RIETER

What brings us together

Annual Report 2008

Agenda 2009

- Annual General Meeting 2009: April 29, 2009
- Semi-Annual Report 2009: August 12, 2009
- 2009 Annual Results Media and Analysts' Conference: August 12, 2009

Group report

Financial report

The Rieter Group

Rieter is an industrial group based in Winterthur, Switzerland, and operating on a global scale. Formed in 1795, the company is a leading supplier to the textile and automotive industries. Since it was established, Rieter's innovative momentum has been a powerful driving force for industrial progress. Products and solutions are ideally tailored to its customers' needs and are increasingly also produced in customers' markets. Rieter has a presence in 21 countries with some 70 manufacturing facilities and has a total worldwide workforce of approximately 14 000 employees, some 14% of whom are based in Switzerland.

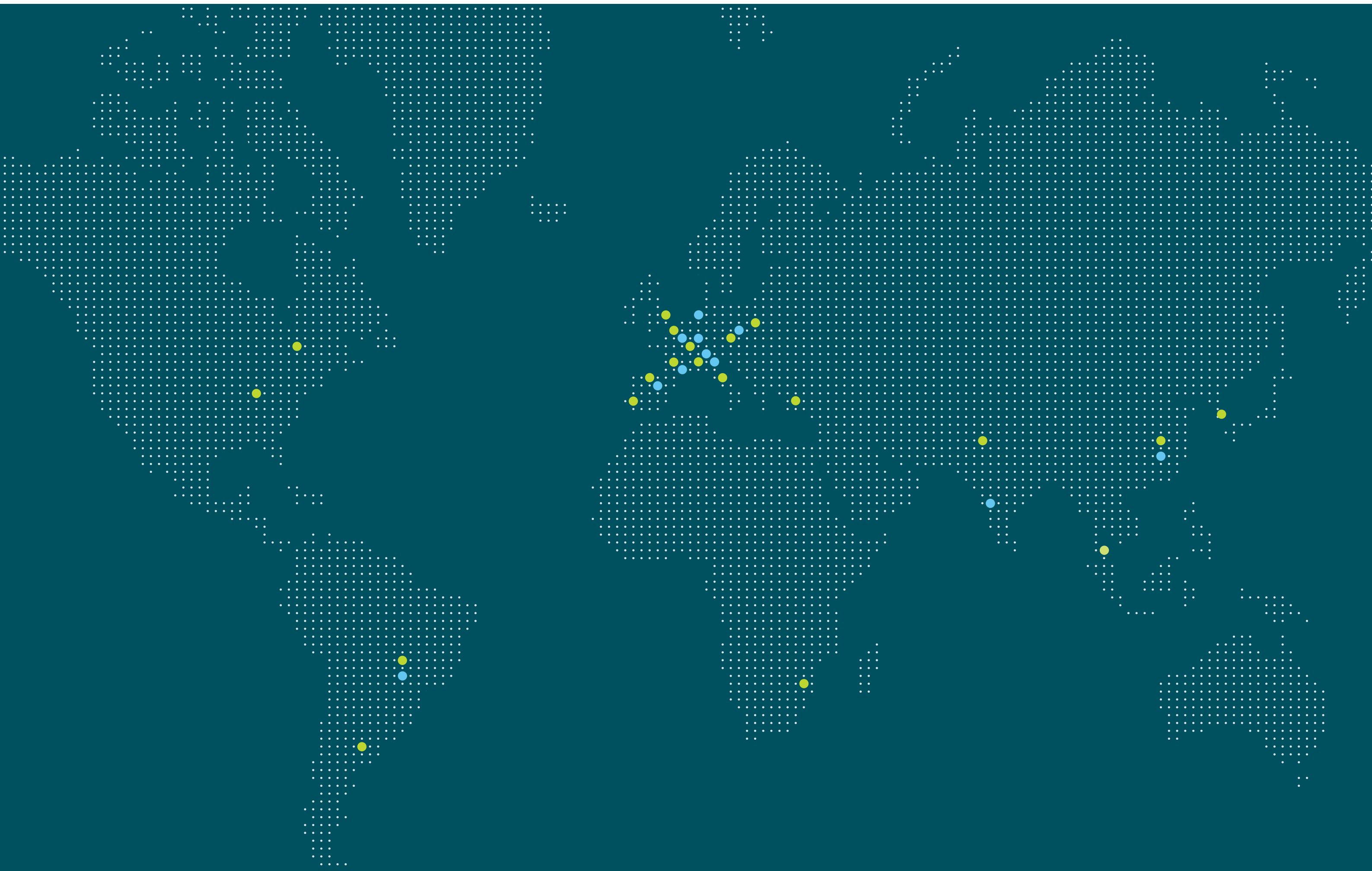
For the benefit of shareholders, customers and employees, Rieter aspires to achieve sustained growth in enterprise value. With this in mind, Rieter seeks to maintain continuous increase in sales and profitability, primarily by organic growth, but also through strategic alliances and acquisitions.

The company comprises two divisions:
Textile Systems and Automotive Systems.

Rieter Textile Systems
Rieter Textile Systems develops and produces machinery and systems for manufacturing yarns and nonwovens. Rieter Textile Systems' core business is machinery and components for converting natural and man-made fibers and their blends into yarns. Rieter is the leading supplier of integrated installations for short staple spinning mills, from the spinning preparation stage to the final spinning process as well as of technology components and service offerings. In 2008 the Textile Systems Division posted sales of 1 120.4 million CHF, equivalent to 36% of total group sales, with 4 741 employees.

Rieter Automotive Systems
As a partner and supplier to automotive manufacturers, Rieter Automotive Systems develops and manufactures components, modules and total systems for acoustic comfort and thermal management in motor vehicles. Automotive Systems' customers include all the world's major automotive manufacturers. Rieter Automotive manufactures its interior trim and carpet systems as well as engine compartment, luggage compartment and underbody shields in the regions in which its customers produce their vehicles, increasingly also in Eastern Europe and Asia. In 2008 the division posted sales of 2 022.1 million CHF, accounting for 64% of total group sales, with 9 319 employees.

Manufacturing locations by country



Manufacturing locactions Textile Systems

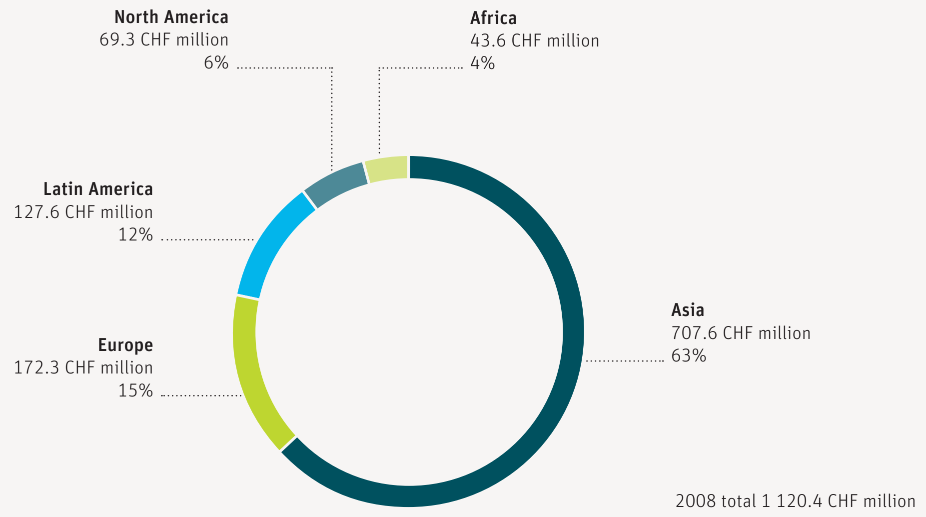
Belgium Stembert **Brasil** São Paulo **China** Changzhou **Czech Republic** Boskovice, Ústí nad Orlicí, Žamberk **France** Montbonnot, Wintzenheim **Germany** Ingolstadt, Süssen **India** Coimbatore, Pune **Italy** Bergamo **Netherlands** Enschede **Spain** Santa Perpètua de Mogoda **Switzerland** Effretikon, Pfäffikon, Rapperswil, Sirnach, Winterthur

Manufacturing locations Automotive Systems

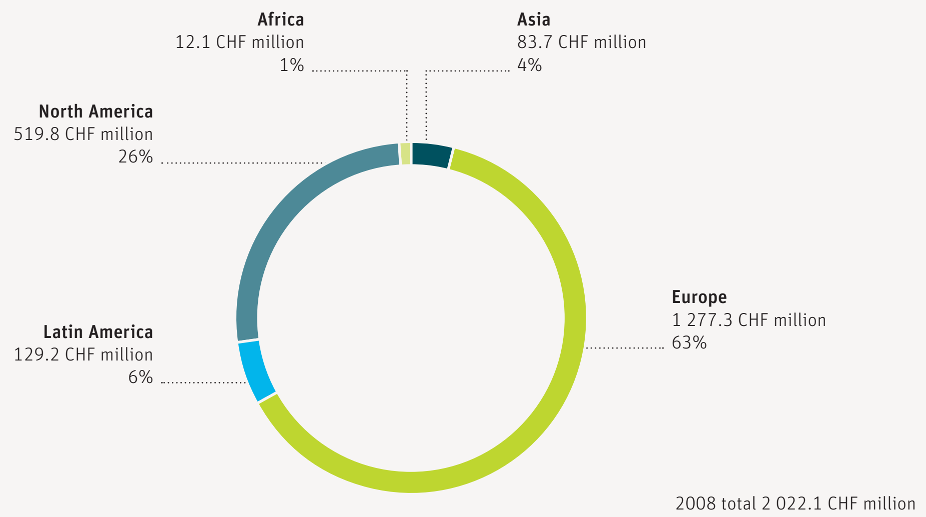
Argentina Córdoba **Belgium** Genk **Brasil** Betim, Gravataí, São Bernardo do Campo, Taubaté **Canada** London, Tillsonburg **China** Guangzhou, Tianjin, Chongqing **Czech Republic** Chocen, Hnátnice **France** Blainville, Dieppe, Rémy, La Chapelle-aux-Pots, Moissac, Ons-en-Bray **Germany** Bebra, Gundernhausen, Grossostheim **Great Britain** Halesowen, Heckmondwike, Stoke-on-Trent **India** Behror **Italy** Desio, Marcianise, Pignataro Maggiore, Santhià, Vicolungo **Korea** Daegu **Poland** Katowice, Nowogard **Portugal** Setúbal **South Africa** Rosslyn **Spain** A Rúa, Sant Vincenç, Terrassa, Valldoreix **Switzerland** Sevelen **Thailand** Chonburi **Turkey** Bursa **USA** Aiken, Bloomsburg, Chicago Heights, Jackson, Lowell, Oregon, Shreveport, Somerset, Valparaiso

Sales by geographical region 2008

Rieter Textile Systems



Rieter Automotive Systems



Financial highlights

CHF million		2008	2007	Change in %
Rieter Group				
Orders received		2 561.6	4 066.4	– 37
Sales		3 142.5	3 930.1	– 20
Corporate output[1]		2 971.7	3 822.8	– 22
Operating result before special charges, interest and taxes		22.4	286.8	
• in % of corporate output		0.8	7.5	
Operating result before interest and taxes (EBIT)		– 312.1	278.7	
• in % of corporate output		– 10.5	7.3	
Net result		– 396.7	211.5	
• in % of corporate output		– 13.3	5.5	
Cash flow[2]		– 102.4	360.2	
• in % of corporate output		– 3.4	9.4	
Investments in tangible fixed assets and intangible assets		140.9	203.5	– 31
Total assets		2 088.9	2 847.4	– 27
Shareholders' equity before appropriation of profit		746.2	1 369.5	– 46
Number of employees at year-end[3]		14 183	15 506	– 9
Divisions				
Sales Textile Systems		1 120.4	1 566.8	– 28
Operating result before special charges, interest and taxes Textile		41.3	200.7	
• in % of corporate output Textile Systems		4.1	13.1	
Sales Automotive Systems		2 022.1	2 363.3	– 14
Operating result before special charges, interest and taxes Automotive		– 7.3	99.7	
• in % of corporate output Automotive Systems		– 0.4	4.3	
Rieter Holding Ltd.				
Share capital		21.4	22.3	
Net profit		2.9	67.4	
Gross distribution		0.0[4]	57.1	
Number of registered shares, paid-in		4 283 056	4 450 856	
Average number of registered shares outstanding		3 822 929	4 092 265	– 7
Price per share (high/low)	CHF	505/151[5]	717/478[5]	
Number of registered shareholders on December 31		8 519	7 091	20
Market capitalization on December 31		650.9	1 965.7	– 67
Data per registered share				
Earnings per share	CHF	– 106.18	48.19	
Equity (group)[6]	CHF	181.25	332.86	– 46
Gross distribution (Rieter Holding Ltd.)	CHF	0.00[4]	15.00	

1. Sales, adjustments for sales deductions and own work capitalized and changes in inventories of products manufactured by the company (cf. page 38).
2. Net profit plus depreciation and amortization (cf. page 72).
3. Excluding apprentices and temporary employees.
4. Proposed by the Board of Directors (cf. page 87).
5. Source: Bloomberg.
6. Shareholders' equity attributable to shareholders of Rieter Holding Ltd. per share outstanding at December 31.

Global economic downturn prompts drop in sales and earnings

Erwin Stoller
Chairman of the Board of Directors

Hartmut Reuter
Chief Executive Officer

Dear shareholder

The 2008 financial year for the Rieter Group bore clear traces of the consequences of the global economic downturn. After achieving record figures in the previous year's more favorable economic climate, Rieter recorded significantly lower orders received, sales, operating result and net result in the year under review. The Rieter Group has to cope with a drop in demand that is unprecedented in its intensity and rapidity. For the first time, both divisions – the textile machinery and the automotive component supply business – are affected simultaneously. Rieter therefore already launched an extensive restructuring program in summer 2008 in order to adjust to the new structural and cyclical conditions prevailing on the market. In the textile machinery business a significant slowdown on the world market started in spring 2008, and this continued and intensified in the second half of the year. Rieter's automotive component supply business was affected by the crisis in the American automobile industry and the slowdown in economic activity in Europe, especially in the second six months. Despite the difficult overall economic conditions, Rieter succeeded in maintaining its market position in both divisions and even expanding it in Latin America. Both Rieter divisions have a global presence and a broad basis in terms of their products and customer relationships. This strategic position had always enabled diverging cyclical influences to be balanced in previous years. In 2008 the economic downturn affected for the first time all important markets of the Rieter Group at the same time.

Steep, market-related decline in orders received and sales

The adverse effects of market trends resulted in a steep decline in orders received and sales by the Rieter Group. The trend in new orders received was attributable primarily to the drop in order intake at the Textile Systems Division. Consolidated sales declined less steeply (–20%) than orders received and totaled 3 142.5 million CHF (3 930.1 million CHF in 2007). This was due to the high level of orders in hand for textile machinery with which Rieter started 2008, and a proportionately smaller decline in sales by Automotive Systems. Exchange rate movements had a negative impact on the development in group sales amounting to some three percentage.

Earnings trend depressed by structural and cyclical factors

The Rieter Group's operating result before interest and taxes was adversely affected by several factors in 2008. While higher raw material and energy costs, upfront inputs for developing new markets and the cost of initial restructuring measures primarily accrued in the first six months, the massive decline in production volumes at both divisions was an additional burden on the earnings trend in the second half of the year. In order to align its operations with the structural and cyclical changes in the market, Rieter launched an extensive restructuring program. This necessitated expenditures totaling 237.7 million CHF, which were charged to the consolidated financial statements for 2008.

Before special charges, interest and taxes, the Rieter Group posted an operating result of 22.4 million CHF. As a consequence of these restructuring measures and impairement charges on goodwill of 96.8 million CHF, the operating result before interest and taxes (EBIT) showed a loss of 312.1 million CHF – after a record outcome in the previous year (operating profit of 278.7 million CHF in 2007).

Extensive action to increase earnings

Rieter has considerable experience in dealing successfully with pronounced market cycles and reacted promptly and rapidly to the downturn. However, in face of the steep, market-related decline in volumes, particularly in the second half of the year, the action taken was only partially able to reduce the volume-related decline in earnings in 2008. These measures are being implemented systematically in both divisions. They include the utilization of flexible working-time models, short-time working at locations in Europe and North America, and a worldwide reduction in employee numbers in order to adjust the workforce to lower order volumes. In addition, Rieter has initiated plant closures and structural adjustments in the USA and in Spain, Germany, Italy and France. At the end of 2008 the Rieter Group employed a workforce of 14 183 worldwide, some 9% less than at the end of the previous year. Rieter also terminated the employment contracts of some 1 500 temporary employees; these jobs are not included in the workforce totals stated above. Rieter therefore already reduced employee numbers by more than 2 800 in 2008, equivalent to some 16% of the total workforce. With its restructuring programs and transfers of manufacturing facilities Rieter is not only responding to the structural changes in both sectors, but is also reacting to the cyclical downturn. The cost-cutting action is being complemented by price discipline and selective increases in product prices in order to compensate for cost inflation.

Rieter has considerable experience in dealing successfully with pronounced market cycles and reacted promptly and rapidly to the downturn.

Net result

In addition to cyclical effects, the disruptions on the financial markets also exerted a strong influence on the development in net result. Following many years of good performance, Rieter posted negative financial results in the year under review. Together with special charges this resulted in a net loss of 396.7 million CHF (net profit of 211.5 million CHF in 2007).

Dividend canceled

Rieter Holding Ltd. has reported profits and paid substantial dividends to its shareholders by way of participation in the company's success from its incorporation in 1985 until the 2007 financial year. In light of the difficult earnings situation at both divisions and the subdued outlook for the current year the Board of Directors will propose to the Annual General Meeting of Rieter Holding Ltd. on April 29, 2009, that no dividend should be paid for the 2008 financial year (15.00 CHF in 2007), in the interests of preserving capital.

Rieter Textile Systems:
steep decline in orders received

The trend of business at Rieter Textile Systems in 2008 was dominated by a cyclical downturn on the world market for textile machinery of an intensity and rapidity that had not been experienced by the industry for decades.

Orders of 539.5 million CHF received by Textile Systems were 68% lower than in the record year of 2007 (1 703.1 million CHF); this was also due in part to postponements of orders. The weakening effectiveness of government incentive programs, a cyclical decline in fiber consumption in major sales markets such as the USA and more difficult financing conditions caused a rapid fall in customers' tendency to invest. Domestic demand in India and China was unable to offset this decline. Orders received by Rieter Textile Systems for staple fiber machinery since March 2008 have been substantially lower than in previous years.

While the sales trend at Textile Systems in the first six months continued to benefit from the high level of orders in hand at the beginning of the year, the low volume of orders and delays in the acceptance of machines by customers in the second half of the year had a distinctly negative impact. The division's sales of 1 120.4 million CHF for the year as a whole were 28% lower (1 566.8 million CHF in 2007). However, in this difficult business environment Rieter succeeded in maintaining its leadership in the market segments served by Textile Systems.

The division's sales revenues of 1 120.4 million CHF for the year as a whole were 28% lower, but its market position was maintained.

Component manufacturer Berkol, which was acquired at the end of 2007, has been consolidated since January 1, 2008, and contributed 8 million CHF to the division's sales. At the same time, compared with the previous year, sales were lower due to divested business units. The pelletizing machinery business based in Grossostheim (Germany) was sold to CSG Management (Pfäffikon, Switzerland) and deconsolidated as of mid-April 2008. This business unit had posted sales of some 70 million CHF in 2007. In autumn 2008 Rieter sold sheet metal parts manufacturer BO-Systems GmbH & Co. KG in Ingolstadt (Germany) to the Swiss Global Investment Group (Rotkreuz, Switzerland). This divested company, which conducted a significant proportion of its business with customers other than Rieter, was deconsolidated as of October 1, 2008. Until then it had contributed some 5 million CHF in outside sales (8 million CHF in 2007) to Rieter Textile's total figure. Both divested units were not part of Rieter's core business activities. Their Swiss purchasers are industrial investment companies which intend to develop the acquired businesses further.

The operating result before special charges, interest and taxes amounted to 41.3 million CHF, equivalent to 4.1% of corporate output (200.7 million CHF and 13.1%, respectively, in 2007). This figure includes the gain of 2.6 million CHF on the disposal of the pelletizing machinery business in the first half of year. Special charges comprise restructuring costs of 42.7 million CHF and impairement charges on goodwill amounting to 48.1 million CHF. Due substantially to the steep decline in volumes, which resulted in inadequate capacity utilization, and to the restructuring program, the operating result before interest and taxes (EBIT) declined steeply, especially in the second half of 2008. Following the record figure of 200.7 million CHF in the previous year, Rieter Textile Systems posted an operating loss of 49.5 million CHF for the 2008 financial year.

Rieter Automotive Systems:
downturn in the second half of the year

While high fuel prices in conjunction with cyclical and structural problems in the automobile industry already resulted in a significant reduction in vehicle output in North America in the first half of 2008, as of autumn the downturn also affected manufacturers in Europe and South America, and to a lesser extent in Asia. The automotive component supply industry, which has struggled for years with severe pressure on prices and margins, was additionally confronted with a massive drop in production volumes. In this adverse competitive environment Rieter Automotive Systems succeeded in maintaining its market position in its main markets of Western Europe and North America and expanding in Asia by virtue of its broad-based customer portfolio and its innovative product offering. In the second half of the year the automotive division also managed initial volume production start-ups of aerodynamic underfloor modules incorporating the innovative Rieter Ultra Silent technology. This new product's unique lightweight structure enables significant reductions in vehicle CO_2 emissions to be achieved.

Sales expressed in local currencies declined by some 10%, but Automotive Systems maintained its market position in all markets.

Following years of steady growth, sales of 2 022.1 million CHF by Rieter Automotive Systems in the year as a whole (2 363 million CHF in 2007) were 10% lower in local currencies (–14% in nominal terms) as a consequence of the market turbulence.

As a result of the marked drop in volumes in the second half of the year and the burden of sharply higher raw material, energy and transport costs in the first half, the operating result before special charges, interest and taxes declined to –7.3 million CHF. The operating result before interest and taxes (EBIT) was also depressed by a radical restructuring program to adjust capacity, including plant closures and transfers of manufacturing facilities to low-cost locations (195.0 million CHF), as well as impairement charges on goodwill (48.7 million CHF). Rieter Automotive Systems therefore posted an operating loss of 251.0 million CHF (operating profit of 91.6 million CHF in 2007).

Sound balance sheet and secure financing

Rieter remained on a good financial foundation at the end of the year under review with an equity ratio of 36% (48% in 2007) and low net debt of 37 million CHF (net liquidity of 145 million CHF in 2007). Cash and cash equivalents at year-end amounted to 283 million CHF (258 million CHF in 2007), despite the dividend payment to shareholders and the share buyback program, which was, however, suspended in the spring of 2008.

In mid-February 2009 Rieter also announced the sale of Rieter shares to Peter Spuhler's PCS Holding AG. Together with the announcement in mid-February that an agreement in principle (term sheet) had been signed with a group of banks with a view to securing or expanding existing credit lines, finance is therefore available for the ongoing business and the restructuring program announced by Rieter.

Developing future markets

At the same time as launching a comprehensive restructuring program with the priority goal of taking rapidly effective action to adapt to the cyclical problems in the market environment, Rieter undertook important strategic steps for the long-term development of the business in the 2008 financial year. The divisions' strategy of following customers into new markets has not been called into question by current market developments, although capital investment has been cautious. Rieter Textile Systems continues to see considerable potential for the future in the populous markets of

India and China, in which the largest yarn manufacturing capacity worldwide is installed. The division is thus continuing to pursue the strategy of expanding its presence in these markets. Rieter Automotive Systems invested in new locations where major customers are installing manufacturing facilities, such as Eastern Europe and Asia. The division is making vigorous efforts to adjust its network of production sites to the structural changes in the industry worldwide.

The Board of Directors of Rieter Holding Ltd. will propose new members for election.

Innovations for the further development of the business

In the 2008 financial year Rieter promoted product development in both divisions in order to maintain its strong market position and to be able to exploit the next cyclical upswing with attractive offerings. At Rieter Textile Systems the air-jet spinning machine presented in the previous year proved its qualities in operations at initial customer mills. This machine enables good quality yarns to be produced for a wide range of textile end products at much lower cost than with existing spinning processes. Rieter Automotive Systems worked intensively on further applications of the novel Rieter Ultra Silent fiber material. Rieter Ultra Silent products meet several requirements of modern automotive engineering at the same time – weight saving, recyclability, and indirectly CO_2 reduction – and are thus attracting considerable interest from customers.

Annual general meeting and shareholders

Kurt Feller retired as Chairman and member of the Board of Rieter Holding Ltd. at the Annual General Meeting held on May 8, 2008, upon reaching retirement age as stipulated in the articles of association. The shareholders elected Erwin Stoller to the board for a three-year term of office. He has since been appointed chairman of that body. Erwin Stoller was CEO of the Rieter Automotive Systems Division until the end of 2007. Dr. Rainer Hahn was also re-elected as a member of the board.

The shareholders adopted a motion to reduce share capital through the cancelation of 167 800 of the company's registered shares. These were acquired by Rieter in the context of the share buyback program. The shareholders also approved the change in the articles of association in connection with this transaction. The share buyback program was suspended as of spring 2008.

In 2008 several shareholders acquired substantial holdings in Rieter's share capital. At the end of 2008 the Forbo Group (Baar) held more than 10%, while Michael Pieper's Artemis Beteiligungen IV AG (Hergiswil) and Peter Spuhler's PCS Holding AG (Weiningen) each held more than 5% of Rieter's registered shares. Sprucegrove Investment Management of Canada held more than 3% of Rieter's shares.

The Board of Directors of Rieter Holding AG will propose four new members for election at the Annual General Meeting on April 29, 2009: Michael Pieper, This E. Schneider, Hans-Peter Schwald, and Peter Spuhler. All of these gentlemen represent industrial investors and companies with substantial holdings in the Rieter share capital. The Rieter Board of Directors appreciates their readiness in such a difficult economic environment to take strategic responsibility for the Rieter Group through personal commitment in the Board. Jakob Baer stands for re-election to a second three-year term. Dieter Spälti continues as Board member.

Ulrich Dätwyler and Peter Wirth will not stand for re-election to the board on completing their term of office at the Annual General Meeting 2009. Ulrich Dätwyler has been a member of the Rieter Board of Directors since 1994, and vice-chairman since 2007. During these fifteen years he has played a key role in Rieter Group development, thanks to his long-standing industrial experience and international accounting know-how. Peter Wirth has been a board member since the year 2000. His expertise in global production strategies has benefited above all Rieter's strategic expansion in Asia. Rainer Hahn, board member since 1999, has decided to step down per date of the Annual General Meeting 2009. His valuable services to Rieter during these ten years are largely attributable to his extensive know-how in the machine-building and automotive supply industries. The Board of Directors sincerely thanks these three departing members for their many years of service and outstanding commitment. This particular applies to the business year 2008, which involved some far-reaching decisions for the future of Rieter.

Outlook

2009 will be a challenging year for Rieter, since the prospects for both the automotive and the textile machinery industry are very subdued and highly uncertain due to the global recession. Rieter expects declining demand in both divisions, and will therefore continue with capacity reductions and cost saving measures accordingly. Nevertheless, operating losses must be reckoned with in both divisions. Maintaining a sound balance sheet and adequate liquidity are therefore top priorities. In the medium term Rieter believes that demand will increase at both Textile Systems and Automotive Systems in line with global trends. As market leaders with an innovative product portfolio, both divisions are very well positioned to benefit from the next upswing.

Thanks

Due to the global slump in the markets Rieter personnel and management were faced with exceptional challenges in the 2008 financial year. The Board of Directors and the Group Executive Committee wish to thank employees for their efforts, customers, suppliers and other business partners for the good cooperative relationship, and shareholders for their commitment in this difficult business environment. Special thanks and recognition are also due to the employees' representative bodies, which cooperated with the Group Executive Committee and the senior staff constructively and responsibly in the year under review.

Winterthur, March 19, 2009

Erwin Stoller

Chairman
of the Board of Directors

Hartmut Reuter

Chief
Executive Officer

Rieter Textile Systems

Divisional chief executive
Peter Gnägi

Orders received
539.5 (1 703.1) million CHF

Sales
1 120.4 (1 566.8) million CHF

Operating result before special charges, interest and taxes
41.3 (200.7) million CHF

Number of employees at year-end
4 741 (5 476) employees

Capital expenditure of tangible fixed assets
53.2 (84.1) million CHF

Products
Components, machines and systems for producing yarns and nonwovens

(Previous year's figures are in brackets.)

The Rieter Textile Systems Division develops and manufactures machinery, systems and components for producing yarns and nonwovens. Its core business is machinery for manufacturing yarns from natural and man-made fibers and their blends. Rieter Textile Systems is one of the world's major suppliers in this field. As a leading manufacturer, Rieter Textile Systems covers the entire spinning process and can therefore develop optimal solutions for customers.

Its offerings range from technology components through machinery to complete installations. It also provides comprehensive consulting services from planning to operation of spinning mills. A global presence in the large emerging markets such as China and India is an essential success factor.

In addition, Rieter Textile Systems develops and manufactures systems for producing nonwovens. Potential new applications for this direct fiber-to-fabric conversion process are continually emerging in industry, agriculture, medical technology and other sectors, making this still young market segment correspondingly dynamic.

Market drop necessitates rapid adjustments

The drastic drop in demand on the world market for textile machinery was a major feature of the trend of business at Rieter Textile Systems in the 2008 financial year. Following the record-breaking year in 2007, new orders received were some 68% lower and sales revenues declined by 28%. However, in this difficult business environment Rieter succeeded in maintaining its leading position in the market segments served by the group. This steep decline in volumes had a severely negative impact on the division's profitability. Already in the summer of 2008 Rieter has responded to the structural changes in the textile machinery industry and promptly initiated action to adjust capacity and structures to the adverse market environment. At the same time strategic moves with a view to the long-term development of the business continued to be pursued resolutely. These included a concentration on innovation projects with a fast return on investment, targeted investments in the division's presence in the major Asian markets and reinforcement of its market position in technology components.

Adjustment to the prevailing market environment

The abrupt downturn on the world market for textile machinery had structural and cyclical causes. An investment boom in 2006 and 2007 had resulted in a large buildup of yarn manufacturing capacity,

Rieter promptly initiated action to adjust capacity and structures to the adverse market environment.

especially in India and China. The end of this boom triggered a cyclical downturn, which was intensified by the recession in major consumer markets in 2008. As of March 2008 incoming orders for staple fiber machinery at Rieter Textile Systems were well below the previous year's level. Rieter already launched an extensive restructuring program in summer 2008 in order to accelerate the implementation of further transfers from traditional to emerging regions, adjust capacity to the very difficult market environment and reduce the negative impact of lower volumes on profitability. Action was taken on personnel deployment at virtually all sites in the year under review, such as the utilization of flexible working-time models, short-time working and reductions in the temporary and permanent workforce. All these actions were initiated after consensual talks and negotiations with employees' representatives. Additional cost-cutting measures and reductions in capital expenditure were also implemented.

Innovations for long-term development of the business

In the year under review Rieter Textile Systems worked on specific product and process innovations in order to maintain its strong market position and exploit the next upswing with an offering appropriate to the market's needs. The objective of all innovations is to create value for Rieter's customers. This is achieved by competitive advantages that the customers can secure for themselves with novel types of yarn and through enhanced productivity of spinning mills, optimal utilization of raw materials and energy efficiency. Rieter made further progress in all these aspects in its product development in 2008.

The air-jet spinning process presented for the first time in autumn 2007 proved its qualities in operations at initial customer mills in 2008. This process enables quality yarns to be produced at comparatively low cost due to the high efficiency of the machines. Yarns of this quality standard are in demand for a very wide range of textile end products. Rieter Textile Systems believes that air-jet spinning will secure a firm place alongside the already established spinning processes in years to come. Rieter is therefore working intensively on its further development and market expansion.

The further development of the time proven R 40 rotor spinning machine has been continued systematically, and with 500 spinning positions it now offers the longest and most productive machine on the market. Intensive work on the successor generation has continued, and a pilot series was released for sale in the fourth quarter.

Rieter is convinced that the Asian textile machinery markets offer great opportunities in the medium and long term.

The ring spinning machine with an attractive price/performance ratio manufactured at the new plant in Pune for the Indian market was successfully tested in the year under review and is ready for market launch in the current year. The drawframe manufactured locally in China booked important successes on the market.

In the field of technology components for staple fiber machinery Rieter Textile Systems is aiming to extend its world market lead with systematic further development of the Elite compact spinning technology for the replacement of plied yarns. All major textile machinery manufacturers are among the customers. On the market for nonwovens production machines Rieter succeeded in positioning itself favorably on the Chinese market with the locally manufactured Jetlace Avantage system even in the difficult business environment prevailing in the year under review.

Expanded global presence
Rieter is convinced that the Asian textile machinery markets offer great opportunities in the medium and long term. It is therefore continuing to pursue the expansion of its manufacturing facilities in the key strategic markets of India and China, albeit at a slower pace than originally planned. The development of products meeting the local needs of emerging markets continues to take high priority.

Outlook
No signs of recovery are yet apparent on the textile machinery market. Rieter Textile Systems therefore expects sales to be substantially lower compared with the previous year. The division is continuing to adjust its cost structure to the changing market conditions. Nevertheless, an operating loss must be reckoned with. As a leading supplier of systems for the entire short staple fiber spinning process, Textile Systems will actively exploit the opportunities on the market in the next upswing.

What brings us together The diversity of different languages and cultures is one of the distinguishing features of the global Rieter Group. At the same time a corporate culture focusing on customers, personnel and shareholders, together with common values, are the guiding principles for how we conduct our business. **Our values** The core values of the Rieter brand – ambitious – convincing – reliable – pioneering – express what Rieter stands for today and in the future. Four representative employees explain what these values mean for them and their daily work.

«The demand for high-class yarn calls for new approaches. With air-jet spinning technology we have succeeded in developing a quality yarn using a highly efficient spinning process. I therefore predict a great future for the J 10 air-jet spinning machine.»

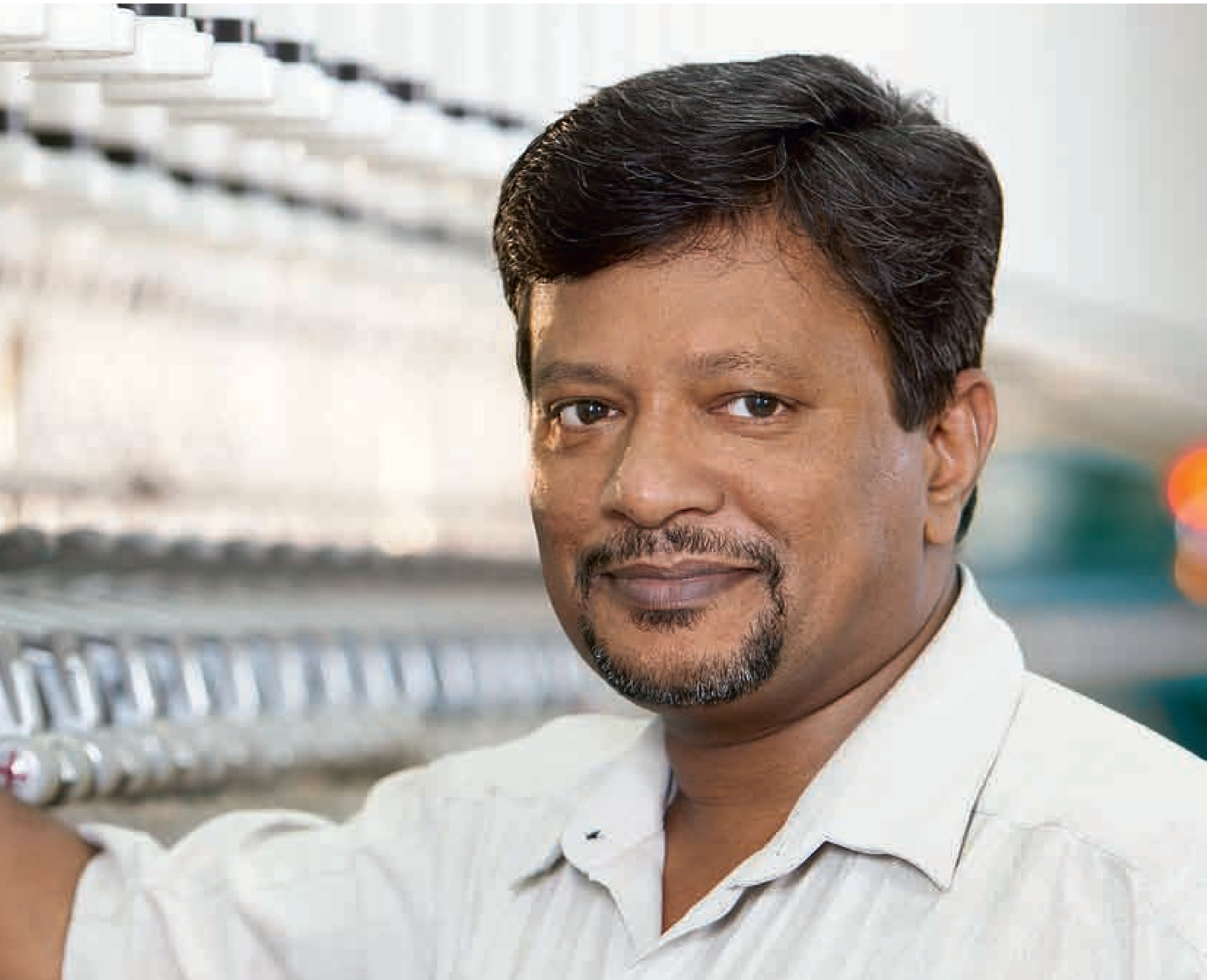
Josef Mihulka, Rieter Textile Systems,
Ústí nad Orlicí, Czech Republic

Ambitious Our experience and expertise are unrivalled. We strive to excel in the marketplace at all times for the benefit of our customers. To ensure success, we work to create the right structures and constantly expand and refine our know-how.

«For innovative acoustic developments it's essential to think outside the box. Only then can new solutions like Rieter Ultra Silent technology materialize.»

Dirk Nissen, Rieter Automotive Systems, Grossostheim, Germany

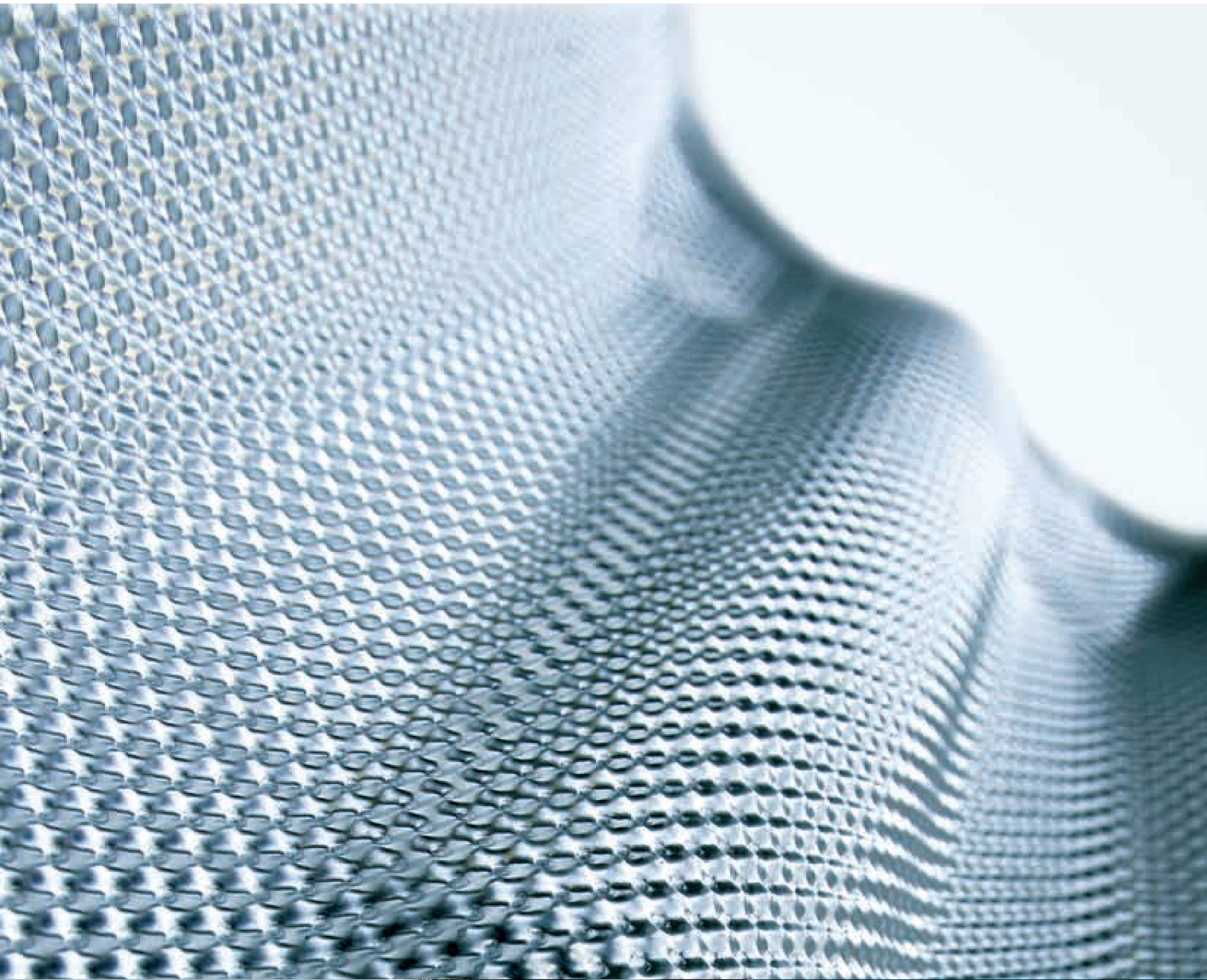
Pioneering We help shape our markets with innovative ideas and advanced technology. We deploy our wealth of expertise to develop products and solutions which set new standards. That way we help our customers gain a clear competitive edge in their markets.



«My job is to ensure outstanding service when ComforSpin machines are installed and commissioned. If problems arise, rapid responses are called for.»

Nishikant Chavan, Rieter Textile Systems, New Delhi, India

Reliable We are committed to upholding our reputation as a solid company with a long-standing tradition. We stand by the quality or our products and services. Our word is our bond.



«With its development center in Shanghai Rieter also has a unique combination of know-how in acoustics and thermal insulation at its disposal in China. This enables us to provide optimal, on-the-spot support for our customers in vehicle development.»

Sara Lin, Rieter Automotive Systems, Shanghai, China

Convincing We are known for our integrity and responsibility in all we do. We communicate honestly and openly, both internally and externally. Our relationships are characterized by mutual trust and respect.

Rieter Automotive Systems

Divisional chief executive
Wolfgang Drees

Sales
2 022.1 (2 363.3) million CHF

Operating result before special charges, interest and taxes
– 7.3 (99.7) million CHF

Number of employees at year-end
9 319 (9 878) employees

Capital expenditure of tangible fixed assets
85.3 (112.4) million CHF

Products
- Systems and components for vehicle acoustics and thermal management (including carpet and trunk systems, engine bay and underbody systems);
- Services in the fields of acoustics and thermal management
- Automotive engineering, design and styling (Idea Institute)

(Previous year's figures are in brackets.)

Rieter's Automotive Systems Division is the leading global manufacturer of systems for acoustic comfort and thermal management in motor vehicles. Its product range extends from individual components to modules and complete acoustic systems for the passenger, trunk and engine compartments, as well as heat protection and aerodynamic underbody solutions. Its broad, well-balanced customer base includes the names of all prominent manufacturers of passenger cars and commercial vehicles worldwide.

Rieter Automotive Systems manufactures at some 50 locations in Europe, North and South America, China and India. Due to the challenging logistics required for just-in-time manufacturing, these plants are located close to the vehicle manufacturers' production facilities. The division's own plants are complemented by cooperations with partners in Japan and Thailand, and by licensees in other countries.

Rieter Automotive Systems operates a network of Development and Acoustic Centers close to its customers as well as a central research center in Winterthur, Switzerland. Some 400 R&D specialists worldwide are engaged in developing innovative customer specific products in close cooperation with the customers in a "cost down, value up" approach. They not only enhance the vehicle's comfort, but at the same time reduce its weight and aerodynamic properties. They thus contribute to significant reductions in CO_2 emissions and fuel consumption. As early as in the development stage Rieter Automotive Systems pays highest attention to environmentally compatible manufacturing processes and the recyclability of the components.

Steep decline in vehicle production, especially in the second half of the year

Automotive manufacturers significantly reduced vehicle production in Rieter's main markets in Western Europe and North America, especially in the second half of 2008. Following years of steady growth, sales of 2 022.1 million CHF by Automotive Systems in the year under review were 10% lower in local currencies (–14% in nominal terms). However, Rieter Automotive succeeded in maintaining the market position. The drop in volume in conjunction with the higher cost of materials and energy in the first six months of the year had a severely adverse impact on the division's earnings. Rieter Automotive gave high priority to implementing action aimed at adjusting structures accordingly and enhancing profitability. At the same time the division made a breakthrough with initial volume production start-ups incorporating the innovative Rieter Ultra Silent technology.

Market environment

All the major economic regions, and above all Rieter Automotive Systems' two main markets of Western Europe and North America, recorded a steep decline in vehicle output in the second half of 2008. Compared with the previous year, this figure was some 16% lower overall in North America and 10% lower in Western Europe. Production in all major markets slumped toward year-end. Only in the emerging markets in Eastern Europe and especially in Asia did the overall trend remain positive in 2008, but momentum slackened considerably in the fourth quarter in particular. In this difficult business environment Rieter Automotive succeeded in maintaining its market position in its main markets of Western Europe and North America as well as in the emerging markets and continuing to expand significantly in Asia by virtue of its broad-based customer portfolio and its innovative product offering.

The division made a breakthrough with initial volume production start-ups incorporating the innovative Rieter Ultra Silent technology.

Action necessitated by cyclical and structural factors

Rieter Automotive Systems launched an extensive program to improve its cost structure in 2008. Its objective was to achieve substantial reductions in both proportional and structural costs. This is being effected, for example, by the improved utilization of material, stringent purchasing management to reduce procurement costs and enhanced productivity. All these cost-cutting projects are centrally controlled and combined in an intensive "best practice sharing" approach. In the area of structural costs Rieter Automotive is streamlining and reorganizing its network of production sites in the context of a comprehensive restructuring program. Rieter is increasing the efficiency of existing plants through these measures, while at the same time following its customers' transfers of manufacturing facilities to countries with more favorable cost structures. Rieter Automotive announced the closure of several plants in the year under review. These include the manufacturing site in St. Joseph, Michigan (USA), and two plants in the Barcelona region (Spain), where production is being integrated into a larger facility. In Germany the Bebra site is to be closed, and in France efforts to consolidate and restructure manufacturing operations are already well advanced. In other countries these have been initiated in cooperation with local employees' representatives.

Innovations for the long-term development of the business

Under the heading of "cost down –value up" Rieter Automotive vigorously pursued work on innovations in 2008 in order to support customers in the development of new vehicles conforming to market needs. With its combination of know-how in acoustics and thermal insulation, Rieter Automotive Systems has unique expertise for the automotive industry at its disposal. In addition to other innovations, special efforts are being devoted to the further development of the novel, fiber-based Rieter Ultra Silent technology with initial applications in aerodynamic underbody modules. Featuring very light weight coupled with high rigidity and acoustic effectiveness, Rieter Ultra Silent offers unique customer benefits. In particular, the lightweight structure contributes significantly to the reduction of CO_2 emissions by the vehicles. The first Rieter Ultra Silent underbody modules went into volume production on schedule in the second half of 2008. Rieter Ultra Silent is being developed further for a wide variety of applications. As a mono material it is totally recyclable.

With its combination of know-how in acoustics and thermal insulation, Rieter Automotive Systems has unique expertise for the automotive industry at its disposal.

Rieter Automotive has identified the development of new drive concepts with low fuel consumption and CO_2 emissions as an important trend on the automotive market. These include in particular the combination of electric power with conventional internal combustion engines in so-called hybrid vehicles. The higher component density in vehicles of this kind calls for innovative solutions in the fields of acoustics and thermal insulation, i. e. in Rieter Automotive's core competencies. Other trends such as direct injection, as well as consumers' demands for greater comfort, favor Rieter Automotive's business. The reduction of CO_2 emissions, a core concern of vehicle manufacturers, calls for lightweight concepts, a field in which Rieter is a pioneer, namely with the pioneering, patented Rieter Ultra Light and Rieter Ultra Silent product concepts.

Ongoing globalization of the industry

Despite focusing on high-priority actions in response to the economic downswing, Rieter Automotive is working on projects in major growth regions with a view to securing the long-term development of the business. For example, preparatory work for a second plant in India was started in the year under review. At the same time Rieter's first manufacturing facility in Korea was completed. In May 2008 the division also opened its development center for Asia in Shanghai. As a systems supplier in acoustics and thermal insulation, Rieter Automotive is thus well-positioned with its research and development activities in the Asia region in combination with Nittoku, its longstanding partner in Japan. A further extension to the plant in Chocen (Czech Republic), where Rieter has been manufacturing since the 1990s, was opened in 2008.

Outlook

Production forecasts in the automobile industry are markedly lower, but also extremely unreliable. Rieter expects declining sales in the current reporting period compared with 2008. Rieter Automotive will resolutely continue to implement its restructuring program in order to adjust production capacity to the new level of demand and to customers' requirements. Nevertheless, an operating loss must be reckoned with. Rieter will actively exploit the expected shakeout in the competitive arena and the opportunities this offers on the market to improve the volume situation.

Sustainability

For Rieter, sustainability is an important objective of corporate activity. The Rieter Group aims to generate lasting value for all stakeholders. Rieter is therefore committed not only to achieving ambitious economic goals, but also to ecological and social responsibility. Rieter has pursued a safety and environment mission and adhered to a code of conduct for many years. These guidelines for corporate activity are also published on the group's website at www.rieter.com.

Great importance is attached to innovation – in processes that generate less waste or products that feature higher energy effiency.

1 The environment

As an industrial group operating on a global scale, Rieter strives to make continuous improvements to the environmental compatibility of its products throughout the value chain. Great importance is attached to innovation – in processes that generate less waste or products that feature higher energy efficiency. Considerations such as environmental compatibility, recyclability and safety are systematically incorporated in all processes and decisions.

In order to ensure a reliable assessment of environmental impact, Rieter continuously records energy, water, waste and emissions levels for purposes of sustainability reporting. SEED (Social, Economic and Environmental Data), an electronic platform for collecting, evaluating and reporting ecologically relevant data, was first introduced in 2007 and was implemented at almost all sites in 2008.

Energy efficiency

Energy saving is a core criterion in the development and manufacture of machinery at Rieter Textile Systems. The energy consumption of Rieter spinning machines has been reduced by an average of 30% in the past 20 years. This includes energy consumed for air conditioning and lighting in the spinning premises. The RSB-D 22 double-head drawframe and the G 35 ring spinning machine are two new, energy-efficient products which achieve energy savings of 11% and 8%, respectively, compared with their predecessor models.

Rieter has invested in a new powder coating line at its Winterthur machine works. This has enabled waste water volumes and energy consumption to be reduced considerably, and no hazardous waste is produced. The group continuously invests in the refurbishment of buildings at various sites, thus contributing to a reduction in environmental pollution through lower consumption of heating oil and electric power.

Ecologically efficient products

A project team at Rieter Automotive Systems is responsible for continuously improving the environmental compatibility of its products. An important tool in this process is "Life Cycle Assessment" (LCA), an internationally recognized measuring method: an ecological balance sheet traces the total burden imposed on the environment by a product from its manufacture through its designated use to its disposal.

Recycling and CO_2 reduction

One successful example of environmentally compatible product innovation is Rieter Ultra Silent, a novel material for underfloor modules and engine undershields. It is produced from totally glass-fiber-free PET and is 100% recyclable. Furthermore, weight savings of up to 45% per vehicle can be achieved with the underfloor module. This unique technology helps automobile manufacturers to achieve their targets for sound insulation, weight reduction and environmental compatibility. Significant reductions in vehicle weight and thus fuel savings and reductions in CO_2 can be achieved with the Rieter Ultra Light technology developed some years ago.

The Automotive Systems Division completed ISO 14001 certification at 80% of its total of 53 manufacturing sites in 2008. This certification is a quality label for environmentally compatible conduct as an element of corporate processes. In 2008 Rieter also took part in the survey for the Carbon Disclosure Project, an international program for collecting and analyzing climatically relevant corporate data.

In order to heighten the awareness of personnel in the emerging economies for industrial safety, Rieter conducted extensive training at its site in Changzhou, China, for the first time in 2008.

2 Customers

Rieter strives to support customers in achieving their objectives by supplying innovative and competitive products and the relevant services. Satisfied and loyal customers are a crucial factor for sustainable corporate management. Various processes for measuring customer satisfaction are established in both divisions. In 2008 the Textile Systems Division implemented a new process featuring monthly surveys of satisfaction with the services provided by Rieter in order to collect feedback from customers even more effectively. This enables Rieter to undertake systematic further development of products and processes.

3 Employees

Jobs and personnel

The group recorded a steep decline in sales and earnings in 2008 as a result of the global recession. It became essential to adjust capacity in both divisions. The reduction in the workforce initially affected mainly temporary personnel, but later also permanent employees. All action taken in this context was discussed in advance with unions and personnel representatives. In Europe the European Works Council was informed at an early stage and consulted in additional meetings. Joint solutions were worked out with personnel representatives for the employees affected, such as short-time working, allowing for personnel turnover, early retirement and internal transfers. Unfortunately, a number of redundancies were unavoidable on operational grounds.

Industrial safety

In-house training in industrial safety and the inspection of plants and their infrastructure by Rieter specialists make a major contribution to accident prevention. Indicators provided by the SEED database enable training to be specifically targeted.

In order to heighten the awareness of personnel in the emerging economies for industrial safety, Rieter conducted extensive training at its site in Changzhou, China, for the first time in 2008. The objective was to communicate know-how on accident prevention at the workplace and to ensure that uniform precautions are taken. Similar training programs are also planned in India.

Training and personnel development
A further building block was added in the field of management development in the year under review: a Project Management Training program was added to the group-wide Corporate Management Training program and various international further training schemes in the divisions.

In Winterthur, Rieter put the small, decommissioned power plants historically located on the factory site to ecologically beneficial use.

In 2008 a uniform performance management process, which facilitates the systematic career advancement of individual employees, was conducted for the first time for senior management levels. This process will be continued in 2009 and extended to the next management level. A structured interview focusing on personal and professional development is held with all personnel at least once a year.

Apprenticeship training takes high priority at Rieter. For example, some 120 trainees were employed in seven occupational categories at the Winterthur machine works in the year under review. Similar training is also provided at Textile Systems sites in Germany, while semi-skilled training is offered in China.

Code of Conduct
Rieter's Code of Conduct sets out the rules for daily relations with business partners, customers, suppliers, competitors, the public and personnel. It is essential that executives act as role models for ethical conduct. An e-learning tool dealing with the main themes of the Code of Conduct has been developed for senior management. The personnel in question are called upon to complete this program once a year. Knowledge of the Code of Conduct is continuously reviewed in this way.

4 The community

Rieter operates about 70 manufacturing facilities in 21 countries and is aware of its social responsibility at these locations. The company attaches importance to a cooperative relationship with the local authorities based on mutual trust and good communication with the local population.

In Winterthur, Rieter put the small, decommissioned power plants historically located on the factory site to ecologically beneficial use. In 2008 they were refurbished in cooperation with an external operating company and the Office for the Preservation of Historical Monuments of the City of Winterthur and re-commissioned. The two power plants produce 2 million kilowatt-hours annually, equivalent to the consumption of 400 to 500 households.

Rieter also supports international charitable projects. In India the company has been supplying a village with clean drinking water for the past ten years. The "Village Wing-Talekar Vasti" project operates at a Rieter site in Maharashtra. 300 villagers can obtain drinking water there free of charge. Sanitary facilities for local schools have also been financed.

Corporate Governance

Transparent reporting creates the basis for trust. As a corporate group with an international scope which is committed to creating long-term values, the Rieter Group maintains high standards of corporate governance and pursues a transparent information policy vis-à-vis its stakeholders.

The basis for the contents of the following chapter is provided by the Articles of Association of Rieter Holding Ltd. and the Management Regulations of Rieter as well as the guidelines issued by the Swiss Stock Exchange. The structure of this report conforms to the corporate governance guidelines issued by the SIX Swiss Exchange (in force since July 1, 2002) and the pertinent commentaries, as well as the principles and rules of the “Swiss Code of Best Practice” issued by Economiesuisse. Unless otherwise stated, the data refer to December 31, 2008.

1 Group structure and shareholders

Group structure

Rieter Holding Ltd. is a company incorporated under Swiss law, with a registered office in Winterthur. The Rieter Group comprises the Textile Systems and Automotive Systems divisions, the Corporate Center and all companies controlled by Rieter Holding Ltd., including joint ventures.

The divisions conduct their business within the framework of the internal management regulations and are responsible for profitability with reference to sales and capital employed. The heads of the divisions report to the Group CEO. Detailed segmental reporting can be found on pages 51 to 54.

The Corporate Center comprises the central group specialist units. The Corporate Center supports the Board of Directors, the CEO and the Group Executive Committee in their management and super-visory functions. The CFO is head of the Corporate Center and reports to the Group CEO.

More than 100 companies worldwide belonged to the Rieter Group as of December 31, 2008. A list of the main companies can be found on pages 74 and 75. The management organization of the Rieter Group is independent of the legal structure of the group and the individual companies.

Notifiable shareholdings/cross-holdings

As of December 31, 2008, Rieter was aware of the following shareholders with more than 3% of all voting rights in the company:

- Forbo group, Baar, Switzerland
- Artemis Beteiligungen IV AG, Hergiswil, Switzerland
- PCS Holding, Weiningen, Switzerland
- Rieter Holding Ltd., Winterthur, Switzerland
- Sprucegrove Investment Management, Toronto, Canada

Refer to page 83 for details.

There are no cross-holdings in which the interests exceed 3% of its own shares. Further information on shareholdings can be found on page 92.

2 Capital structure

Share capital

On December 31, 2008, the share capital of Rieter Holding Ltd. totaled 21 415 280 CHF. This is divided into 4 283 056 fully paid registered shares with a par value of 5.00 CHF each. The shares are listed on the Swiss Exchange (SIX), securities code 367144; ISIN CH0003671440; Investdata RIEN.

Rieter's market capitalization on December 31, 2008, was 650.9 million CHF. Each share entitles the holder to one vote at general meetings of shareholders.

Rieter has neither participation certificates nor dividend-right certificates in issue.

Contingent and authorized share capital

The share capital of Rieter Holding Ltd. can be increased by up to 1 981 560 CHF by the issue of 396 312 registered shares with a par value of 5.00 CHF each, to be fully paid by the exercise of warrants or conversion rights granted in connection with bonds issued by the company or one of its subsidiaries, or warrants allotted to shareholders. Shareholders' pre-emptive subscription rights are precluded. Holders of warrants or conversion rights are entitled to acquire the new registered shares. The Board of Directors is authorized to revoke shareholders' pre-emptive subscription rights when issuing convertible bonds or bonds with warrants if the bonds in question are issued to finance the acquisition of companies, parts of companies or equity interests in companies. If pre-emptive subscription rights are revoked, the bonds must be issued at terms and conditions customary on the market in respect of structure, maturity and amount, including the non-dilution of equity. The exercise period of warrants must not exceed five years, that of conversion rights ten years from the date of issue of the relevant bonds. Rieter Holding Ltd. had no authorized capital on December 31, 2008.

Changes in share capital

The Annual General Meeting held on May 8, 2008, adopted a resolution to reduce the share capital by 839 000 CHF to 21 415 280 CHF through the cancellation of 167 800 registered shares. These shares had been acquired in the context of the share buyback program approved by the Board of Directors on September 7, 2007.

Restrictions on share transfers and nominee registrations

Those persons who are entered in the shareholders' register are recognized as voting shareholders. Rieter shares can be bought and sold without any restrictions. In terms of § 4 of the articles of association, entry in the register of shareholders can be denied in the absence of an explicit declaration that the shares are held in the applicant's own name and for the applicant's own account. There are no other registration restrictions.

Shares held in a fiduciary capacity are not entered in the shareholders' register. As an exception to this rule, Anglo-Saxon nominee companies are entered in the register if the company in question has concluded a nominee agreement with Rieter. The nominee company exercises voting rights at the Annual General Meeting of shareholders. At Rieter's request, the nominee is obliged to disclose the name of the person on whose behalf it holds shares.

Convertible bonds and options

Rieter Holding Ltd. has no convertible bonds or shareholders' options outstanding. For details of the option plan for the Board of Directors and the Group Executive Committee, please refer to note 29 (page 70) in the notes to the consolidated financial statements.

3 Board of Directors

Directors

Pursuant to the articles of association, the Board of Directors of Rieter Holding Ltd. consists of no less than five and no more than nine members. In the 2008 financial year, no member of the board performed any executive duties.

Name	Nationality	Position	Year of birth	On the Board since	Elected until	Executive/ non-executive
Erwin Stoller*	CH	Chairman	1947	2008	2011	non-executive
Dr. Ulrich Dätwyler*	CH	Vice-Chairman	1941	1994	2009	non-executive
Dr. Rainer Hahn	DE	Member	1940	1999	2011	non-executive
Dr. Peter Wirth	CH	Member	1946	2000	2009	non-executive
Dr. Dieter Spälti*	CH	Member	1961	2001	2010	non-executive
Dr. Jakob Baer*	CH	Member	1944	2006	2009	non-executive

* Members of the audit committee (Chairman: Dr. Jakob Baer);
all six members of the Board are members of the personnel committee (Chairman: Dr. Ulrich Dätwyler).

Erwin Stoller (1947)

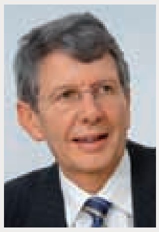
- Chairman, non-executive Board member and Chairman since 2008, term of office expires in 2011, member of the personnel committee, member of the audit commitee.
- Swiss national.
- Dipl. Masch. Ing. ETH Zurich; with Rieter since 1978, member of the Group Executive Committee from 1992 to 2007, head of Textile Systems Division from 1992 to 2002, head of Automotive Systems Division from 2002 to 2007, withdrawal from operating management as of 12/31/2007.
- Member of the Board, Bucher Industries AG, Niederweningen.

Dr. Ulrich Dätwyler (1941)

- Vice-Chairman and non-executive, independent Board member since 1994, term of office expires in 2009, chairman of the personnel committee and member of the audit committee.
- Swiss national.
- Dr. oec. HSG; CEO of SIG Holding AG until 1996.
- Board member of three non-listed internationally active companies.

Dr. Rainer Hahn (1940)

- Non-executive, independent Board member since 1999, term of office expires in 2011, member of the personnel committee.
- German national.
- Dr. Ing.; Managing director, Robert Bosch GmbH, Stuttgart, until 2001.
- Member of the supervisory board, Robert Bosch GmbH, Stuttgart; Member of the Supervisory Board, Bosch Rexroth AG, Stuttgart; Member of the Supervisory Board, ElringKlinger AG, Dettingen/Erms (Germany); Board member, TÜV SÜD e. V., Mannheim, and TÜV SÜD Gesellschafterausschuss GbR, Munich.



Dr. Peter Wirth (1946)

- Non-executive, independent Board member since 2000, term of office expires in 2009, member of the personnel committee.
- Swiss national.
- Dr. sc. techn. ETH Zurich; with Mikron Group, Biel, from 1986 to 2003; CEO, Mikron Group and Managing director, Mikron Holding AG, from 1991 to 2003; Partner, ex.tra experience transfer AG, Biel, since 2004.
- Board member of serveral non-listed companies.

Dr. Dieter Spälti (1961)

- Non-executive, independent Board member since 2001, term of office expires in 2010, member of the personnel committee, member of the audit committee.
- Swiss national.
- Dr. iur. University of Zurich; Partner, McKinsey, until 2001; Managing partner, Spectrum Value Management, Jona, since 2002.
- Board member, IHAG Holding, Zurich; Board member, Holcim AG, Jona.

Dr. Jakob Baer (1944)

- Non-executive, independent Board member since 2006, term of office expires in 2009, chairman of the audit commitee, member of the personnel committee.
- Swiss national.
- Dr. iur. University of Bern; CEO of KPMG Switzerland until September 30, 2004; independent consultant from 2004 to 2006.
- Board member, Adecco S.A., Chéserex; Board member, Swiss Re, Zurich; Board member, Allreal Holding AG, Baar; Chairman, Stäubli Holding AG, Pfäffikon; Board member of two other unlisted companies.

Cross-involvement
There are no reciprocal appointments to Boards of Directors.

Group Secretary
Thomas Anwander, lic. iur., head of Group Legal Services, Group Secretary of Rieter Holding Ltd., has been Secretary to the Board of Directors since 1993; he is not a member of the Board of Directors.

Election and term of office
Elections to the Board of Directors are staggered and directors are elected for a term of office of three years. They retire at the Annual General Meeting following their 70th birthday. Nominations for election to the Board of Directors are made with due regard for the balanced composition of this body, taking industrial and international management and specialist experience into account.

The term of office of Dr. Ulrich Dätwyler, Dr. Peter Wirth and Dr. Jakob Baer expires at the Annual General Meeting to be held on April 29, 2009.

Internal organization
The Board of Directors is responsible for supervisory management of the Rieter Group and the group companies. It exercises a supervisory function over the persons who have been entrusted with the management of the business. It takes decisions on all transactions assigned to it by law, the articles of association and the management regulations. It draws up the annual report, prepares the Annual General Meeting and makes the necessary arrangements for implementing the resolutions adopted by the Annual General Meeting.

The Board of Directors has the following decision-making authority:

- composition of the business portfolio and strategic thrust of the group
- definition of the group's structure
- appointment and dismissal of the Chief Executive Officer (CEO) and the other members of the Group Executive Committee
- organization of accounting, financial control and financial planning
- approval of strategic and financial planning, the budget, the annual financial statements and the annual report
- principles of financial and investment policy, personnel and social policy, management and communications
- signature regulations and allocation of authority
- principles of internal auditing
- definition of authority and duties of the Chairman and the committees of the Board of Directors, the CEO and the Group Executive Committee
- decisions on investment projects involving expenditure exceeding 10 million CHF
- issuance of bonds and other financial markets transactions
- incorporation, purchase, sale and liquidation of subsidiaries

The Board of Directors comprises the Chairman, the Vice-Chairman and the other members. The directors allocate their responsibilities amongst themselves. The Vice-Chairman stands in for the Chairman in the latter's absence. The Board of Directors has a quorum if a majority of members are present. Motions are approved by a simple majority. In the event of a tie, the Chairman has the casting vote. The Board has formed an audit committee and a personnel/nominations committee to assist it in its work. However, decisions are made by the Board of Directors as a whole.

The Board of Directors met for nine regular meetings in the 2008 financial year; seven of these meetings lasted a full day, two lasted two days each. Four telephone conferences of the whole Board were also held. The agendas for the Board meetings are drawn up by the chairman on the basis of proposals by the CEO. Any member of the Board can also propose items for inclusion on the agenda. The board usually makes an annual visit to one group location. The members of the Group Executive Committee also usually attend the meetings of the Board of Directors. They present the strategy as well as the results of their operating units and the projects requiring the approval of the Board of Directors.

Once a year the Board of Directors holds a special meeting to assess its internal working methods and cooperation with the Group Executive Committee.

The **audit committee** currently consists of four members of the Board. Its Chairman is Dr. Jakob Baer, the other members are Erwin Stoller, Dr. Ulrich Dätwyler and Dr. Dieter Spälti.

In the 2008 financial year none of the members of the audit committee performed executive duties. The Chairman is elected for one year. The audit committee meets at least twice a year. The head of internal audit, representatives of the statutory and group auditors PricewaterhouseCoopers AG, the CEO and the CFO and other members of the Group Executive Committee and management as appropriate, also attend the meetings.

The main duties of the audit committee are:

- elaborating principles for external and internal audits for submission to the Board of Directors and providing information on their implementation
- assessing the work of the external and internal auditors as well as their mutual cooperation and reporting to the Board of Directors
- assessing the reports submitted by the statutory auditors and the group auditors
- reporting to the Board of Directors and assisting the board in nominating the statutory auditors and the group auditors for submission to the Annual General Meeting
- considering the results of internal audits, approving the audit schedule for the following year, nominating the head of internal audit.
- the Chairman of the audit committee is responsible for accepting complaints (whistle-blowing) in connection with the code of conduct (Regulations regarding Conduct in Business Relationships)

The audit committee met for two regular meetings in 2008. The meetings lasted between half a day and a full day. All committee members attended all the meetings and regularly received the written reports of the internal auditors.

Since Rieter's Board of Directors has only six members, the entire Board currently acts as the **personnel committee/nomination committee**. The Chairman of this committee is appointed by the Board of Directors. Dr. Ulrich Dätwyler held this position in 2008. The personnel committee meets at least once a year. It stipulates the profile of requirements and the principles for selecting members of the Board of Directors and prepares the election of new members of the Group Executive Committee and their terms of employment. It establishes the principles for the remuneration of directors and top management at the Rieter Group, especially bonus programs, share purchase plans and option programs. The personnel committee and the Board of Directors are also informed about plans for senior management succession and the relevant development plans.

The personnel committee met for two regular meetings in 2008. The meetings lasted between half a day and a full day. All committee members attended all the meetings.

Allocation of authority

The Board of Directors delegates operational management of the business to the CEO of the Rieter Group. The heads of the divisions and the CFO, who is head of the Corporate Center, report to the CEO. The allocation of authority and cooperation between the Board of Directors, the CEO, the divisions and the Corporate Center are stipulated in the group management regulations. The CEO submits the strategy, mid-term planning, budget and major projects to the Board of Directors for its approval. He reports regularly on the course of business as well as on risks and changes in personnel at management level. In addition to periodic reporting, he is obliged to inform the Board of Directors immediately about business transactions of fundamental importance.

Information and control instruments regarding the Group Executive Committee

The Board of Directors receives from the Group Executive Committee a written, monthly report on the key figures of the group and the divisions which provides information on the balance sheet, cash flow and income statements, capital expenditure and projects. The figures are compared with the budget, the previous year and competitors. The Board of Directors is also informed at each meeting about the course of business, important projects and risks. If the Board of Directors has to rule on major projects a written request is submitted to directors prior to the meeting. The projects approved by the Board of Directors are monitored in the context of special project controlling. Once a year the Board of Directors discusses the strategic plans drawn up by the Group Executive Committee and the financial plan for the group and the divisions. Financial statements for publication are drawn up twice a year.

Internal audit has been headed by Martin Strub, Certified Auditor, since 2008.

The members of the audit committee, the CEO, the CFO and appointed members of the management, receive the internal audit reports. Internal audit conducted 37 audits in 2008. The results were discussed in detail with the companies and divisions concerned, and with the CEO and the CFO, and appropriate measures have been initiated accordingly.

The statutory auditors have access to the minutes of the meetings of the Board of Directors.

Code of Conduct

The Code of Conduct is an integral part of every employee’s contract of employment. The Code of Conduct is explained to employees in the individual units and is verified regularly in the context of internal audits and by additional audits. In 2008 all members of senior staff participated in an e-learning program on the Code of Conduct. This code can be accessed on the Internet at www.rieter.com (Inside Rieter › About Rieter Group).

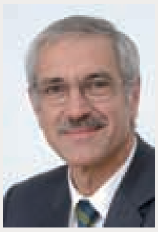
4 Group Executive Committee

The Group Executive Committee had four members on December 31, 2008: the CEO, the heads of the two divisions and the CFO:

Name	Nationality	Position	Year of birth	With Rieter since	Member of the Executive Committee	Current function since
Hartmut Reuter	DE	Chief Executive Officer	1957	1997	1997	2002
Peter Gnägi	CH	Head of the Textile Systems Division	1954	1990	2002	2002
Urs Leinhäuser	CH	Chief Financial Officer & Head Corporate Center	1959	2003	2003	2004
Wolfgang Drees	DE	Head of the Automotive Systems Division	1953	2007	2008	2008

Hartmut Reuter (1957)

- Chief Executive Officer (CEO) of the Rieter Group.
- German national.
- Dipl. Wirtschaftsingenieur Technische Universität Darmstadt.
- From 1981 to 1997, Robert Bosch GmbH, Stuttgart, for the last two years as member of the Executive Committee in the corporate headquarters, in charge of Planning and Controlling; member of Rieter's Group Executive Committee since 1997, first as Head of Group Controlling, from 2000 to 2002 as Head of the Corporate Center, in his present function since 2002.
- Member of the Board, Geberit AG, Jona.



Peter Gnägi (1954)

- Head of the Textile Systems Division.
- Swiss national.
- Dipl. Masch. Ing. ETH Zurich.
- From 1979 to 1982 Alusuisse AG, Zurich; from 1982 to 1990 Mettler Instrumente AG, Stäfa; most recently as head Business Group Betriebsmittel; with Rieter since 1990, head of the Spun Yarn Systems Business Group from 1998 to 2002, in his present function since 2002.
- Member of the Executive Committee, Swissmem.

Urs Leinhäuser (1959)

- Chief Financial Officer (CFO) and Head of the Corporate Center.
- Swiss national.
- Dipl. Betriebsökonom HWV.
- From 1995 to 1999 Georg Fischer AG, most recently as head of Finance and Controlling, Division Piping Systems; from 1999 to 2003 Chief Financial Officer of Mövenpick Holding; with Rieter since April 2003 as head of Group Controlling and member of the Group Executive Committee, in his present function since January 2004.
- Member of the Board, Burckhardt Compression Holding AG, Winterthur.

Wolfgang Drees (1953)

- Head of the Automotive Systems Division.
- German national.
- Masters Degree in Mechanical Engineering, Technical University of Hanover.
- From 1977 to 2005 Bosch Group in Germany, Switzerland and USA; since 2002 member of the Executive Committee of Robert Bosch GmbH, in charge of chassis systems, electrical tools, thermal engineering and metals technology; with Rieter since January 2007 as head of Business Group Europe of Rieter Automotive Systems and deputy head of the division, in his present function since January 1, 2008.
- Member of the Board, Huber Packaging Group, Öhringen, Germany.

Management contracts

There are no management contracts between Rieter Holding Ltd. and third parties.

5 Remuneration report

Content and process for specifying remuneration and equity participation programs

Information on the remuneration of the Board of Directors and the Group Executive Committee can be found in the remuneration report from page 83.

6 Shareholders' participatory rights

Voting restrictions

Rieter imposes no voting restrictions.

Statutory quorum

General meetings of shareholders adopt resolutions with the absolute majority of voting shares represented. All amendments to the articles of association require at least a two-thirds majority of the votes represented.

Calling general meetings of shareholders, drawing up the agenda, voting proxies

General meetings of shareholders are called in writing by the Board of Directors at least 20 days prior to the event, with details of the agenda, pursuant to § 8 of the articles of association, and are published in the company's official publication medium (Swiss Official Commercial Gazette).

Pursuant to § 9 of the articles of association, shareholders representing shares with a par value of at least 500 000 CHF can request the inclusion on the agenda of an item for discussion, with details of the relevant motions, by a closing date published by the company.

Shareholders who do not attend general meetings personally can arrange to be represented by another shareholder, by the company or by the independent voting proxy.

Entries in the shareholders' register
No entries are made in the shareholders' register for ten days before and three days after the general meeting of shareholders.

7 Change of control and defensive measures

Obligation to submit an offer
The legal provisions in terms of Art. 22 BEHG (Bundesgesetz über die Börsen und den Effektenhandel – Swiss Exchanges and Securities Trading Act) are applicable. This states that a shareholder or a group of shareholders acting in concert who hold more than $33^{1}/_{3}$% of all shares must submit a takeover offer to the other shareholders.

Change of control clauses
There are no change of control clauses in contracts of employment and office. In the event of a change of control all outstanding options can be exercised immediately and all shares blocked in the context of the share purchase plan are released. The disbursement of a special bonus can be granted to selected members of the Group Executive Committee and senior management in the event of a successful takeover bid. The amount of this special bonus is determined by the additional effort involved in connection with a takeover bid.

8 Statutory auditors

Duration of mandate and term of office of the lead auditor
PricewaterhouseCoopers AG, Zurich (PwC), have been the statutory and group auditors of Rieter Holding Ltd. since 1984. Most of the companies in the Rieter Automotive Systems Division are audited by KPMG. Christian Kessler has officiated as lead auditor for the Rieter mandate at PwC since 2002.

Audit fees and additional fees
PwC, KPMG and other auditors charged the Rieter Group approximately 2.9 million CHF (3.5 million CHF in 2007) for services in connection with auditing the annual financial statements of the group companies and Rieter's consolidated accounts in the 2008 financial year. PwC, KPMG and other auditors invoiced some 1.3 million CHF (1.9 million CHF in 2007) for additional services. 0.3 million CHF (0.4 million CHF in 2007) of this total were for services closely related to the audit, 0.6 million CHF (1.0 million CHF in 2007) for tax consulting and 0.4 million CHF (0.5 million CHF in 2007) for other services.

Supervisory and monitoring instruments regarding the auditors
The audit committee of the Board of Directors makes an annual assessment of the performance, fees and independence of the statutory and group auditors. It submits a proposal to the Annual General Meeting regarding who should be elected as statutory auditors. Further information on auditing can be found in section 3.

9 Information policy

Rieter maintains regular, open communication with the company's shareholders and the capital market. They are informed through the medium of letters to shareholders about the group's annual financial statements and semi-annual results. In addition, shareholders and the capital market are informed via the media of material current changes and developments. Price-relevant events are publicized in accordance with the ad hoc publicity requirements of the Swiss Exchange (SIX). The annual report is available in printed form and on the Internet at www.rieter.com. Press releases for the public, financial and industrial media as well as presentations are also available on this website. Press conferences and meetings with financial analysts are held at least once a year. The Board of Directors and the Group Executive Committee provide information on the annual accounts and the course of business at the company, as well as answering shareholders' questions, at the Annual General Meeting.

Important dates:

• Annual General Meeting 2009	April 29, 2009
• Semi-Annual Report 2009	August 12, 2009
• Publication of sales 2009	January 29, 2010
• Deadline for proposals regarding the agenda of the Annual General Meeting	February 23, 2010
• Results press conference	March 23, 2010
• Annual General Meeting 2010	April 28, 2010

Contacts for specific queries regarding Rieter:

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Fax +41 (0)52 208 70 60, investor@rieter.com

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Dr. Peter Grädel, Head Corporate Communications,
Phone +41 (0)52 208 70 12
Fax +41 (0)52 208 72 73, media@rieter.com

Financial report

Consolidated income statement

CHF million	Notes	2008	%*	2007	%*
Sales	(4)	**3 142.5**		**3 930.1**	
Sales deductions		– 130.6		– 147.2	
Change in semi-finished and finished goods		– 43.2		35.6	
Own work capitalized		3.0		4.3	
Corporate output		**2 971.7**	**100.0**	**3 822.8**	**100.0**
Material costs		– 1 440.8	– 48.5	– 1 843.8	– 48.2
Employee costs	(5)	– 938.2	– 31.5	– 1 064.0	– 27.8
Other operating expenses	(6)	– 466.9	– 15.7	– 523.9	– 13.7
Other operating income		50.3	1.7	54.0	1.3
Depreciation and amortization	(7)	– 153.7	– 5.2	– 158.3	– 4.1
Operating result before special charges, interest and taxes		**22.4**	**0.8**	**286.8**	**7.5**
Special charges	(8)	– 334.5	– 11.3	– 8.1	– 0.2
Operating result before interest and taxes (EBIT)		**– 312.1**	**– 10.5**	**278.7**	**7.3**
Financial income	(9)	10.0		54.6	
Financial expenses	(10)	– 74.7		– 31.9	
Result before taxes		**– 376.8**	**– 12.7**	**301.4**	**7.9**
Income taxes	(11)	– 19.9		– 89.9	
Net result		**– 396.7**	**– 13.3**	**211.5**	**5.5**
Attributable to shareholders of Rieter Holding Ltd.		– 405.9		197.2	
Attributable to minority interests		9.2		14.3	
Earnings per share • average number of registered shares outstanding: 3 822 929 (4 092 265 in 2007)	CHF	– 106.18		48.19	
Diluted earnings per share • average number of shares to calculate diluted earnings per share[1]: 3 822 929 (4 092 265 in 2007)	CHF	– 106.18		48.19	

* In % of corporate output.

1. In 2007 including dilution impact in connection with option plan.

The notes on pages 42 to 73 are an integral part of the consolidated financial statements.

Consolidated balance sheet

CHF million	Notes	December 31, 2008	December 31, 2007[1]
Assets			
Tangible fixed assets	(13)	786.3	917.4
Intangible assets	(14)	30.2	156.6
Other non-current assets	(15)	107.9	105.9
Deferred tax assets	(11)	4.9	12.1
Non-current assets		**929.3**	**1 192.0**
Inventories	(16)	361.3	510.0
Trade receivables	(17)	382.1	625.3
Other receivables	(18)	125.9	148.0
Marketable securities	(19)	7.7	114.6
Cash and cash equivalents	(20)	282.6	257.5
Current assets		**1 159.6**	**1 655.4**
Assets		**2 088.9**	**2 847.4**
Shareholders' equity and liabilities			
Share capital		21.4	22.3
Share premium account (capital reserve)		27.5	27.5
Group reserves		641.0	1 259.6
Equity attributable to shareholders of Rieter Holding Ltd.		**689.9**	**1 309.4**
Equity attributable to minority interests	(21)	56.3	60.1
Total shareholders' equity		**746.2**	**1 369.5**
Long-term financial debt	(22)	128.8	47.5
Deferred tax liabilities	(11)	62.4	89.8
Provisions	(23)	226.8	180.1
Other non-current liabilities		0.9	4.2
Non-current liabilities		**418.9**	**321.6**
Trade payables		268.5	446.3
Advance payments by customers		74.3	153.1
Short-term financial debt	(22)	198.3	180.1
Current tax liabilities		29.7	54.7
Provisions	(23)	153.7	62.1
Other current liabilities	(24)	199.3	260.0
Current liabilities		**923.8**	**1 156.3**
Liabilities		**1 342.7**	**1 477.9**
Shareholders' equity and liabilities		**2 088.9**	**2 847.4**

1. Adjusted as a result of initial application of IFRIC 14.

The notes on pages 42 to 73 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

CHF million	Notes	2008	2007
Net result		– 396.7	211.5
Interest income	(9)	– 9.5	– 8.8
Interest expenses	(10)	21.1	16.2
Income taxes		19.9	89.9
Depreciation and amortization of tangible and intangible fixed assets		259.5	158.3
Profit/loss on divestments, net	(27)	2.6	0.0
Other non-cash income and expenses		31.7	– 9.8
Change in inventories		100.0	– 21.5
Change in receivables		206.9	13.9
Change in non-current provisions		32.5	8.8
Change in trade payables		– 149.8	38.6
Change in advance payments by customers and other liabilities		– 3.9	– 34.6
Dividends received		0.5	0.2
Interest received		9.5	8.8
Interest paid		– 19.7	– 20.3
Taxes paid		– 47.4	– 56.3
Net cash from operating activities		**57.2**	**394.9**
Capital expenditure on tangible and intangible assets	(13/14)	– 140.9	– 203.5
Proceeds from disposals of tangible and intangible assets		22.2	24.7
Investments in financial assets		– 14.6	– 12.2
Proceeds from disposals of financial assets		5.4	24.3
Change in holdings of marketable securities		58.9	48.2
Acquisitions of businesses	(26)	– 8.5	0.0
Divestments of businesses	(27)	41.7	0.0
Net cash used for investing activities		**– 35.8**	**– 118.5**
Dividend paid to shareholders of Rieter Holding Ltd.		– 57.1	– 62.1
Change in holding of own shares		– 51.8	– 141.0
Dividends to minority interests		– 7.3	– 6.9
Repayment of bonds		0.0	– 200.0
Increase/decrease of short-term financial debt		37.7	119.9
Proceeds from long-term financial debt		100.0	1.0
Repayments of long-term financial debt		– 12.7	– 20.4
Net cash from financing activities		**8.8**	**– 309.5**
Currency effects		– 5.1	– 7.8
Change in cash and cash equivalents		**25.1**	**– 40.9**
Cash and cash equivalents at beginning of the year		**257.5**	**298.4**
Cash and cash equivalents at end of the year		**282.6**	**257.5**

The notes on pages 42 to 73 are an integral part of the consolidated financial statements.

Changes in consolidated equity

CHF million	Share capital	Own shares	Share premium account	Valuation reserves	Retained earnings	Total attributable to Rieter share-holders	Attribut-able to minority interests	Total
At December 31, 2006 as reported	**22.3**	**– 0.1**	**27.5**	**305.9**	**964.9**	**1 320.5**	**54.9**	**1 375.4**
Initial application of IFRIC 14	0.0	0.0	0.0	0.0	0.8	0.8	0.0	0.8
At January 1, 2007 adjusted	**22.3**	**– 0.1**	**27.5**	**305.9**	**965.7**	**1 321.3**	**54.9**	**1 376.2**
Currency effects	0.0	0.0	0.0	8.1	0.0	8.1	– 2.2	5.9
Change in marketable securities available for sale	0.0	0.0	0.0	– 14.1	0.0	– 14.1	0.0	– 14.1
Results recognized directly in equity	**0.0**	**0.0**	**0.0**	**– 6.0**	**0.0**	**– 6.0**	**– 2.2**	**– 8.2**
Net result	0.0	0.0	0.0	0.0	197.2	197.2	14.3	211.5
Total recognized results	**0.0**	**0.0**	**0.0**	**– 6.0**	**197.2**	**191.2**	**12.1**	**203.3**
Dividend of Rieter Holding Ltd.	0.0	0.0	0.0	0.0	– 62.1	– 62.1[1]	0.0	– 62.1
Dividends to minority interests	0.0	0.0	0.0	0.0	0.0	0.0	– 6.9	– 6.9
Share-based compensation	0.0	0.0	0.0	0.0	4.1	4.1	0.0	4.1
Change in holding of own shares	0.0	– 1.2	0.0	0.0	– 143.9	– 145.1	0.0	– 145.1
At December 31, 2007	**22.3**	**– 1.3**	**27.5**	**299.9**	**961.0**	**1 309.4**	**60.1**	**1 369.5**
Currency effects	0.0	0.0	0.0	– 96.9	0.0	– 96.9	– 5.7	– 102.6
Change in marketable securities available for sale	0.0	0.0	0.0	– 7.8	0.0	– 7.8	0.0	– 7.8
Results recognized directly in equity	**0.0**	**0.0**	**0.0**	**– 104.7**	**0.0**	**– 104.7**	**– 5.7**	**– 110.4**
Net result	0.0	0.0	0.0	0.0	– 405.9	– 405.9	9.2	– 396.7
Total recognized results	**0.0**	**0.0**	**0.0**	**– 104.7**	**– 405.9**	**– 510.6**	**3.5**	**– 507.1**
Dividend of Rieter Holding Ltd.	0.0	0.0	0.0	0.0	– 57.1	– 57.1[1]	0.0	– 57.1
Dividends to minority interests	0.0	0.0	0.0	0.0	0.0	0.0	– 7.3	– 7.3
Share-based compensation	0.0	0.0	0.0	0.0	2.0	2.0	0.0	2.0
Change in holding of own shares	– 0.9	0.2	0.0	0.0	– 53.1	– 53.8	0.0	– 53.8
At December 31, 2008	**21.4**	**– 1.1**	**27.5**	**195.2**	**446.9**	**689.9**	**56.3**	**746.2**

1. 15.00 CHF per registered share.

Valuation reserves include after-tax valuation gains of 1.7 million CHF (9.4 million CHF in 2007) on marketable securities available for sale and investments.

The notes on pages 42 to 73 are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

1 Summary of significant accounting policies

Basis of preparation
The principal accounting policies applied in preparing these consolidated financial statements are set out below. These policies have been consistently applied to all of the reporting periods presented, unless stated otherwise.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements are based on historical costs, with the exception of financial instruments, which are measured at fair value.

Rieter adopted IFRIC 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) for the first time in 2008, which resulted in an increase in equity of 0.8 million CHF as of January 1, 2007, with no impact on net profit. IFRIC interpretations 11 and 12, which became effective in 2008, had no impact on the consolidated financial statements.

Assumptions and estimates
Financial reporting requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, contingent assets and contingent liabilities at the date of the financial statements, and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are periodically reviewed and relate primarily to the areas of asset impairment, pension plans, provisions and taxes.

The most significant elements of estimates and assumptions are as follows:

Tangible and intangible assets are tested for impairment whenever there are indications that, due to changed circumstances, their carrying value may no longer be fully recoverable. If such a situation arises, recoverable amount is determined on the basis of expected future cash flows, corresponding to either the discounted value of expected future net cash flows or the expected net selling price. If the recoverable amount is below the carrying amount, a corresponding impairment loss is recognized in the income statement. The main assumptions on which these measurements are based include growth rates, margins and discount rates.

In order to measure liabilities and costs of employee benefit plans, it is first necessary to assess whether the plans are defined contribution or defined benefit plans. If they are defined benefit plans, assumptions are made for the purpose of estimating future developments related to the plan. These include assumptions made for the discount rates, the expected return on plan assets and future trends in wages and pensions. Statistical data such as mortality tables and staff turnover rates are used to determine employee benefit obligations. If these parameters change, the subsequent results can deviate considerably from the actuarial calculations. Such deviations can ultimately have an effect on the employee benefit obligation.

In the course of their ordinary operating activities, group companies can become involved in litigation. Provisions for pending legal proceedings are measured on the basis of realistic estimates of the expected cash outflow. The outcome of these proceedings may result in claims against the group that may be below or above the related provisions and that may be covered only in part or not at all by existing insurance coverage.

Assumptions in relation to income taxes include interpretations of the tax regulations in place in the relevant countries. The adequacy of these interpretations is assessed by the tax authorities. This can result, at a later stage, in changes to tax expense. To determine whether tax loss carry-forwards may be carried as an asset requires judgement in assessing whether there will be future taxable profits against which to offset these loss carry-forwards.

Scope and principles of consolidation
The financial statements of Rieter Holding Ltd. and those group companies in which it has a controlling influence are fully consolidated. A controlling influence normally exists when more than 50% of the voting rights are owned, either directly or indirectly. Companies in which a 50% interest is held are also fully consolidated if Rieter exercises control, either by appointing management, by being the company's main customer, or by integrating the company in the group's customer services organization and product policies. Changes in the scope of consolidation are recognized on the date when control of the relevant business is transferred. Acquisitions are accounted for using the purchase method. Intercompany transactions are eliminated.

Holdings of 20 to 49% are included in the consolidated financial statements using the equity method. Holdings of less than 20% are included in the balance sheet at fair value. The significant subsidiaries and associated companies are listed on pages 74 and 75.

Changes in the scope of consolidation
The acquisition of the textile component manufacturer Berkol, the sale of the activities in machinery and systems for manufacturing plastics granulates and the sale of the sheet metal manufacturing facility in Ingolstadt, Germany, changed the scope of consolidation in the year under review. The impact of these transactions on the consolidated financial statements is shown in notes 26 and 27 (pages 66 and 67).

Foreign currency translation
Items included in the financial statements of each group company are measured using the currency of the primary economic environment in which the company operates ("functional currency"). The consolidated financial statements are presented in Swiss francs, the functional and reporting currency of Rieter Holding Ltd.

Transactions in foreign currencies are translated into the functional currency by applying the exchange rates prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

For consolidation purposes, items in the balance sheet of foreign group companies are translated at year-end exchange rates, while income statement items are translated at average rates for the period. The resulting currency translation differences are recognized in equity and, in the event of an entity's deconsolidation, transferred to the income statement as part of the gain or loss of the entity's divestment or liquidation.

Tangible fixed assets
Tangible fixed assets, including non-operational property, are stated at historical cost less accumulated depreciation, which is recognized on a straight-line basis over the estimated useful life of the asset. Historical cost includes expenditures that are directly attributable to the acquisition of the assets. Land is written down only in the event of ongoing impairment of value.

Useful life is determined according to the expected utilization of each asset. The relevant ranges are as follows:

Factory buildings/non-operational property	20–50 years
Machinery and plant equipment	5–15 years
Tools/IT equipment/furniture	3–10 years
Vehicles	3–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Where components of more substantial assets have differing useful lives, these are depreciated separately. All gains or losses arising from the disposal of tangible assets are recognized in the income statement. Costs of maintenance and repair are charged to the income statement as incurred.

Investment grants and similar subsidies are deferred and credited to the income statement on a straight-line basis over the expected useful life of the related asset.

Leases

Tangible fixed assets which are financed by leases giving Rieter substantially all the risks and rewards of ownership are capitalized. Assets held under such finance leases are depreciated over the shorter of their estimated useful life or the lease term. The corresponding lease obligations, excluding finance charges, are included in either short-term or long-term financial debt. Lease installments are divided into an interest and a redemption component.

Lease arrangements in which a substantial portion of the risks and rewards associated with ownership of the leased asset remain with the lessor are classified as operating leases. Payments in respect of operating leases are charged to the income statement on a straight-line basis over the duration of the lease.

Intangible assets

Intangible assets such as product licenses, patents and trademark rights acquired from third parties are included in the balance sheet at acquisition cost and are amortized on a straight-line basis over a period of up to eight years.

Research and development

Research costs are recognized in the income statement as incurred. The development costs of major projects are capitalized only if the present value of future cash flows is likely to exceed the expected costs and sales are firm when costs are capitalized.

Goodwill

Goodwill represents the difference between the purchase price of an acquired company and the estimated market value of its net assets. It is capitalized on the date that control of the acquired company is assumed and carried in the currency of the relevant acquisition. Goodwill is considered to have an indefinite useful life and is subject to annual impairment testing. For this purpose goodwill is allocated to cash-generating units. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell or the asset's value in use.

Non-financial assets, other than goodwill, that suffered an impairment in the past are reviewed for possible reversal of the impairment at each reporting date.

Financial assets
Rieter classifies its financial assets in the following categories:

Financial assets at fair value through profit or loss include financial assets held for trading and those which are classified as such at inception. Derivatives are also assigned to this category. Assets in this category are presented as current assets if they are either held for trading or are expected to be realized within twelve months after the balance sheet date.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet, in which case they are presented as non-current assets.

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which management intends to hold to maturity. Rieter did not hold any investments in this category during 2008.

Available-for-sale financial assets are non-derivative financial assets that are either classified as such or not assigned to any of the other categories. They are measured at fair value as of the balance sheet date. Changes in the value are recorded in shareholders' equity prior to sale, and recognized in the income statement when they are sold. Any impairment in the value is charged to income. They are included in non-current assets unless management intends to dispose of them within twelve months of the balance sheet date.

Derivative financial instruments
Foreign currency risks are hedged by Rieter using forward foreign exchange contracts, currency options and cross-currency swaps. Hedge accounting within the meaning of IAS 39 is not applied.

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at each reporting date. The resulting gains and losses are recognized directly in the income statement. The corresponding positive and negative replacement values are recognized on the balance sheet as "other receivables" and "other current liabilities", respectively.

Inventories
Raw materials and purchased goods are valued at the lower of average cost or net realizable value, while products manufactured in-house are stated at the lower of manufacturing cost or net realizable value. Valuation adjustments are made for slow-moving items and excess stock.

Trade receivables
Receivables are stated at original invoice value less allowances which are made for the difference between the invoiced amount and the expected, discounted payment. The allowances are established based on maturity structure and identifiable solvency risks.

Marketable securities
Marketable securities are acquired in accordance with the Group's portfolio management policy.

Cash and cash equivalents
Cash and cash equivalents include bank accounts and short-term time deposits with original maturities up to three months.

Financial debt
Financial debt is recognized initially at fair value, net of transaction costs incurred. Financial debt is subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the obligation using the effective interest method.

Provisions
If legal or constructive obligations are incurred as a consequence of past events, provisions are made to cover the expected outflow of funds.

Current income taxes
The expected tax charge is calculated and accrued on the basis of taxable income for the year.

Deferred income taxes
Deferred taxes on differences in amounts reported for group purposes and amounts determined for local tax purposes are calculated using the liability method; current local tax rates are applied for this purpose. Deferred tax assets and liabilities are offset to the extent that this is permitted by law. Changes in deferred taxes are recognized as tax expense.

Deferred taxes on retained earnings of group companies are only accrued for in cases where a distribution of profits is planned.

The tax impact of losses is capitalized to the extent that it appears probable that such losses will be offset in future by temporary valuation differences or profits.

Pension funds
Employee pension plans are operated by certain subsidiaries, depending upon the level of coverage provided by the government pension facilities in the various countries in which they operate. Some of these are provided by independent pension funds. If there is no independent pension fund, the respective obligations are shown in the balance sheet under pension provisions. As a rule, pensions are funded by employees' and employer's contributions. Pension plans exist on the basis of both defined contributions and defined benefits.

Pension liabilities arising from defined-benefit plans are calculated according to the projected unit credit method and are usually appraised annually by independent actuaries. If the actual assets and pension liabilities differ by more than 10% from the projected values, these actuarial gains or losses are posted to income on a straight-line basis over the remaining service life of the employees covered. In the case of defined contribution pension plans, the contributions are recognized as expense in the period in which they are incurred.

Share-based compensation
Share-based compensation to members of the Board of Directors, the Group Executive Committee and senior management is measured at fair value at the grant date and charged to employee costs.

Revenue recognition
Sales revenues arising from deliveries of products are recorded when benefit and risk pass to the customer. Sales revenues arising from services are recorded on completion of the service. Credits, discounts and rebates are deducted from gross proceeds, as well as sales deductions arising from actual or foreseeable defaults.

Financing costs

Financing costs are recognized in the income statement.

Standards that have been published but not yet applied

The International Accounting Standards Board (IASB) has published the following new and revised Standards and Interpretations, which do not have to be applied for annual periods beginning before July 1, 2008: IAS 1 Presentation of financial statements, IAS 23 Borrowing costs, IAS 27 Consolidated and separate financial statements, IAS 32 Financial instruments: presentation, IAS 39 Financial instruments: recognition and measurement, IFRS 2 Share-based payment, IFRS 3 Business combinations, IFRS 8 Operating segments, IFRIC 15 Agreements for the construction of real estate and IFRIC 16 Hedges of a net investment in a foreign operation. Rieter has not adopted any of these new regulations early, and on the basis of a preliminary assessment does not expect them to have any material impact on consolidated shareholders' equity and net profit when they come into force. However, the new regulations will have an impact on the presentation of the consolidated financial statements and necessitate additional disclosure in the notes to the consolidated financial statements.

2.1 Risk management process

Rieter maintains an Internal Control System (ICS) with the objective of ensuring effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. In response to new Swiss legislation, management has reviewed and further improved the ICS, and has improved ICS awareness within the Group. The risk management system is a significant component of the Internal Control System.

The risk management process is regulated by the Group directive "Rieter Risk Management System", issued by the Board of Directors on August 31, 2001. The directive defines the main risk categories to be considered for risk management, the persons in charge of the various risks within the Group, and the workflows regarding identification, reporting and handling of risks. The directive further defines criteria for the qualitative and quantitative risk assessments, as well as thresholds for the reporting of identified exposures.

Twice a year the "Risk Council" reviews the reported risks of the units concerned regarding their probability and relevance for the Group and any action required. In addition, the Risk Council reviews risk management activities in order to identify improvement requirements and opportunities.

Market and business risks resulting from developments in the relevant markets and of the products offered therein are assessed as part of the strategic planning and the financial planning processes. On the other hand, these risks, as well as operational risks, are regularly dealt with at the monthly meetings within the divisions and with the Group CEO. Other risks impacting actual performance against budget are also dealt with in these meetings in order to identify and implement corrective measures. Significant individual risks are included in the monthly reports to the attention of the Group CEO.

Risks from acquisition or other significant projects are addressed as part of the project approval and project management. Such projects are monitored at the monthly meetings of the CEO and the CFO with the divisions, and reviewed quarterly to the attention of the Board.

Specific risks are addressed by periodical reports. Such reports cover environmental and work safety risks at the various sites of Rieter, financial risks from sale transactions of the Textile Systems Division, treasury risks, and risks from legal actions and legal compliance.

An aggregate review of all identified risks and of Rieter's instruments and measures to cope with these risks is performed half-yearly. The review results are summarized annually to the attention of the Board of Directors.

The risk management process described has been in place since 2004.

2.2 Financial risk management

Financial risk factors
As a result of its worldwide activities, Rieter is exposed in principle to various financial risks, such as market risks (fluctuations in exchange rates, interest rates and stock market prices), credit risks and liquidity risks. Rieter's financial risk management aligns on the aim to minimize the potential adverse impact of the development of the financial markets on the group's financial performance and secure its financial stability. This includes the use of derivative financial instruments to hedge certain risk exposures.

Financial risk management is largely centralized for the group in compliance with directives issued by the Board of Directors and the Group Executive Committee. Financial risks are centrally identified, evaluated and hedged in close cooperation with the group's operating units. Risks are monitored by means of a risk reporting system.

Foreign exchange risk
Foreign exchange risks arise from net investments in foreign subsidiaries (translation risk) and when future business transactions or recognized assets and liabilities are denominated in a currency other than the functional currency of the entity concerned (transaction risk). To hedge such transaction risks, subsidiaries use forward contracts and currency options, contracted usually with corporate headquarters. The net position in each foreign currency is then subsequently managed through currency contracts with third parties.

The Rieter Group is primarily exposed to foreign exchange risks versus the euro and the US dollar. Assuming that the euro had been 1% stronger versus the Swiss franc at December 31, 2008, with all other variables held constant, the Group's after-tax result would have been 2.0 million CHF higher (0.6 million CHF higher in 2007). If the US dollar had been 1% stronger versus the Swiss franc at December 31, 2008, with all other variables held constant, the Group's after-tax result would have been 0.4 million CHF higher (0.5 million CHF higher in 2007). If the reverse had been the case, the Group's after-tax result would have been the same amount lower. This would mainly have been due to exchange gains/losses on trade accounts receivable and payable.

The Group's internal cash netting and pooling system reduces the currency risks on liquid funds. The companies' cash holdings with banks are denominated mostly in the relevant local currency. The translation risks of cash deposits in foreign currencies are reviewed periodically.

Interest rate risk
Rieter held no material interest-bearing assets during the year, so both income and cash flow from operations are largely unaffected by changes in market interest rates.

However, interest rate risks can arise from interest-bearing financial debt. Financial debt with variable interest rates expose the group to interest rate related cash flow risks, while fixed-rate financial debt represents a fair-value interest rate risk. No interest rate hedges are in place at present.

Cash flow sensitivity analysis: A one percentage-point increase in interest rates would have reduced net results by 1.8 million CHF (1.1 million CHF in 2007). Fair-value sensitivity analysis: Market value fluctuations of fixed interest financial debt are not recognized in the income statement and have no impact on net results.

Price risk
Holding shares and options exposes Rieter to a risk of price fluctuation. To reduce this risk, the Group reduced its portfolio sinificantly. Since the Group has no material securities at the end of 2008, no sensitivity analysis of fair-value risk is disclosed.

Credit risk
Credit risks arise from deposits and financial derivatives held with financial institutions and from trade accounts receivable. Relationships with financial institutions are only entered into with counterparties rated no lower than “A” by S&P. In the Textile Systems Division credit risks are usually hedged by means of insurance, advance payments, letters of credit or other instruments. The Automotive Systems Division maintains business relationships with all significant automotive manufacturers and, compared to the industry sector, has a geographically broad, diversified customer portfolio. No customer accounted for more than 11% (14% in 2007) of the division’s sales.

Liquidity risk
Rieter’s liquidity risk management includes holding adequate reserves of liquid funds and marketable securities, the option of financing requirements via an appropriate level of credit lines, and basically the ability to place issues on the market. In light of the dynamic nature of the business environment in which the Group operates, its goal is to ensure its financial stability and retain the necessary flexibility in financing operations by maintaining adequate unutilized credit lines.

The timing of cash outflows resulting from financial debt corresponds to the maturities shown in note 22. Trade payables will be settled at book value within the next twelve months. In connection with the forward foreign exchange contracts recognized on the balance sheet as “other receivables” and “other current liabilities” a net cash outflow of 2.4 million CHF (1.7 million CHF in 2007) is expected within the next twelve months.

Net liquidity at December 31, 2008 and 2007, was as follows:

CHF million	2008	2007
Cash and cash equivalents	282.6	257.5
Marketable securities	7.7	114.6
Short-term financial debt	– 198.3	– 180.1
Long-term financial debt	– 128.8	– 47.5
Net liquidity	**– 36.8**	**144.5**

Capital management

Rieter's objectives in terms of capital management are to safeguard the group's financial stability and the ability to continue as a going concern in order to continue to provide returns for shareholders and benefits for other stakeholders, as well as to maintain an optimal capital structure. The equity ratio is currently about 36%. As an industrial group, Rieter strives to have a strong balance sheet with an equity ratio of at least 35%. In order to maintain or change the capital structure the group may adjust dividend payments to shareholders, return capital to shareholders, issues new shares or dispose of assets in order to reduce debt.

In the context of the share buyback program, decided by the Board of Directors in August 2007, 123 000 shares for 52.2 million CHF were purchased in 2008 (44 800 shares for 24.9 million CHF in 2007). The repurchased shares were destroyed and the share capital was reduced accordingly.

As of December 31, 2008, the Group had no financial covenants with minimal capital requirements.

3 Segment information by division

The Group is comprised of two divisions. Textile Systems develops and produces machinery, components and systems for manufacturing yarns and nonwovens. Automotive Systems develops and produces components, modules and integrated systems in partnership with automotive manufacturers, in order to provide acoustic and thermal comfort in motor vehicles.

Sales

CHF million	2008	2007
Textile Systems	1 120.4	1 566.8
Automotive Systems	2 022.1	2 363.3
Total	**3 142.5**	**3 930.1**

There were no material inter-divisional sales.

Operating result before special charges, interest and taxes

CHF million	2008	2007
Textile Systems	41.3	200.7
Automotive Systems	– 7.3	99.7
Other units, including group costs	– 11.6	– 13.6
Total	**22.4**	**286.8**

Operating result before special charges, interest and taxes in % of corporate output

in %	2008	2007
Textile Systems	4.1	13.1
Automotive Systems	– 0.4	4.3
Other units, including group costs	n/a	n/a
Group	**0.8**	**7.5**

Special charges

CHF million	2008	2007
Textile Systems	90.8	0.0
Automotive Systems	243.7	8.1
Total	**334.5**	**8.1**

Operating result before interest and taxes (EBIT)

CHF million	2008	2007
Textile Systems	– 49.5	200.7
Automotive Systems	– 251.0	91.6
Other units, including group costs	– 11.6	– 13.6
Total	**– 312.1**	**278.7**

Assets

CHF million	2008	2007
Textile Systems[1]	669.3	954.9
Automotive Systems[1]	1 032.2	1 409.8
Other units and assets not allocated to the divisions	387.4	482.7
Total	**2 088.9**	**2 847.4**

1. Segment assets excluding financial and income tax related items.

Liabilities

CHF million	2008	2007
Textile Systems[1]	377.5	514.7
Automotive Systems[1]	531.5	558.5
Other units and liabilites not allocated to the divisions	433.7	404.7
Total	**1 342.7**	**1 477.9**

1. Segment liabilities excluding financial and income tax related items.

Net assets

CHF million	2008	2007
Textile Systems[1]	291.8	440.2
Automotive Systems[1]	500.7	851.3
Other units and net assets not allocated to the divisions	– 46.3	78.0
Total (= Total shareholders' equity)	**746.2**	**1 369.5**

1. Segment net assets excluding financial and income tax related items (= net operating assets).

Capital expenditures on tangible and intangible assets

CHF million	2008	2007
Textile Systems	53.2	85.9
Automotive Systems	85.3	112.4
Other units	2.4	5.2
Total	**140.9**	**203.5**

Depreciation and amortization of tangible and intangible assets

CHF million	2008	2007
Textile Systems	52.6	49.0
Automotive Systems	100.3	108.6
Other units	0.8	0.7
Total	**153.7**	**158.3**

Number of employees at year-end[1]

	2008	2007
Textile Systems	4 741	5 476
Automotive Systems	9 319	9 878
Other units	123	152
Total	**14 183**	**15 506**

1. Excluding apprentices and temporary employees.

Segment information by geographic region

Sales

CHF million	2008	2007
Europe	1 449.6	1 727.7
Asia[1]	791.3	1 205.7
North America	589.1	715.2
Latin America	256.8	204.4
Africa	55.7	77.1
Total	**3 142.5**	**3 930.1**

1. Including Turkey.

Assets

CHF million	2008	2007
Europe	1 138.5	1 773.0
Asia[1]	225.0	219.0
North America	677.5	781.1
Latin America	42.2	65.2
Africa	5.7	9.1
Total	**2 088.9**	**2 847.4**

1. Including Turkey.

Capital expenditures on tangible and intangible assets

CHF million	2008	2007
Europe	85.4	128.6
Asia[1]	34.3	34.4
North America	16.9	37.3
Latin America	4.2	3.1
Africa	0.1	0.1
Total	**140.9**	**203.5**

1. Including Turkey.

Number of employees at year-end[1]

	2008	2007
Europe	8 445	9 497
Asia[2]	2 093	2 197
North America	2 287	2 519
Latin America	1 275	1 204
Africa	83	89
Total	**14 183**	**15 506**

1. Excluding apprentices and temporary employees.
2. Including Turkey.

4 Sales

Change in sales

CHF million	2008	2007
Change in sales due to volume and price, Textile Systems	– 378.0	216.3
Change in sales due to volume and price, Automotive Systems	– 227.9	142.7
Impact of divestments	– 57.2	– 78.5
Currency effects	– 124.5	69.7
Total change in sales	**– 787.6**	**350.2**

5 Employee costs

CHF million	2008	2007
Wages and salaries	769.4	874.3
Social security and other personnel expenses	168.8	189.7
Total	**938.2**	**1 064.0**

6 Other operating expenses

Other operating expenses include mainly the costs of maintenance, energy and external services.

7 Depreciation and amortization

CHF million	2008	2007
Tangible fixed assets	145.3	150.1
Intangible assets	8.4	8.2
Total	**153.7**	**158.3**

8 Special charges

CHF million	2008	2007
Restructuring costs Textile Systems	42.7	0.0
Restructuring costs Automotive Systems	195.0	8.1
Goodwill impairment Textile Systems	48.1	0.0
Goodwill impairment Automotive Systems	48.7	0.0
Total	**334.5**	**8.1**

In 2008 Rieter initiated a comprehensive restructuring program that will entail capacity adjustments and a more rapid shift from traditional to emerging regions. In addition to the costs of the personnel-related measures, restructuring costs include some extraordinary write-offs of assets as well as loss on sale of the sheet metal parts manufacturing facility in Ingolstadt, Germany (see note 27).

9 Financial income

CHF million	2008	2007
Gain on marketable securities	0.0	45.6
Interest income	9.5	8.8
Income from non-consolidated investments	0.5	0.2
Total	**10.0**	**54.6**

10 Financial expenses

CHF million	2008	2007
Loss on marketable securities	42.6	0.0
Interest cost	21.1	16.2
Other financial expenses and foreign exchange differences, net	11.0	15.7
Total	**74.7**	**31.9**

11 Income taxes

CHF million	2008	2007
Current income tax expense	32.0	84.2
Deferred income tax expense	– 12.1	5.7
Total	**19.9**	**89.9**

Reconciliation of expected and actual tax expense:

CHF million	2008	2007
Expected tax expense on pre-tax profits of – 376.8 million CHF (301.4 million CHF in 2007) at an average rate of 21.1% (23.2% in 2007)	– 79.5	70.0
Impact of non tax-deductible income/expenses	– 0.1	– 5.5
Impact of losses and loss carry-forwards	93.4	17.2
Impact of changes in tax rates and tax legislation	– 0.6	– 0.3
Other effects	6.7	8.5
Total	**19.9**	**89.9**

Deferred income taxes

Deferred tax assets and liabilities result from the following balance sheet items:

CHF million	**Deferred tax assets 2008**	**Deferred tax liabilities 2008**	**Deferred tax assets 2007**	**Deferred tax liabilities 2007**
Tangible fixed assets	4.7	– 24.7	3.4	– 36.2
Inventories	9.2	– 7.4	8.0	– 10.2
Other assets	4.7	– 30.4	4.9	– 56.3[1]
Provisions	5.5	– 3.4	7.7	– 3.0
Other liabilities	15.2	– 16.8	12.2	– 8.0
Valuation adjustments on deferred tax assets	– 15.1	0.0	– 14.1	0.0
Tax loss carry-forwards and tax credits	1.0	0.0	13.9	0.0
Total	25.2	– 82.7	36.0	– 113.7[1]
Offsetting	– 20.3	20.3	– 23.9	23.9
Deferred tax assets/liabilities	**4.9**	**– 62.4**	**12.1**	**– 89.8**[1]

1. Adjusted as a result of initial application of IFRIC 14.

Capitalized and non-capitalized deferred income taxes resulting from tax loss carry-forwards and tax credits, presented by year of expiry:

CHF million	Capitalized 2008	Non-capitalized 2008	Total 2008	Total 2007
Expiry in				
1–3 years	0.0	3.1	3.1	2.2
3–7 years	1.0	5.9	6.9	5.2
7 or more years	0.0	143.7	143.7	130.2
Total	**1.0**	**152.7**	**153.7**	**137.6**

12 Research and development

In 2008, 122.3 million CHF was spent on research and development (141.1 million CHF in 2007).

Research and development at Textile Systems continued to focus on the further development of spinning preparation and final spinning machinery, technology components for cotton spinning mills and the development of new final spinning machines. Developments are aimed at achieving improved yarn quality, higher productivity and lower power consumption.

Developments at Automotive Systems included applications for new models and customized acoustic products, as well as carpets and underbody components for automotive manufacturers in Europe, America and Asia. Automotive Systems also invests continuously in new processes and materials in order to improve quality and provide customers with cost benefits.

As in the previous year, no development costs were capitalized in 2008, since the respective IFRS requirements were not met.

13 Tangible fixed assets

CHF million	Land and buildings	Machinery, equipment and tools[1]	Data processing equipment	Vehicles and furniture[2]	Machinery and tools under construction	Total tangible fixed assets
Net book value at December 31, 2006	**316.8**	**457.0**	**11.6**	**17.4**	**64.8**	**867.6**
Reclassification	0.5	53.4	0.2	0.4	– 54.5	0.0
Additions	38.4	95.0	5.4	8.9	53.9	201.6
Disposals	– 5.1	– 4.0	– 0.1	– 0.3	– 0.4	– 9.9
Depreciation	– 17.2	– 121.1	– 5.6	– 6.2	0.0	– 150.1
Currency effects	4.2	4.9	0.1	0.0	– 1.0	8.2
Net book value at December 31, 2007	**337.6**	**485.2**	**11.6**	**20.2**	**62.8**	**917.4**
Cost at December 31, 2007	647.1	1 719.0	69.8	105.6	63.0	2 604.5
Accumulated depreciation at December 31, 2007	– 309.5	– 1 233.8	– 58.2	– 85.4	– 0.2	– 1 687.1
Net book value at December 31, 2007	**337.6**	**485.2**	**11.6**	**20.2**	**62.8**	**917.4**
Reclassification	2.3	26.9	0.5	1.6	– 31.3	0.0
Additions by acquisitions	0.0	0.3	0.0	0.0	0.0	0.3
Other additions	21.3	75.3	3.9	3.7	36.7	140.9
Disposals by divestments	– 14.9	– 4.9	– 0.2	– 0.8	– 1.6	– 22.4
Other disposals	– 5.5	– 3.9	0.0	– 0.3	– 2.2	– 11.9
Depreciation[3]	– 16.9	– 125.1	– 5.5	– 6.8	0.0	– 154.3
Currency effects	– 33.4	– 42.0	– 0.7	– 1.7	– 5.9	– 83.7
Net book value at December 31, 2008	**290.5**	**411.8**	**9.6**	**15.9**	**58.5**	**786.3**
Cost at December 31, 2008	566.4	1 547.3	66.4	91.3	59.1	2 330.5
Accumulated depreciation at December 31, 2008	– 275.9	– 1 135.5	– 56.8	– 75.4	– 0.6	– 1 544.2
Net book value at December 31, 2008	**290.5**	**411.8**	**9.6**	**15.9**	**58.5**	**786.3**

1. Including machinery and operating facilities.
2. Including pilot machines.
3. Thereof 9.0 Mio. CHF write-offs in connection with the restructuring program.

Tangible fixed assets also include leased assets with a net book value of 6.4 million CHF (9.9 million CHF in 2007).

Land and buildings

CHF million	2008	2007
Land in operational use	54.9	68.3
Buildings in operational use	217.2	250.4
Non-operational property	18.4	18.9
Total	**290.5**	**337.6**

Buildings in operational use were insured at the replacement value of 1 280 million CHF at balance sheet date (1 392.0 million CHF in 2007) and non-operational property was insured at the replacement value of 57.9 million CHF (59.1 million CHF in 2007).

Non-operational property

CHF million	2008	2007
Net book value at January 1	18.9	11.4
Additions	2.0	9.1
Disposals	– 2.2	– 1.5
Depreciation	– 0.3	– 0.1
Net book value at December 31	**18.4**	**18.9**
Market value at December 31	**22.2**	**23.5**

The market value of non-operational property was calculated on the basis of estimates of future rental income and an anticipated gross yield of 8.1% (7.3 % in 2007), less prospective taxes in the event of sale.

14 Intangible assets

CHF million	Goodwill	Patents/ trademarks	Other intangible assets	Total intangible assets
Net book value at December 31, 2006	**118.9**	**41.5**	**0.6**	**161.0**
Additions	0.0	1.8	0.0	1.8
Amortization	0.0	– 7.8	– 0.3	– 8.1
Currency effects	1.5	0.4	0.0	1.9
Net book value at December 31, 2007	**120.4**	**35.9**	**0.3**	**156.6**
Cost at December 31, 2007	120.4	48.7	2.1	171.2
Accumulated amortization at December 31, 2007	0.0	– 12.8	– 1.8	– 14.6
Net book value at December 31, 2007	**120.4**	**35.9**	**0.3**	**156.6**
Additions by acquisitions	2.6	0.3	3.3	6.2
Disposals by divestments	– 21.6	0.0	0.0	– 21.6
Amortization	0.0	– 0.4	– 8.0	– 8.4
Impairment charges	– 96.8	0.0	0.0	– 96.8
Currency effects	– 4.6	– 8.5	7.3	– 5.8
Net book value at December 31, 2008	**0.0**	**27.3**	**2.9**	**30.2**
Cost at December 31, 2008	0.0	47.1	5.1	52.2
Accumulated amortization at December 31, 2008	0.0	– 19.8	– 2.2	– 22.0
Net book value at December 31, 2008	**0.0**	**27.3**	**2.9**	**30.2**

Goodwill has been allocated to the cash-generating units as follows[1]:

CHF million	2008	2007
Textile Systems Division (before impairment charges)	48.1	69.6
Automotive Systems Division (before impairment charges)	48.7	50.8
Total	**96.8**	**120.4**

1. Due to the increasing globalization of the automotive industry, goodwill related to the Automotive Systems Division was allocated to only one cash-generating unit in 2008 (in 2007: Business Group Europe and Business Group Americas).

The impairment test on goodwill was performed in the second half of the financial year. The recoverable amount of each cash-generating unit was determined by a value-in-use calculation. This calculation was based on mid-term financial plans covering a five-year period. The calculation of the residual value was based on best estimate prepared by the management in charge and takes into account past experience over a long economic cycle, but no further growth. For the value-in-use calculation future cash flows were discounted with the weighted average cost of capital of 9.4% (8.0% in 2007). Based on the impairment tests, it was necessary to recognize impairment charges on total goodwill of 96.8 million CHF in 2008.

The impairment test was subject to sensitivity analyses which showed the following results:

A decrease of the EBIT-margin, on which the calculation of the residual value was based, by 0.5 percentage-points would necessitate further impairment charges (on other assets) of 18 million CHF at Textile Systems and 53 million CHF at Automotive Systems.

An increase of the discount rate by 0.5 percentage-points would necessitate further impairment charges (on other assets) of 17 million CHF at Textile Systems and 41 million CHF at Automotive Systems.

15 Other non-current assets

CHF million	2008	2007
Investments in non-consolidated companies	16.0	13.7
Long-term interest-bearing receivables	4.3	2.2
Other long-term receivables and pension funds	87.6	90.0[1]
Total	**107.9**	**105.9**

1. Adjusted as a result of initial application of IFRIC 14.

Prepaid contributions and overfunding of personnel pension plans have been accrued up to the expected future benefit and amount to 60.0 million CHF.

16 Inventories

CHF million	2008	2007
Raw materials and consumables	97.1	131.1
Purchased parts and goods for resale	71.9	106.1
Semi-finished and finished goods	109.0	137.0
Work in progress	130.0	187.8
Allowance	– 46.7	– 52.0
Total	**361.3**	**510.0**

The following summarizes the movement in the allowance for inventories:

CHF million	2008	2007
Allowance at January 1	52.0	49.8
Utilization	– 5.9	– 2.2
Additions, net	4.3	3.8
Currency effects	– 3.7	0.6
Allowance at December 31	**46.7**	**52.0**

17 Trade receivables

CHF million	2008	2007
Trade receivables	405.2	646.7
Allowance for doubtful receivables	– 23.1	– 21.4
Total	**382.1**	**625.3**

The following summarizes the movement in the allowance for doubtful receivables:

CHF million	2008	2007
Allowance for doubtful receivables at January 1	– 21.4	– 22.0
Increase charged to income statement	– 2.1	– 0.1
Utilization or reversal	2.3	0.4
Currency effects	– 1.9	0.3
Allowance for doubtful receivables at December 31	**– 23.1**	**– 21.4**

Allowances for doubtful receivables are established based upon the difference between the invoice amount and the expected, discounted payment. Rieter establishes the allowance for doubtful receivables based on its historical loss experience.

Trade receivables include amounts denominated in the following major currencies:

CHF million	2008	2007
CHF	47.0	84.6
EUR	269.1	439.4
USD	37.6	53.2
GBP	3.5	10.5
Other	24.9	37.6
Total	**382.1**	**625.3**

The following table sets forth the aging of trade accounts receivable, showing amounts that are not yet due as well as an analysis of overdue amounts:

CHF million	2008	2007
Not due	313.7	527.0
Past due less than 3 months	56.9	76.7
Past due 3 to 6 months	6.6	10.8
Past due 6 months to 1 year	1.2	3.4
Past due 1 to 5 years	1.5	4.7
Past due 5 or more years	2.2	2.7
Total	**382.1**	**625.3**

18 Other receivables

CHF million	2008	2007
Prepaid expenses and deferred charges	22.4	23.6
Advance payments to suppliers	36.2	21.4
Positive replacement values of derivative financial instruments	1.0	4.2
Other short-term receivables	66.3	98.8
Total	**125.9**	**148.0**

19 Marketable securities

CHF million	2008	2007
Securities available for sale	3.0	109.8
Securities held for trading	0.1	0.6
Time deposits with original maturities between three and twelve months	4.6	4.2
Total	**7.7**	**114.6**

In 2008, 60.2% of the equity portfolio (52.5% in 2007) was invested in shares of Swiss companies. Investments in marketable securities are primarily in listed companies in different sectors. The investment risks of the securities portfolio are reviewed periodically.

20 Cash and cash equivalents

CHF million	2008	2007
Cash and banks	257.5	234.6
Time deposits with original maturities up to three months	25.1	22.9
Total	**282.6**	**257.5**

21 Minority interests

The main minority interests held by third parties are in UGN (USA) and Rieter-LMW Machinery Ltd. (India).

22 Financial debt

CHF million	Bank debt	Finance leasing obligations	Other financial debt	Total 2008	Total 2007
Duration less than 1 year	194.8	1.3	2.2	198.3	180.1
Duration 1 to 5 years	122.6	4.5	1.5	128.6	42.8
Duration 5 or more years	0.0	0.2	0.0	0.2	4.7
Total	**317.4**	**6.0**	**3.7**	**327.1**	**227.6**

By currency, financial debt is divided up as follows:

CHF million	2008	2007
CHF	191.1	96.3
EUR	58.8	44.8
USD	13.6	19.4
Other	63.6	67.1
Total	**327.1**	**227.6**

23 Provisions

CHF million	Restructuring provisions	Pension provisions	Guarantee and warranty provisions	Environment provisions	Other provisions	Total provisions
Provisions at December 31, 2007	**4.4**	**93.7**	**40.0**	**12.2**	**91.9**	**242.2**
Disposals by divestments	0.0	–12.1	–2.8	0.0	–2.5	–17.4
Utilization	–33.1	–4.6	–17.5	–0.1	–31.9	–87.2
Release	–0.1	0.0	–1.5	–0.1	–14.8	–16.5
Additions	215.8	6.6	20.4	0.0	35.1	277.9
Currency effects	–3.4	–8.5	–1.5	–0.1	–5.0	–18.5
Provisions at December 31, 2008	**183.6**	**75.1**	**37.1**	**11.9**	**72.8**	**380.5**
Thereof non-current	67.0	74.9	30.6	11.9	42.4	226.8
Thereof current	116.6	0.2	6.5	0.0	30.4	153.7

Restructuring provisions cover the legal and constructive obligations in connection with the restructuring program initiated in 2008.

Pension provisions include the liabilities in connection with defined benefit plans (see note 28) and other long-term benefits to employees.

Guarantee and warranty provisions are made in the context of product deliveries and services and are based on past experience.

Environment provisions cover the expected remediation costs related to operations in previous years.

Other provisions are made for onerous contracts (where the unavoidable direct costs of performance exceed the expected financial benefit) and other constructive or legal obligations of group companies.

Non-current restructuring, guarantee and warranty provisions are expected to result partly in a cash outflow in one to two years on average, environment and other provisions in two to three years on average. Due to this maturity structure provisions are not discounted.

24 Other current liabilities

CHF million	2008	2007
Accrued holidays	20.9	33.4
Accrued sales commissions	23.8	27.0
Other accrued expenses	69.0	84.8
Negative replacement values of derivative financial instruments	3.4	5.9
Other short-term liabilities	82.2	108.9
Total	**199.3**	**260.0**

25 Financial instruments

The following tables summarize all financial instruments according to the categories of IAS 39. The book values correspond, approximately, to the fair values.

CHF million	2008	2007
Cash (excluding time deposits)	**257.5**	**234.6**
Securities held for trading	0.1	0.6
Positive replacement values of derivative financial instruments	1.0	4.2
Investments in non-consolidated companies	4.2	1.7
Total financial assets at fair value through profit and loss	**5.3**	**6.5**
Time deposits with original maturities up to three months	25.1	22.9
Time deposits with original maturities between three and twelve months	4.6	4.2
Trade receivables	382.1	625.3
Other short-term receivables	66.3	98.8
Long-term interest-bearing receivables	4.3	2.2
Total loans and receivables	**482.4**	**753.4**
Securities available for sale	3.0	109.8
Investments in non-consolidated companies	11.8	12.0
Total available for sale financial assets	**14.8**	**121.8**
Total financial assets and derivatives	**760.0**	**1 116.3**

CHF million	2008	2007
Short-term financial debt	198.3	180.1
Long-term financial debt	128.8	47.5
Negative replacement values of derivative financial instruments	3.4	5.9
Total financial debt and derivatives	**330.5**	**233.5**

26 Acquisitions

In 2008 Rieter reinforced the components business of the Textile Systems Division with the acquisition of textile component manufacturer Berkol. Berkol develops and manufactures top roller covers and aprons for spinning machines as well as machinery and equipment for maintaining and servicing these components. The business was acquired as of January 1, 2008 with all its employees and trademark rights.

The assets and liabilities arising from the acquisition were as follows:

CHF million	Fair value	Adjustments	Book value before adjustments
Tangible fixed assets	0.3	0.0	0.3
Intangible assets, excl. goodwill	3.6	3.6	0.0
Inventories	2.5	0.2	2.3
Short-term liabilities	– 0.5		– 0.5
Net identifiable assets	**5.9**	**3.8**	**2.1**
Goodwill	2.6[1]		
Cash used for acquisitions	**8.5**		

1. The goodwill arising from the acquisition reflects the expected synergies.

Professional fees and other costs related to the acquisition amounted to 0.1 million CHF.

In 2008, the acquired business contributed about 8 million CHF to the Textile Systems Division's sales and an immaterial amount to the operating result before interest and taxes.

There were no acquisitions of businesses in 2007.

27 Divestments

In mid-April 2008, Rieter sold its activities in machinery and systems for manufacturing plastics granulates. In 2008 this unit of the Textile Systems Division generated sales of approximately 14 million CHF prior to its sale (68 million CHF in 2007). The resulting gain on sale of 2.6 million CHF was recognized in other operating income.

At the end of September 2008, Rieter sold its sheet metal part manufacturing facility in Ingolstadt, Germany. In 2008 this unit of the Textile Systems Division generated sales of approximately 5 million CHF prior to its sale (8 million CHF in 2007). The resulting loss on sale of 5.2 million CHF was recognized in special charges.

Individually, the impact of the above-mentioned divestments on consolidated assets and liabilities was immaterial. In aggregate, the assets and liabilities arising from the divestment were as follows:

CHF million	**2008**
Non-current assets	44.0
Current assets	29.3
Liabilities	– 29.0
Net disposed assets and liabilities	**44.3**
Profit and loss on divestments	– 2.6
Cash from divestments	**41.7**

There were no divestments of businesses in 2007.

28 Pension plans

The expense for pension plans is included in employee costs.

Defined contribution plans

The expense for defined contribution plans amounted to 13.4 million CHF (13.5 million CHF in 2007).

Defined benefit plans

For the actuarial calculation of the obligations of the different plans and the presentation of the value of the plans' assets, many countries, especially Switzerland, have rules for the definition of employee benefits which may differ substantially from IFRS rules.

Funded status of defined benefit plans

CHF million	2008	2007
Actuarial present value of defined benefit obligation • unfunded plans	– 46.4	– 67.4
• funded plans	– 989.0	– 1 226.7
Defined benefit obligation at December 31	**– 1 035.4**	**– 1 294.1**
Fair value of plan assets	1 010.4	1 474.4
Deficit/surplus at December 31	**– 25.0**	**180.3**
Unrecognized actuarial gains and losses	58.2	5.8
Unrecognizable assets of pension plans (due to limit of IAS 19.58)	– 20.3	– 189.8 [1]
Net asset/(liability) at December 31	**12.9**	**– 3.7** [1]
Recognized in the balance sheet • as assets	71.6	75.3 [1]
• as pension provisions	– 58.7	– 79.0

1. Adjusted as a result of initial application of IFRIC 14.

The movement in the defined benefit obligation over the year was as follows:

CHF million	2008	2007
Defined benefit obligation at January 1	**1 294.1**	**1 184.8**
Reductions due to divestments	– 11.0	0.0
Current service cost, net	13.6	15.2
Interest cost	46.2	43.9
Employee contributions	9.6	9.3
Actuarial gains/losses	– 238.8	20.7
Past service cost	0.3	90.0
Benefits paid	– 61.3	– 69.9
Currency effects	– 17.3	0.1
Defined benefit obligation at December 31	**1 035.4**	**1 294.1**

The movement in the fair value of plan assets over the year was as follows:

CHF million	2008	2007
Fair value of plan assets at January 1	**1 474.4**	**1 443.7**
Expected return on plan assets	60.2	46.9
Actuarial gains/losses	– 482.4	26.8
Employer contributions	20.2	18.9
Employee contributions	9.6	9.3
Benefits paid	– 61.3	– 69.9
Currency effects	– 10.3	– 1.3
Fair value of plan assets at December 31	**1 010.4**	**1 474.4**

The major categories of plan assets as a percentage of total plan assets were as follows:

in %	2008	2007
Equity	50	59
Debt	14	15
Real estate	29	20
Other	7	6

Pension plan assets included 140 729 Rieter shares with a market value of 24.1 million CHF (140 729 shares with a market value of 70.4 million CHF in 2007).

Pension costs of defined benefit plans

CHF million	2008	2007
Current service cost, net	13.6	15.2
Interest cost	46.2	43.9
Expected return on plan assets	– 60.2	– 46.9
Recognized actuarial gains/losses	189.0	4.9
Past service cost	0.3	90.0[1]
Impact of limit of IAS 19.58	– 172.6	– 96.1
Pension costs of defined benefit plans	**16.3**	**11.0**

1. Allocation of free funds at Rieter Pension Fund, Winterthur.

The Group expects to contribute 20 million CHF to its defined benefit pension plans in 2009. The actual return on plan assets was – 422.2 million CHF (73.7 million CHF in 2007).

Actuarial assumptions

Weighted average in %	2008	2007
Discount rate	3.7	3.7
Expected return on plan assets	4.1	4.2
Future wage growth	1.4	2.3
Future pension growth	0.9	1.8

Additional disclosure

CHF million	2008	2007	2006	2005
Defined benefit obligation	– 1 035.4	– 1 294.1	– 1 184.8	– 1 088.1
Plan assets	1 010.4	1 474.4	1 443.7	1 240.9
Deficit/surplus	**– 25.0**	**180.3**	**258.9**	**152.8**
Experience adjustment on plan liabilities	– 17.3	117.6	34.5	– 8.8
Experience adjustment on plan assets	– 482.4	26.8	174.5	132.0

29 Share-based compensation

Rieter has established a share purchase plan for its managers. Between May 19 and June 27, 2008, 68 participants purchased 14 400 shares at a price of 249.00 CHF per share (12 078 shares at 380.00 CHF in 2007). The average market value of shares granted was 365.31 CHF (668.96 CHF in 2007). At least two-thirds of these shares cannot be sold for three years. The shares for this program were taken from the holdings of Rieter Holding Ltd. In addition, the members of the Board of Directors purchased 1 568 shares at a share price of 249.00 CHF.

In addition, the members of the Group Executive Committee could subscribe to one additional free option for each share which was purchased, subject to restrictions on sale under the above plan. Each option entitles the holder to purchase a share after two years at a price of 359.00 CHF (654.00 CHF in 2007). There are no vesting conditions.

In 2008 the costs resulting from the share purchase plan amounted to 1.8 million CHF (3.8 million CHF in 2007). The costs resulting from the share option plan amounted to 0.2 million CHF (0.3 million CHF in 2007). Long-service awards are also granted in the form of shares at some group companies.

The estimated fair value of each share option granted to the members of the Group Executive Committee in 2008 is 36.37 CHF. These values were calculated by applying an adapted model of the Black-Scholes option pricing model. The following parameters have been used:

Share price on the date granted	CHF	349.50
Exercise price	CHF	359.00
Expected volatility (based on historical data)	%	26.50
Option life	Years	5
Risk-free interest rate	%	3.10
Dividend yield	%	5.00

Change in options granted

	Number of options 2008	Weighted average exercise price in CHF 2008	Number of options 2007	Weighted average exercise price in CHF 2007
Outstanding at January 1	**6 736**	**577.25**	**7 374**	**427.44**
Granted	4 305	359.00	3 357	654.00
Exercised	0	0.00	– 3 995	365.22
Outstanding at December 31	**11 041**	**492.15**	**6 736**	**577.25**
Exercisable at December 31	**3 379**	**501.00**	**0**	**0.00**

No options expired in 2008 and 2007.

The share options outstanding at December 31, 2008, had an exercise price between 501.00 CHF and 654.00 CHF and a weighted average contractual life of 3.59 years.

30 Related parties

Related parties include members of the Group Executive Committee, the Board of Directors and employee benefit plans. Transactions with related parties are generally conducted at arm's length.

Total compensation to the Board of Directors and the Group Executive Committee was as follows:

CHF million	2008	2007
Compensation	3.0	4.6
Employee benefit contributions	0.1	0.2
Social security	0.0	0.1
Share-based compensation	1.1	1.2
Other long-term benefits	0.0	0.0
Total	**4.2**	**6.1**

The remuneration report and the compensation of the Board of Directors and the Group Executive Committee in compliance with Swiss law are disclosed in the financial statements of Rieter Holding Ltd. on pages 83 to 86.

Apart from compensation to the Board of Directors and the Group Executive Committee and the ordinary contributions to the various employee benefit plans, there have been no material transactions with related parties.

31 Other commitments

Some group companies lease factory and office space under operating lease agreements. The leases have varying terms, escalation clauses and renewal rights.

The future aggregate minimum lease payments under operating leases are as follows:

CHF million	2008	2007
Up to 1 year	12.5	11.7
1–5 years	24.0	23.4
5 or more years	5.8	4.8
Total	**42.3**	**39.9**

No purchase commitments in respect of major purchases were open at year-end.

32 Cash flow

CHF million	2008	2007
Net result	– 396.7	211.5
Depreciation and amortization of tangible and intangible assets	259.5	158.3
Profit/loss on divestments, net	2.6	0.0
Other non-cash income and expenses	32.2	– 9.6
Cash flow	**– 102.4**	**360.2**
Change in non-current provisions	32.5	8.8
Net cash flow	**– 69.9**	**369.0**
Change in net working capital	127.1	25.9
Capital expenditure on tangible and intangible assets, net	– 118.7	– 178.8
Change in financial assets, net	– 9.2	12.1
Acquisitions	– 8.5	0.0
Divestments	41.7	0.0
Free cash flow	**– 37.5**	**228.2**

33 Exchange rates for currency translation

		Average annual rates		Year-end rates	
CHF million		2008	2007	2008	2007
Argentina	1 ARS	0.34	0.39	0.31	0.36
Brazil	1 BRL	0.60	0.62	0.45	0.64
Canada	1 CAD	1.02	1.12	0.87	1.15
China	100 CNY	15.59	15.77	15.50	15.40
Czech Republic	100 CZK	6.36	5.92	5.59	6.23
Euro countries	1 EUR	1.59	1.64	1.49	1.66
Great Britain	1 GBP	2.00	2.40	1.54	2.26
Hong Kong	100 HKD	13.90	15.40	13.66	14.40
India	100 INR	2.50	2.91	2.18	2.85
Poland	100 PLN	45.35	43.50	35.65	46.20
Taiwan	100 TWD	3.43	3.65	3.22	3.47
USA	1 USD	1.08	1.20	1.06	1.13

34 Events after balance sheet date

Mid-February 2009 Rieter announced essential elements of the future financing of the Group in a difficult economic environment:

On February 16, 2009, Rieter announced the closing of a treasury stock sale agreement with PCS Holding AG. As per the same date, PCS Holding AG closed agreements for the purchase of additional Rieter shares. After the transactions totaling 420 000 Rieter shares have come into effect, which is dependent on the finalization of a loan agreement between Rieter Holding Ltd. and its banks, Rieter will have a cash inflow of 57 million CHF.

On February 17, 2009, Rieter additionally announced the successful conclusion of negotiations with a group of banks for medium- and long-term financing and the signing of a term sheet to this effect. In addition to securing and expanding existing credit lines for the ongoing business, the term sheet also establishes the financial preconditions for implementing the restructuring program already announced by Rieter. Based on this term sheet, Rieter and the participating banks intend to sign a loan agreement.

35 Approval for publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Board of Directors on March 19, 2009. They are also subject to approval by the Annual General Meeting of shareholders. No events have occurred up to March 19, 2009, which would necessitate adjustments to the book values of the Group's assets or liabilities, or which require additional disclosure.

Significant subsidiaries and associated companies

at December 31, 2008

			Paid-in capital	Group interest	Research & development	Sales/trading	Production	Services/financing
Argentina	Rieter Automotive Argentina S.A., Córdoba	ARS	7 070 000	96%		•	•	
Belgium	Rieter Automotive Belgium N.V., Genk	EUR	7 994 569	100%		•	•	
Brazil	Graf Máquinas Têxteis Ind.e.com. Ltda., São Paulo	BRL	10 220 000	100%		•	•	•
	Rieter Automotive Brasil-Artefatos de Fibras Têxteis Ltda., São Bernardo d.C.	BRL	35 107 344	100%	•	•	•	
	Rieter South America Ltda., São Paulo	BRL	3 287 207	100%		•		
Canada	Rieter Automotive Mastico Ltd., Tillsonburg	CAD	381 000	100%	•	•	•	
	Rieter Automotive Canada Carpet, London		[2]	100%		•	•	
China	Rieter Changzhou Textile Instruments Co. Ltd., Changzhou	EUR	37 800 000	100%			•	
	Rieter Textile Systems (Shanghai) Co. Ltd., Shanghai	USD	200 000	100%		•		
	Rieter Asia (Hong Kong) Ltd., Hongkong	HKD	1 000	100%		•		
	Rieter Automotive (Chongqing) Sound-Proof Parts Co. Ltd., Chongqing	CHF	7 600 000	100%			•	
	Rieter Nittoku (Guangzhou) Automotive Sound-Proof Co. Ltd., Guangzhou City	USD	9 250 000	51%		•	•	
	Tianjin Rieter Nittoku Automotive Sound-Proof Co. Ltd., Tianjin	USD	5 700 000	51%		•	•	
Czech Republic	Rieter CZ a.s., Ústí nad Orlicí	CZK	982 169 000	100%	•	•	•	•
	Novibra Boskovice s.r.o., Boskovice	CZK	40 000 000	100%	•	•	•	
France	Rieter France SAS, Lyon	EUR	39 843 540	100%				•
	Rieter Perfojet SAS, Grenoble	EUR	1 033 600	100%	•	•	•	•
	Graf France Sàrl, Illzach	EUR	150 000	100%		•		•
	Rieter Automotive France SAS, Aubergenville	EUR	8 000 000	100%	•	•	•	
Germany	Rieter Vertriebs GmbH, Ingolstadt	EUR	15 338 756	100%		•		•
	Rieter Deutschland GmbH & Co. OHG, Ingolstadt	EUR	15 645 531	100%		•		•
	Rieter Ingolstadt GmbH, Ingolstadt	EUR	12 273 600	100%	•	•	•	•
	Wilhelm Stahlecker GmbH, Reichenbach im Täle	EUR	255 645	100%	•			
	Spindelfabrik Suessen GmbH, Süssen	EUR	5 050 100	100%	•	•	•	•
	Graf-Kratzen GmbH, Gersthofen	EUR	400 000	100%		•		•
	Rieter Automotive Germany GmbH, Rossdorf	EUR	11 248 421	100%	•	•	•	
Great Britain	Rieter Automotive Great Britain Ltd., Heckmondwike	GBP	22 832 137	100%	•	•	•	
India	Suessen Asia Private Ltd., Wing	INR	510 000 000	100%		•	•	
	Rieter India Pvt. Ltd., New Delhi	INR	10 000 000	100%		•		
	Rieter-LMW Machinery Ltd., Coimbatore	INR	250 000 000	50%			•	
	Lakshmi Machine Works Ltd., Coimbatore[1]	INR	123 692 500	13%	•	•	•	•
	Rieter Automotive India Pvt. Ltd., New Delhi	INR	50 000 000	100%		•	•	

			Paid-in capital	Group interest	Research & development	Sales/trading	Production	Services/financing
Italy	Graf Italia S.r.l., Bergamo	EUR	500 000	100%		•	•	•
	Rieter Automotive Fimit S.p.A., Milan	EUR	8 400 000	100%	•	•	•	
	Idea Institute S.p.A., Turin	EUR	120 000	100%	•			•
Netherlands	Graf Holland B.V., Enschede	EUR	113 445	100%		•	•	•
Poland	Rieter Automotive Poland Sp.z.o.o., Katowice	PLN	20 844 000	100%		•	•	
Portugal	Rieter Componentes para Veículos Lda., Setúbal	EUR	598 557	87%		•	•	
Switzerland	Rieter Management AG, Winterthur	CHF	5 000 000	100%				•
	Tefina Holding-Gesellschaft AG, Zug	CHF	5 000 000	100%				•
	Sofima AG, Winterthur	CHF	1 000 000	100%				•
	Rieter Immobilien AG, Winterthur	CHF	2 000 000	100%				•
	Rieter Services AG, Winterthur	CHF	3 000 000	100%				•
	Maschinenfabrik Rieter AG, Winterthur	CHF	8 500 000	100%	•	•	•	•
	Schaltag AG, Effretikon	CHF	400 000	100%	•	•	•	
	Hogra Holding AG, Freienbach	CHF	1 000 000	100%				•
	Graf + Cie AG, Rapperswil	CHF	1 000 000	100%	•	•	•	•
	Bräcker AG, Pfäffikon	CHF	1 000 000	100%	•	•	•	•
	Rieter Automotive Heatshields AG, Sevelen	CHF	250 000	100%	•	•	•	
	Rieter Automotive Management AG, Winterthur	CHF	1 300 000	100%	•			•
	Rieter Automotive (International) AG, Zollikon	CHF	1 300 000	100%				•
Spain	Graf España S.A., Santa Perpètua de Mogoda	EUR	601 012	100%		•	•	•
	Rieter Saifa S.A., Barcelona	EUR	847 410	100%	•	•	•	
Taiwan	Rieter Asia (Taiwan) Ltd., Taipeh	TWD	5 000 000	100%		•		
Thailand	Summit Rieter Nittoku Sound Proof Co. Ltd., Changwat Chonburi[1]	THB	100 000 000	30%		•	•	
Turkey	Rieter Textile Machinery Trading & Services Ltd., Levent	TRY	25 000	69%				•
	Rieter Erkurt Otomotive Yan Sanayi ve Ticaret AS, Bursa	TRY	700 000	51%	•	•	•	
USA	Rieter Corporation, Spartanburg	USD	1 249	100%		•		
	Graf Metallic of America Inc., Spartanburg	USD	50 000	100%		•		•
	Rieter Automotive North America Inc., Farmington Hills	USD	1 000	100%	•	•	•	
	UGN, Inc., Chicago	USD	1 000 000	50%	•	•	•	
	Rieter Automotive North America Carpet, Bloomsburg		[2]	100%	•	•	•	
	Rieter America Corporation, Farmington Hills	USD	1	100%				•

1. Non-consolidated associated company.
2. Partnership without registered paid-in capital

Report of the statutory auditor on the consolidated financial statements

PRICEWATERHOUSECOOPERS

Report of the statutory auditor on the consolidated financial statements to the General Meeting of Rieter Holding Ltd., Winterthur

As statutory auditor, we have audited the consolidated financial statements of Rieter Holding AG, which comprise the income statement, balance sheet, statement of cash flows, statement of changes in consolidated equity and notes (pages 38 to 75), for the year ended December 31, 2008.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2008 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Christian Kessler	Nicolas Mayer
Audit expert	
Auditor in charge	

Zurich, March 20, 2009

Income statement of Rieter Holding Ltd.

for the financial year from January 1 to December 31

CHF million	Notes	2008	2007
Income			
Income from investments	(1)	107.7	89.9
Income from marketable securities and interest income	(2)	– 62.8	21.0
Other income	(3)	10.5	13.7
Total income		**55.4**	**124.6**
Expenses			
Financial expenses	(4)	13.3	14.4
Administration expenses		4.2	4.8
Value adjustments, provisions	(5)	35.0	38.0
Total expenses		**52.5**	**57.2**
Net profit		**2.9**	**67.4**

Balance sheet of Rieter Holding Ltd.

at December 31, before appropriation of profit

CHF million	Notes	2008	2007
Assets			
Investments in and loans to subsidiaries	(6)	572.7	600.3
Non-current assets		**572.7**	**600.3**
Accrued income and prepayments		1.4	0.4
Receivables	(7)	70.7	55.2
Liquid funds	(8)	208.7	233.4
Current assets		**280.8**	**289.0**
Total assets		**853.5**	**889.3**
Shareholders' equity and liabilities			
Share capital	(9)	21.4	22.3
Legal reserves			
• General reserve	(10)	27.5	27.5
• Reserve for own shares	(11)	122.8	159.3
Other reserves	(12)	86.0	120.2
Retained earnings	(13)		
• Balance brought forward		40.8	30.5
• Net profit for the year		2.9	67.4
Shareholders' equity		**301.4**	**427.2**
Long-term financial debt	(14)	270.0	0.0
Provisions	(15)	11.3	11.3
Non-current liabilities		**281.3**	**11.3**
Short-term liabilities	(16)	268.5	444.1
Accrued liabilities	(17)	2.3	6.7
Current liabilities		**270.8**	**450.8**
Liabilities		**552.1**	**462.1**
Total shareholders' equity and liabilities		**853.5**	**889.3**

Notes to the financial statements of Rieter Holding Ltd.

1 Income from investments

Income from investments consists of dividends paid by subsidiaries and associated companies as well as income from disposal of investments.

2 Income from marketable securities and interest income

This includes income from marketable securities, interest income as well as the foreign exchange result. Due to the crisis on the financial markets there was a loss on marketable securities.

3 Other income

Other income consists of the contractually agreed compensation payments by group companies.

4 Financial expenses

Financial expenses consist mainly of interest payable on bank debt and liabilities to group companies.

5 Value adjustments, provisions

The value adjustment for general business risks was increased by 35.0 million CHF and deducted from investments in and loans to subsidiaries.

6 Investments in and loans to subsidiaries

CHF million	2008	2007
Investments in subsidiaries	261.5	274.9
Loans to subsidiaries	311.2	325.4
Total	**572.7**	**600.3**

The main subsidiaries and associated companies are listed on pages 74 and 75. These investments are held directly or indirectly by Rieter Holding Ltd.

7 Receivables

CHF million	2008	2007
Receivables from third parties	2.5	2.5
Receivables from subsidiaries	68.2	52.7
Total	**70.7**	**55.2**

Receivables consists mainly of current account credit facilities which are granted to subsidiaries on market terms and conditions in the context of the central cash management.

8 Liquid funds

CHF million	2008	2007
Cash and cash equivalents	178.3	83.4
Marketable securities[1]	30.4	150.0
Total	**208.7**	**233.4**

1. Including own shares.

9 Share capital

On May 8, 2008, the Annual General Meeting approved a reduction in capital by destroying 167 800 registered shares, which had been purchased in the context of the share repurchase program. The share capital was reduced by 3.8% from CHF 22 254 280 to CHF 21 415 280. The reduction in capital was registered in the Swiss Commercial Register on August 7, 2008.

10 General reserve

The general reserve meets the legal requirements. No transfer was made in the year under review.

11 Reserve for own shares

Shares held by all group companies

	Number
Registered shares held at January 1, 2008	258 424
Purchases January – December 2008 (average price 403.47 CHF)	196 169
Share buyback, reduction share capital (average price 459.88 CHF)	167 800
Sales January – December 2008 (average price 380.57 CHF)	63 050
Registered shares held at December 31, 2008	223 743

A reserve for own shares has been made at an acquisition cost of 122.8 million CHF. This amount was deducted from other reserves.

12 Other reserves

CHF million	2008	2007
Opening balance	120.2	270.9
Transfer to reserve for own shares	36.5	– 150.7
Share buyback	– 73.8	0.0
Premium received on shares issued	3.1	0.0
Total	**86.0**	**120.2**

13 Retained earnings

Including the balance brought forward, the Annual General Meeting has a total of 43.7 million CHF at its disposal (97.9 million CHF in 2007).

14 Long-term financial debt

CHF million	2008	2007
Financial debt	100.0	0.0
Loans from subsidiaries	170.0	0.0
Total	**270.0**	**0.0**

In 2008 long-term financial debts of over 100 million CHF and loans of over 170 million CHF were raised.

15 Provisions

These consist of provisions for foreign exchange risks and guarantee commitments.

16 Short-term liabilities

CHF million	2008	2007
Liabilities to group companies	177.7	348.8
Liabilities to third parties	90.8	95.3
Total	**268.5**	**444.1**

Rieter Holding Ltd. manages liquid funds for group companies in the central cash pool.

17 Accrued liabilities

These consist mainly of accrued interest.

18 Guarantees to third parties

CHF million	2008	2007
Guarantees	12.3	16.2

Guarantees to third parties consist of sureties issued to financial institutions and banks for loans granted to subsidiaries and for a tenancy agreement.

19 Shareholders

Major groups of shareholders with holdings exceeding 3% of all voting rights (pursuant to Art. 663c of the Swiss Code of Obligations) at December 31, 2008:

According to the notification on July 9, 2008, the Forbo Group, Baar, Switzerland, held 445 530 shares.

According to the notification on July 25, 2008, Artemis Beteiligungen IV AG, Hergiswil, Switzerland, held 298 534 shares.

According to the notification on November 20, 2008, the PCS Holding, Weiningen, Switzerland, held 225 780 shares.

According to the notification on November 19, 2008, Sprucegrove Investment Management, Toronto, Canada, held 129 024 shares.

Rieter Holding Ltd. held 223 743 of its own shares directly or indirectly at December 31, 2008 (258 424 shares at December 31, 2007).

20 Risk management

The detailed disclosures regarding the risk management that are required by law are included in the consolidated financial statements of the Rieter Group on pages 47 and 48.

21 Remuneration report and disclosure of payments to the Board of Directors and the Group Executive Committee in terms of Art. $663b^{bis}$, Swiss Code of Obligations

Content and process for specifying remuneration and equity participation programs

The basic features of salary policy are elaborated by the personnel committee and adopted by the Board of Directors as a whole, which also approves the bonus program, the share purchase plan and the option plan. The Board of Directors approves the remuneration of the members of the Board of Directors and the Group Executive Committee on the basis of proposals submitted by the personnel committee.

The Board of Directors anually reviews the main features of the salary policy. It rules on the adjustment of the basic salary of the members of the Group Executive Committee annually and stipulates the targets for performance-related payments and the key data for the share purchase plan and the option plan. The Board of Directors has not engaged independent consultants for elaborating the salary policy or the compensation programs.

Remuneration of the Board of Directors

Remuneration of the Board of Directors consists of a payment in cash and a further fixed sum which is disbursed in the form of shares. The number of shares is calculated on the basis of the average price of Rieter shares 20 trading days prior to the meeting of the Board of Directors, at which the annual accounts are approved, less a discount. The level of discount depends upon the extent to which predefined targets for consolidated net profit, return on net assets (RONA) and growth have been achieved. These shares cannot be sold for three years as of the date of their allocation.

Total 2008 compensation to the members of the Board of Directors

	Cash compensation		Shares		Options		Total
CHF	Fixed net	Variable net	Number	Value[1]	Number	Value	
Erwin Stoller, Chairman, since 1.5.2008	185 000		266	92 663	0	0	277 663
Dr. Ulrich Dätwyler, Vice-Chairman	102 000		281	97 888	0	0	199 888
Dr. Jakob Baer	90 000		221	76 987	0	0	166 987
Dr. Rainer Hahn	64 000		221	76 987	0	0	140 987
Dr. Dieter Spälti	77 000		221	76 987	0	0	153 987
Dr. Peter Wirth	64 000		221	76 987	0	0	140 987
Kurt Feller, Chairman, until 30.4.2008	112 000		137	47 725	0	0	159 725
Total	**694 000**		**1 568**	**546 224**	**0**	**0**	**1 240 224**

1. For the purpose of inclusion in the total compensation, the shares are valued at 349 CHF (average trading price 20 days prior to the March 2008 Board meeting [= 415 CHF] less a 16% discount for the three-year restriction on sale).

Total 2007 compensation to the members of the Board of Directors

	Cash compensation		Shares		Options			Total
CHF	Fixed net	Variable net	Number	Value[1]	Number	Value	AHV/IV/EO	
Kurt Feller, Chairman	330 000		264	140 184	264	22 986	21 992	515 162
Dr. Ulrich Dätwyler, Vice-Chairman	110 000		185	98 235	185	16 108	8 696	233 039
Dr. Jakob Baer	75 000		145	76 995	145	12 625	7 759	172 379
Dr. Rainer Hahn	75 000		145	76 995	145	12 625	6 919	171 539
Dr. Dieter Spälti	95 000		145	76 995	145	12 625	11 362	195 982
Dr. Peter Wirth	75 000		145	76 995	145	12 625	7 759	172 379
Rudolf Hauser, until 30.4.2007	37 000		65	34 515	65	5 661	2 984	80 160
Total	**797 000**		**1 094**	**580 914**	**1 094**	**95 255**	**67 471**	**1 540 640**

1. For the purpose of inclusion in the total compensation, the shares are valued at 531 CHF (average trading price 20 days prior to the March 2007 Board meeting [= 633 CHF] less a 16% discount for the three-year restriction on sale).
2. One option entitles the holder to purchase one Rieter share at the exercise price of 654 CHF. The awarded options are valued according to the Black-Scholes formula at 87 CHF per option.

Remuneration of former members of the Board of Directors

No remuneration was disbursed to former directors and officers.

Remuneration of the Group Executive Committee

The Group Executive Committee is remunerated according to the principle of flexible, performance-related compensation. This remuneration consists of a basic salary, a performance-related component in the context of the bonus plan, the opportunity to participate in the share purchase plan and the allocation of options. The basic salary is derived from salaries paid for comparable positions in the market relevant for Rieter (machine manufacturing and automotive component suppliers). The performance-related component for the CEO and CFO is based on consolidated net profit in absolute and percentage terms. For the heads of the divisions the operating profit (EBIT) achieved by their division is applicable in absolute and percentage terms instead of consolidated net profit. The performance-related component amounts to no more than 80% of the basic salary.

In the context of the share purchase plan the members of the Group Executive Committee can purchase Rieter shares up to the amount of their bonus at a variable discount. The number of shares is calculated on the basis of the average price of Rieter shares 20 trading days prior to the meeting of the Board of Directors, at which the annual accounts are approved, less a discount. The level of discount depends upon the extent to which predefined targets for consolidated net profit, return on net assets (RONA) and growth have been achieved. In order to foster long-term ties between management and the company, at least two-thirds of the shares acquired in this way cannot be sold for three years.

The members of the Group Executive Committee receive an option to purchase one Rieter registered share for each share purchased under the share purchase plan and subject to the three-year restriction on sale. The options have a duration of five years and can be exercised for the first time after the end of the second year following their allocation. The exercise price is calculated on the basis of the average price on the ten trading days immediately preceding the allocation of the option.

Total 2008 compensation to the members of the Group Executive Committee

	Cash compensation		Shares		Options			Total
CHF	Fixed net	Variable net	Number	Value[1]	Number	Value[2]	Contri-bution to pension plans	
Members of the Executive Commitee	2 325 000	0	4 305	426 195	4 305	154 980	136 048	3 042 223
Thereof Hartmut Reuter, Chief Executive Officer	775 000	0	1 495	148 005	1 495	53 820	47 648	1 024 473

1. For the purpose of inclusion in the total compensation, the shares are valued at 99 CHF (difference between the preferred purchase price [= 249 CHF] and the average trading price 20 days prior the March 2008 Board meeting less a 16% discount for the three-year restriction on sale [= 348 CHF]).
2. One option entitles the holder to purchase one Rieter share at the exercise price of 359 CHF. The awarded options are valued according to the Black-Scholes formula at 36 CHF per option.

Total 2007 compensation to the members of the Group Executive Committee

	Cash compensation		Shares		Options			Total
CHF	Fixed net	Variable net	Number	Value[1]	Number	Value[2]	Contri-bution to pension plans	
Members of the Executive Commitee	2 375 000	1 470 000	2 263	342 799	2 263	197 038	199 894	4 584 731
Thereof Hartmut Reuter, Chief Executive Officer	775 000	620 000	886	134 211	886	77 144	45 691	1 652 046

1. For the purpose of inclusion in the total compensation, the shares are valued at 151 CHF (difference between the preferred purchase price [= 380 CHF] and the average trading price 20 days prior the March 2007 Board meeting less a 16% discount for the three-year restriction on sale [= 531 CHF]).
2. One option entitles the holder to purchase one Rieter share at the exercise price of 654 CHF. The awarded options are valued according to the Black-Scholes formula at 87 CHF per option.

Additional fees and payments

No additional fees or other payments were disbursed to the members of the Board of Directors or the Group Executive Committee in 2008, nor were severance payments disbursed to any member of the Board of Directors or the Group Executive Committee in 2008.

Directorships with other companies

The Board of Directors rules on whether members of the Group Executive Committee or senior management may hold directorships with other companies. As a rule, only one directorship may be held in order to limit demands on time. If the directorship is exercised outside contractually agreed working hours, there is no obligation to surrender to Rieter the director's fees received.

Loans to directors and officers

No loans have been made to members of the Board of Directors or the Group Executive Committee.

Disclosure of the equity holdings of the Board of Directors and the Group Executive Committee as of December 31, 2008 (Art. 663c, Swiss Code of Obligations)

	Shares	Options		
		Expiry date 2011	Expiry date 2012	Expiry date 2013
Erwin Stoller, Chairman	8 427	599	475	784
Dr. Ulrich Dätwyler, Vice-Chairman	3 285	157	185	
Dr. Jakob Baer	484	118	145	
Dr. Rainer Hahn	1 875	157	145	
Dr. Dieter Spälti	981	157	145	
Dr. Peter Wirth	1 276	157	145	
Total Board of Directors	**16 328**	**1 345**	**1 240**	**784**

	Shares	Options		
		Expiry date 2011	Expiry date 2012	Expiry date 2013
Hartmut Reuter, Chief Executive Officer	9 066	699	886	1 495
Peter Gnägi	5 156	450	396	856
Urs Leinhäuser	2 948	400	506	868
Wolfgang Drees	302	0	0	302
Total Group Executive Committee	**17 472**	**1 549**	**1 788**	**3 521**

Disclosure of the equity holdings of the Board of Directors and the Group Executive Committee as of December 31, 2007 (Art. 663c, Swiss Code of Obligations)

	Shares	Options		
		Expiry date 2011	Expiry date 2012	Expiry date 2013
Kurt Feller, Chairman	3 167	285	264	
Dr. Ulrich Dätwyler, Vice-Chairman	3 004	157	185	
Dr. Jakob Baer	263	118	145	
Dr. Rainer Hahn	1 654	157	145	
Dr. Dieter Spälti	760	157	145	
Dr. Peter Wirth	1 055	157	145	
Total Board of Directors	**9 903**	**1 031**	**1 029**	

	Shares	Options		
		Expiry date 2011	Expiry date 2012	Expiry date 2013
Hartmut Reuter, Chief Executive Officer	7 571	699	886	
Erwin Stoller	7 372	599	475	
Peter Gnägi	5 200	450	396	
Urs Leinhäuser	2 075	400	506	
Total Group Executive Committee	**22 218**	**2 148**	**2 263**	

Proposal of the Board of Directors

for the appropriation of profit (2008 financial year)

CHF	2008	2007
Net profit for the year	2 909 032	67 422 771
Retained earnings brought forward from previous year	40 802 146	30 549 910
Retained earnings at the disposal of the Annual General Meeting	**43 711 178**	**97 972 681**
Proposal		
Dividend on registered shares	0	57 170 535
Retained earnings	43 711 178	40 802 146
Retained earnings at the disposal of the Annual General Meeting	**43 711 178**	**97 972 681**

Report of the statutory auditor on the financial statements

PRICEWATERHOUSECOOPERS

Report of the statutory auditor on the financial statements to the General Meeting of Rieter Holding Ltd., Winterthur

As statutory auditor, we have audited the financial statements of Rieter Holding Ltd., which comprise the income statement, balance sheet and notes (pages 78 to 87 and pages 74 and 75), for the year ended December 31, 2008.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended December 31, 2008 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Christian Kessler	Nicolas Mayer
Audit expert	
Auditor in charge	

Zurich, March 20, 2009

Review 2004 to 2008

Consolidated income statement

		2008	2007	2006	2005	2004
Sales	CHF million	3 142.5	3 930.1	3 579.9	3 122.0	3 136.6
• Europe	CHF million	1 450	1 728	1 598	1 439	1 448
• Asia[1]	CHF million	791	1 206	1 003	775	875
• North America	CHF million	589	715	726	722	674
• Latin America	CHF million	257	204	172	156	97
• Africa	CHF million	56	77	81	30	43
Corporate output	CHF million	2 971.7	3 822.8	3 447.5	3 035.6	3 018.0
Operating result before interest, taxes, depreciation and amortization (EBITDA)	CHF million	– 52.6	437.0	325.6	313.4	343.1
• in % of corporate output		– 1.8	11.4	9.4	10.3	11.4
Operating result before interest and taxes (EBIT)	CHF million	– 312.1	278.7	180.6	183.0	210.5
• in % of corporate output		– 10.5	7.3	5.2	6.0	7.0
Net profit[2]	CHF million	– 396.7	211.5	157.4	138.1	137.8
• in % of corporate output		– 13.3	5.5	4.6	4.5	4.6
Return on net assets (RONA) in %		– 28.1	13.8	10.8	10.2	11.1

Consolidated balance sheet

		2008	2007	2006	2005	2004
Non-current assets	CHF million	929.3	1 192.0[3]	1 152.0	1 159.6	944.5
Current assets	CHF million	1 159.6	1 655.4	1 732.6	1 555.1	1 545.5
Equity attributable to Rieter shareholders	CHF million	689.9	1 309.4[3]	1 320.5	1 192.2	1 069.8
Equity attributable to minority interests	CHF million	56.3	60.1	54.9	70.0	77.8
Non-current liabilities	CHF million	418.9	321.6[3]	318.1	515.0	498.9
Current liabilities	CHF million	923.8	1 156.3	1 191.1	937.5	843.5
Total assets	CHF million	2 088.9	2 847.4[3]	2 884.6	2 714.7	2 490.0
Shareholders' equity in % of total assets		35.7	48.1	47.7	46.5	46.1

Consolidated statement of cash flows[4]

		2008	2007	2006	2005	2004
Net cash from operating activities	CHF million	57.2	394.9	252.6	242.8	338.1
Net cash used for investing activities	CHF million	– 35.8	– 118.5	– 84.9	– 322.8	– 120.2
Net cash from financing activities	CHF million	8.8	– 309.5	– 67.5	– 123.0	20.3
Net cash flow	CHF million	– 69.9	369.0	335.2	260.7	268.4
Free cash flow	CHF million	– 37.5	228.2	100.6	– 1.4	215.2

	2008	2007	2006	2005	2004
Number of employees at year-end	**14 183**	**15 506**	**14 826**	**14 652**	**13 557**

1. Including Turkey
2. Net profit before deduction of minority interests.
3. Adjusted as a result of initial application of IFRIC 14.
4. See pages 40 and 72.

Information for investors

		2008	2007	2006	2005	2004
Share capital	CHF million	21.4	22.3	22.3	22.3	22.3
Net profit of Rieter Holding Ltd.	CHF million	2.9	67.4	63.4	49.3	43.7
Gross distribution	CHF million	0.0[1]	62.8	62.1	41.5	41.2
Payout ratio (in % of net profit)[2]	in %	0	32	42	33	33
Market capitalization (December 31)	CHF million	651	1 966	2 661	1 624	1 361
Market capitalization in % of						
• sales	in %	21	50	74	52	43
• equity attributable to Rieter shareholders	in %	94	150	202	136	127

1. Proposed by the Board of Directors (see page 87).
2. Net profit after deduction of minority interests.

Data per share (RIEN)

			2008	2007	2006	2005	2004
Share prices on the SIX Swiss Exchange	high	CHF	505	717	641	393	350
	low	CHF	151	478	387	328	293
Price/earnings ratio	high		– 4.8	14.9	18.0	12.8	11.3
	low		– 1.4	9.9	10.9	10.6	9.4
Shareholders' equity (group) per registered share		CHF	181.25	333.06	316.34	286.29	260.37
Tax value per registered share		CHF	171.00	500.00	637.50	390.00	330.00
Gross distribution per registered share		CHF	0.0[1]	15.00	15.00	10.00	10.00
Gross yield on registered shares	high	in %	0.0[1]	2.1	2.3	2.5	2.9
	low	in %	0.0[1]	3.1	3.9	3.0	3.4
Earnings per share		CHF	– 106.18	48.19	35.53	30.80	31.04

1. Proposed by the Board of Directors (see page 87).

Additional information to shareholders

Analysis of shareholders

At the end of 2008, 8 519 shareholders were entered in the shareholders' register of Rieter Holding Ltd. (7 091 in the previous year). The analysis of shareholders is as follows:

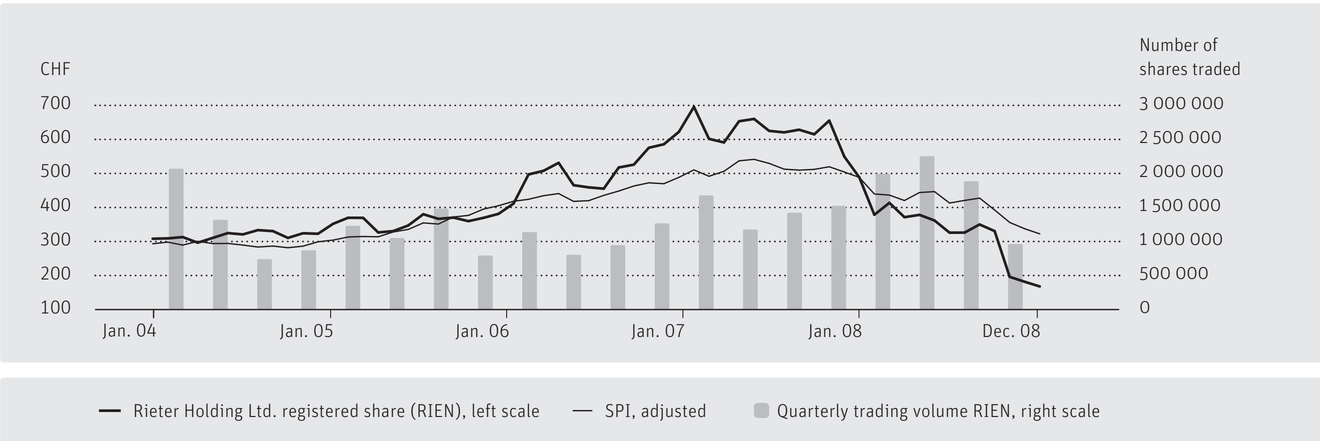
Registered shareholders

	2008 Shares in %	2008 Holders in %	2007 Shares in %	2007 Holders in %
Total:				
• Individuals	15.9	92.7	12.6	91.0
• Legal entities	49.5	7.3	55.0	9.0
• Floating shares	34.6		32.4	
Foreign investors				
• Individuals	6.8	6.2	0.9	6.0
• Legal entities	31.5	13.3	25.3	1.9

Rieter registered shares at December 31, 2008 (listed on the Swiss Stock Exchange SIX)

	Number	
Securities code 367144 (Investdata: RIEN; Reuters: RITZN)		
Share capital	4 283 056	registered shares of 5.00 CHF p.v.
Share capital eligible for dividend	4 030 056	including 223 743 shares held by Rieter Holding Ltd.
Conditional share capital	396 312	registered shares

Share price development 2004–2008



March 2009

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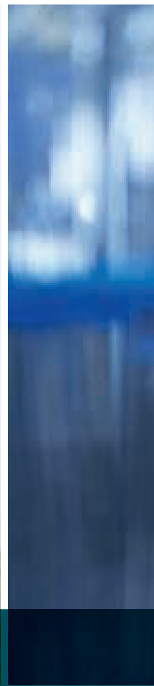

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