other noncurrent accruals	107	110	96
Noncurrent financial debts	397	400	400
Sundry noncurrent liabilities	8	8	3
Deferred tax liabilities	15	14	20
Total noncurrent liabilities and accruals	1,041	1,025	1,040
Current accruals	290	309	286
Current financial debts	162	162	138
Trade payables	399	371	395
Sundry current liabilities	598	541	499
Income tax liabilities	58	65	51
Total current liabilities and accruals	1,507	1,448	1,369
Total equity & liabilities	3,423	3,270	3,270

Consolidated income statement

Consolidated income statement for the 6 months (H1) ended June 30 € million

	H1/2005	H1/2006
Net sales	1,617	1,725
Net inventory changes, other work and material capitalized	43	89
Total operating performance	1,660	1,814
Other operating income	43	47
Cost of materials	(790)	(939)
Personnel expenses	(501)	(528)
Amortization/depreciation	(78)	(79)
Other operating expenses	(256)	(242)
Operating result	78	73
Net interest expense ¹⁾	(25)	(24)
Net investment income and other financial results ²⁾	(6)	0
Net financial result	(31)	(24)
Earnings before taxes (EBT)	47	49
Income taxes	(13)	(12)
Net income	34	37
thereof		
<i>Minority interests</i>	(3)	(2)
<i>Group earnings (after minority interests)</i>	31	35

¹⁾ incl. €29 million interest expense (down from €31 million)

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

Consolidated income statement for the 3 months (Q2) ended June 30 € million

	Q2/2005	Q2/2006
Net sales	861	873
Net inventory changes, other work and material capitalized	14	41
Total operating performance	875	914
Other operating income	20	29
Cost of materials	(418)	(474)
Personnel expenses	(256)	(268)
Amortization/depreciation	(39)	(39)
Other operating expenses	(137)	(123)
Operating result	45	39
Net interest expense ¹⁾	(13)	(13)
Net investment income and other financial results ²⁾	(6)	0
Net financial result	(19)	(13)
Earnings before taxes (EBT)	26	26
Income taxes	(5)	(6)
Net income	21	20
thereof		
<i>Minority interests</i>	(2)	(0)
<i>Group earnings (after minority interests)</i>	19	20

¹⁾ incl. €15 million interest expense (down from €16 million)

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

Consolidated statement of cash flows for H1/2006

€ million

	H1/2005	H1/2006
Cash and cash equivalents at Jan. 1	258	408
Net income	34	37
Amortization/depreciation of intangibles/tangibles	78	79
Change in pension accruals	5	7
Cash flow	117	123
Changes in working capital and other items	(183)	(293)
Net cash used in operating activities	(66)	(170)
Cash outflow for additions to tangibles and intangibles	(82)	(81)
Cash inflow from the disposal of tangibles and intangibles	10	1
Cash outflow for additions to consolidated subsidiaries and noncurrent financial assets	(16)	(18)
Cash inflow from the disposal of consolidated subsidiaries and noncurrent financial assets	3	9
Net cash used in investing activities	(85)	(89)
Dividend paid out by Rheinmetall AG	(27)	(32)
Other profit distribution	(3)	(2)
Treasury stock	--	(7)
Change in financial debts	135	(22)
Net cash provided by/(used in) financing activities	105	(63)
Net change in cash and cash equivalents	(46)	(322)
Parity-related change in cash and cash equivalents	6	(1)
Total change in cash and cash equivalents	(40)	(323)
Cash and cash equivalents at June 30	218	85

Statement of changes in equity

€ million

	Capital stock	Additional paid-in capital	Other reserves	Group earnings after minority interests	Treasury stock	Stockholders' equity	Minority interests	Total equity
Balance at 1/1/2005	92	208	355	96	(22)	729	50	779
Dividend payments	--	--	(27)	--	--	(27)	(3)	(30)
Currency translation differences	--	--	22	--	--	22	1	23
Consolidation group changes	--	--	--	--	--	--	(6)	(6)
Accumulated other comprehensive income (OCI)	--	--	93	(96)	--	(3)	0	(3)
Group net income	--	--	--	31	--	31	3	34
Balance at 6/30/2005	92	208	443	31	(22)	752	45	797
Balance at 1/1/2006	92	208	449	113	(34)	828	47	875
Dividend payments	--	--	(32)	--	--	(32)	(2)	(34)
Currency translation differences	--	--	(6)	--	--	(6)	(1)	(7)
Consolidation group changes	--	--	--	--	--	--	(4)	(4)
Accumulated OCI	--	--	114	(113)	(7)	(6)	--	(6)
Group net income	--	--	--	35	--	35	2	37
Balance at 6/30/2006	92	208	525	35	(41)	819	42	861

Further disclosures

	12/31/2005	Additions	Disposals	6/30/2006
Fully consolidated companies	90	1	--	91
thereof in Germany	48	--	--	48
thereof abroad	42	1	--	43
Investees carried at equity	14	1	--	15
thereof in Germany	7	--	--	7
thereof abroad	7	1	--	8

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

With effect as from January 1, 2006, several revised or newly issued IFRS required application, however, which did not significantly impact on the consolidated financial statements.

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

Financial diary

August 8, 2006	H1 report, teleconference with financial analysts
November 8, 2006	3Q report, teleconference with financial analysts
May 8, 2007	Annual stockholders' meeting

Imprint

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