

2002 Semi-annual Report

of Rieter Holding Ltd.

Rieter reports higher order intake

Good operating result in a difficult business environment – net profit depressed by net financial result

Winterthur, August 23, 2002

Dear shareholders,

Orders received by the Rieter Group in the first six months of 2002 totalled 1596 million CHF, a 2% increase compared with the same period of the previous year. Expressed in local currencies, the increase amounted to 6%. This positive trend is due to the significantly higher order intake at Rieter Textile Systems. Compared with the second half of 2001, the increase for the group as a whole amounted to 20%.

As expected, consolidated sales in the first six months of the year declined by 11% to 1439 million CHF. This was due to weak order intake in the textile machinery business in the second half of 2001. Sales in local currencies were 8% lower than in the previous year, since the Swiss franc was considerably stronger relative to the Euro and the US dollar.

In light of the decline in sales due to adverse market conditions in the first half of the year, a good operating result before interest and taxes (EBIT) of 87.9 million CHF was achieved (110.0 million CHF in 2001). This is equivalent to 6.3% of corporate output (6.9% in 2001). Trends on the financial markets resulted in a lower net financial result. Net profit declined to 40.5 million CHF, equivalent to 2.9% of corporate output (4.2% in 2001).

After a slow start to the year, the sharply higher order intake at Rieter Textile Systems marked a reversal in the trend. However, the lower sales and operating result continued to reflect the low level of orders received in the second half of 2001. Rieter Automotive Systems recorded increases of 2% in sales at the previous year's exchange rates and of 9% in operating result, compared with the same period of 2001.

Cash flow declined by 22% to 103.5 million CHF (7.4% of corporate output). Lower capital expenditure enabled liquid funds to be increased and net borrowings to be reduced compared with the position on December 31, 2001. Together with the healthy equity ratio of 39%, this underlines the financial strength of the Rieter Group. Rieter Holding Ltd. also succeeded in increasing its outstanding 4% bond issue by 75 million CHF, thus securing in good time the refinancing of the convertible bonds due for redemption in October 2002.

The following changes in the group executive committee were announced in the first half of 2002. Hartmut Reuter became Chief Executive Officer (CEO) of the Rieter Group with effect from May 7. Matti Paasila, CEO of the Automotive Systems Division, will join the Sarna Group, where he was appointed CEO. Erwin Stoller became the new CEO of the Automotive Systems Division, and Peter Gnägi the new CEO of the Textile Systems Division. At the same time Peter Gnägi became a member of the group executive committee. Filling these key positions with experienced managers from within the company ensures continuity of leadership and strategy in the group. Kurt Feller remains chairman of the board.

Outlook

On a current view, the positive trend in order intake at Textile Systems as well as better than expected output figures in the automotive industry mean that total sales in the second half will exceed those achieved in the first six months. This will have a positive impact on operating results. Sales and operating results at the Rieter Group in the 2002 financial year will probably not quite equal those of the previous year.

Key statistics – Rieter Group

		January–June 2002	January–June 2001	Change in %	At previous year's exchange rates
Orders received	CHF m	1 596	1 560	2	6
Sales	CHF m	1 439	1 625	-11	-8
Corporate output	CHF m	1 402	1 589	-12	
Operating result before interest and taxes (EBIT)	CHF m	87.9	110.0	-20	
– as a % of corporate output		6.3	6.9		
Net profit	CHF m	40.5	66.8	-39	
– as a % of corporate output		2.9	4.2		
Cash flow	CHF m	103.5	132.8	-22	
– as a % of corporate output		7.4	8.4		
Number of employees per mid-year		12 785	13 123	-3	

Key statistics Rieter Textile Systems

		January–June 2002	January–June 2001	Change in %	At previous year's exchange rates
Orders received	CHF m	613	541	13	15
Sales	CHF m	455	606	-25	-24
Operating result before interest and taxes (EBIT)	CHF m	25.9	50.9	-49	
– as a % of corporate output		5.8	8.5		
Number of employees per mid-year		4 522	4 680	-3	

Positive trend in order intake and good prospects for the second half of 2002

Orders received by Rieter Textile Systems in the first half of 2002 amounted to 613 million CHF, a 13% increase compared with the same period of the previous year. Compared with the second half of 2001, order intake was 48% higher.

The trend in sales of staple fibre machinery has been especially positive in a much revived market since April, particularly in China and Turkey. Demand for Rieter's innovative ComforSpin machines continues to be very healthy. Cooperation between Rieter and Suessen is proceeding successfully. The new R40 rotor spinning machine has been developed jointly within a very short time. This further development of the proven R20 rotor spinning machine featuring the newly integrated Suessen spinning box has been cleared for general sale and with its even higher performance will contribute to the ongoing reinforcement of Rieter's position.

The market for non-woven production machinery has also developed encouragingly. The man-made fibre machinery market continues to be characterized by weak demand and customers' excess capacity.

As expected, sales declined by 25% to 455 million CHF due to the low level of orders in hand from the previous year. Lower sales and unsatisfactory profitability in the man-made fibre sector resulted in a 49% decline in earnings before interest and taxes (EBIT) to 25.9 million CHF.

The action initiated last year to improve profitability at the units acquired from ICBT and Suessen were pursued with undiminished vigour in the first six months of the current year. For example, activities in China were further intensified. However, efforts to increase earnings in the man-made fibre machinery sector have not yet had a positive impact on operating results due to weak demand. The units acquired from Suessen made a positive contribution to earnings in the first half year.

The workforce at Rieter Textile Systems was 3% lower at the end of June 2002 than in mid-2001. A further reduction in personnel was avoided due to the increase in order intake.

Expectations for the 2002 financial year

In view of the high level of orders received, sales and earnings in the second half of 2002 will exceed the equivalent figures for the first six months. As already announced in April, sales and earnings for the year as a whole will not reach the high levels recorded in the previous year.

Key statistics Rieter Automotive Systems

		January–June 2002	January–June 2001	Change in %	At previous year's exchange rates
Sales	CHF m	978	1 013	-3	2
Operating result before interest and taxes (EBIT)	CHF m	65.6	60.1	9	
– as a % of corporate output		6.9	6.1		
Number of employees per mid-year		8 141	8 325	-2	

Improved operating returns

Global vehicle production stagnated in the first six months of 2002, but in the company's two main markets of western Europe and North America total output was higher than forecast at the beginning of the financial year. There was an increase of some 5% in North America in the first half of the year, whereas production in western Europe was almost 4% lower. The rise in North America was due primarily to the marketing efforts of the American manufacturers. Vehicle output in Europe had already eased somewhat towards the end of last year. Since the expected economic upswing has failed to materialize to date, production in the current year has declined.

Rieter Automotive Systems was able to reinforce its market position further in the first half of the year. As a leading supplier of integrated acoustic systems for motor vehicles, Automotive Systems improved its position with the Rieter Ultra Light systems, especially with Japanese customers.

In the generally subdued automotive market, Automotive Systems reported a 2% increase in sales expressed in local currencies. As a result of the marked appreciation of the Swiss franc relative to the US dollar and the Euro, sales by Automotive Systems expressed in Swiss francs were 3% lower at 978 million CHF.

The Automotive Systems Division posted an operating result before interest and taxes (EBIT) of 65.6 million CHF for the reporting period, an increase of 9% compared with the same period of the previous year. The higher operating return is attributable to better utilization of manufacturing capacity in the USA, cost management and productivity improvements.

Since July 1, Rieter has held 100% of Idea Institute, the Italian design and engineering company in which it acquired a majority holding two years ago.

Expectations for the 2002 financial year

Rieter Automotive Systems expects no increase in vehicle output in the second half of 2002. For seasonal reasons, sales in the second half will therefore be somewhat lower than in the first six months. Rieter continues to expect that sales for 2002 as a whole will be slightly lower than in the previous year. However, on a current view the cost-cutting measures will produce a higher operating result than in the previous year.

Yours faithfully,

Rieter Holding Ltd.



Kurt Feller

Chairman of the Board of Directors



Hartmut Reuter

Chief Executive Officer (CEO)

All statements in this report which do not refer to historical facts are statements related to the future which offer no guarantee with regard to future performance; they are subject to risks and uncertainties including, but not confined to, future global economic conditions, exchange rates, legal provisions, market conditions, activities by competitors and other factors outside the company's control.

Consolidated income statement

The consolidated semi-annual financial statements are drawn up in accordance with the same accounting principles as the annual financial statements. The adjustments required in order to comply with IAS in the current financial year have been made.

The annual general meeting of Rieter Holding Ltd. held on Wednesday, May 7, 2002, fixed the gross dividend at 3.60 CHF per registered share. A capital repayment of 5.00 CHF per registered share was made on August 8.

The semi-annual report has not been audited by the external auditors. It is published in English and German.

		January–June 2002	January–June 2001
Sales	CHF m	1 438.6	1 624.7
Sales deductions/change in semi-finished and finished goods	CHF m	-36.6	-35.3
Corporate output	CHF m	1 402.0	1 589.4
Material costs	CHF m	-609.6	-720.5
Operating costs	CHF m	-704.5	-758.9
Operating result before interest and taxes	CHF m	87.9	110.0
Net financial result, other expenses/income	CHF m	-23.9	-3.7
Taxes	CHF m	-23.5	-39.5
Net profit	CHF m	40.5	66.8
Minority shareholders' interest in net profit	CHF m	-8.2	-7.0
Net profit after deduction of minority interests	CHF m	32.3	59.8
Earnings per share			
– based on average number of registered shares	CHF	7.93	14.62

Consolidated balance sheet

		June 30, 2002	December 31, 2001
Fixed assets	CHF m	984.5	1 044.9
Current assets	CHF m	1 296.7	1 283.8
Assets	CHF m	2 281.2	2 328.7
Shareholders' equity	CHF m	890.6	907.8
Long-term liabilities	CHF m	494.6	520.2
Short-term liabilities	CHF m	896.0	900.7
Shareholders' equity and liabilities	CHF m	2 281.2	2 328.7
Equity ratio	in %	39.0	39.0

Consolidated statement of cash flows

		January–June 2002	January–June 2001
Net profit	CHF m	40.5	66.8
Depreciation	CHF m	63.0	66.0
Cash flow	CHF m	103.5	132.8
Change in working capital; other	CHF m	-10.6	-53.6
Cash provided by operations	CHF m	92.9	79.2
Cash used for investing activities/acquisitions	CHF m	-42.2	-95.5
Change provided by financing activities	CHF m	-19.6	41.5
Change in liquid funds	CHF m	31.1	25.2
Liquid funds at beginning of year	CHF m	321.0	418.0
Liquid funds at end of reporting period	CHF m	352.1	443.2

Changes in consolidated equity

		June 30, 2002	December 31, 2001
Shareholders' equity at end of previous year	CHF m	907.8	919.6
Dividend payment	CHF m	-14.9	-35.3
Currency effects; other	CHF m	-38.8	-11.5
Net profit after deduction of minority interests	CHF m	32.3	93.2
Change in holdings of securities available for sale	CHF m	-2.5	-17.8
Holding of own shares	CHF m	6.7	-50.5
Increase in share capital/capital repayment	CHF m	0.0	10.1
Shareholders' equity at end of reporting period	CHF m	890.6	907.8

Exchange rates of the main currencies vs. CHF

	1st half 2002	1st half 2001	Average annual rates		30.6.2002	30.6.2001	Closing rates	
			Change in %	2001			Change in %	31.12.2001
1 USD	1.63	1.72	-5	1.69	1.48	1.79	-17	1.66
1 GBP	2.36	2.49	-5	2.43	2.27	2.54	-11	2.42
1 Euro	1.47	1.53	-4	1.51	1.47	1.52	-3	1.48

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