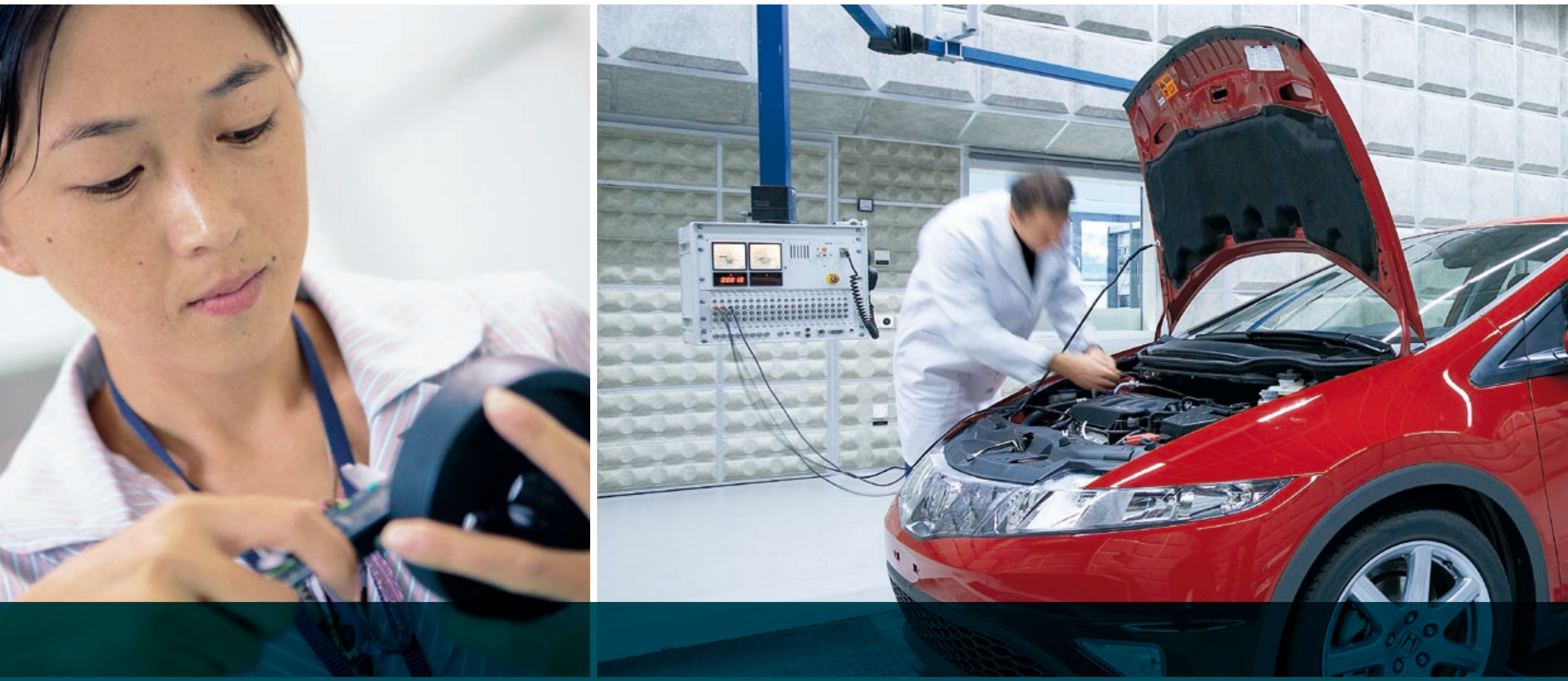
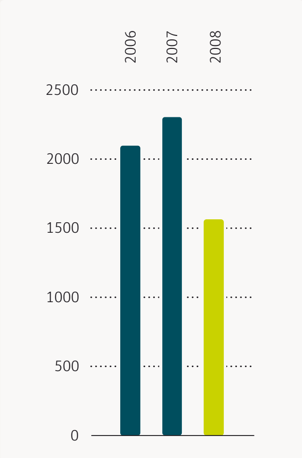


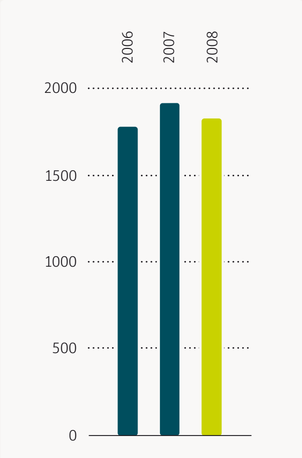
Semi-Annual Report 2008

Rieter at a glance

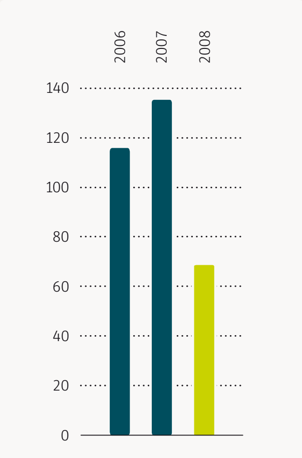
Orders received January – June
in CHF million



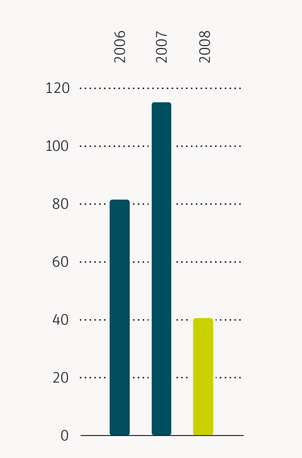
Sales January – June
in CHF million



EBIT January – June
in CHF million



Net profit January – June
in CHF million



CHF million		January – June 2008	January – June 2007	Change	Change in local currencies
Rieter Group					
Orders received		1 559.3	2 297.7	– 32%	– 30%
Sales		1 806.6	1 920.1	– 6%	– 3%
Corporate output		1 742.8	1 897.8	– 8%	
Operating result before special charges, interest and taxes		88.9	140.6	– 37%	
• in % of corporate output		5.1	7.4		
Operating result before interest and taxes (EBIT)		68.9	135.8	– 49%	
• in % of corporate output		4.0	7.2		
Net profit		40.8	116.7	– 65%	
• in % of corporate output		2.3	6.1		
Earnings per share	CHF	8.89	26.40	– 66%	
Divisions					
Orders received, Textile Systems		417.3	1 083.8	– 61%	– 61%
Sales, Textile Systems		664.7	706.2	– 6%	– 5%
Operating result before interest and taxes (EBIT), Textile Systems		55.4	93.7	– 41%	
• in % of corporate output, Textile Systems		8.8	13.0		
Sales, Automotive Systems		1 141.9	1 213.9	– 6%	– 1%
Operating result before special charges, interest and taxes, Automotive Systems		38.6	52.1	– 26%	
• in % of corporate output, Automotive Systems		3.5	4.4		
Operating result before interest and taxes (EBIT), Automotive Systems		18.6	47.3	– 61%	
• in % of corporate output, Automotive Systems		1.7	4.0		

Negative market cycle affects both divisions

Dear shareholder

The Rieter Group reported a considerably weaker trend of business in the first half of 2008 than in the very strong equivalent period of the previous year. The pronounced slowdown in the Asian textile machinery markets, the decline in vehicle production in North America and the massive increases in the cost of raw materials, energy and transportation had a negative impact on orders received, sales and profits in the first six months. Rieter could not escape the effects of the cyclical downturn in the textile machinery and automotive markets, which is expected to affect the global economy in general. However, Rieter was able to maintain its strong market position by virtue of its strong brand, good products, global presence and committed workforce.

Mainly as a consequence of the steep decline in demand at the Textile Systems Division, orders received by the group were 32 % lower at 1 559.3 million CHF. Sales of 1 806.6 million CHF were 6 % lower than in the first half of 2007 (3 % lower on a currency-adjusted basis). The weaker trend of business in the second half of 2007 and the slump in demand in the first half of 2008 resulted in lower sales at Textile Systems. Automotive Systems posted a substantial decline in sales, due also to currency effects, primarily in North America.

The operating result before special charges amounted to 88.9 million CHF, equivalent to 5.1 % of corporate output (7.4 % in 2007). The operating result before interest and taxes (EBIT) amounted to 68.9 million CHF (135.8 million CHF in 2007). This corresponds to 4.0 % of corporate output (7.2 % in 2007). The decline in profits is due mainly to higher raw material and energy costs and a less favorable product mix, but also to lower sales and upfront expenses to establish and expand facilities in rapidly growing markets in Eastern Europe and Asia. The cost of restructuring programs already initiated was also considerably higher compared with the previous year. Net profit amounted to 40.8 million CHF, equivalent to 2.3 % of corporate output (6.1 % in 2007). In addition to the lower operating result and a decline in the net financial result, a higher tax rate also had an impact on net profit. Earnings per share were 8.89 CHF, compared with 26.40 CHF in the first half of 2007. Cash flow declined from the previous year's very good level to 114.5 million CHF. The equity ratio on June 30, 2008, was a sound 46.0 % (51.5 % on June 30, 2007). Net liquidity amounted to 25.8 million CHF (143.8 million CHF on June 30, 2007). This was the result of lower cash flow, the dividend payment to shareholders of Rieter Holding Ltd. and not least the share repurchase program.

Investments in fixed assets increased compared with the same period of the previous year, since the establishment and expansion of facilities in Eastern Europe and Asia was continued. However, investments in high-cost countries were curtailed. The Rieter Group's workforce totaled 15 316 on June 30, 2008 (excluding temporary personnel); the equivalent figure on June 30, 2007, was 15 062. This increase is due solely to the Automotive Division, where some 400 employees were added in low-cost countries, while personnel numbers in high-cost countries were reduced by some 200. At the Textile Division 600 temporary positions have already been eliminated compared with the previous year in response to the decline in volume.

Rieter Textile Systems: Massive decline in orders received

On the global textile machinery market, which had already been weakening since the final quarter of 2007, demand for staple fiber machinery has declined steeply, especially since March 2008. Due to the subdued business outlook, customers in Rieter's main markets, especially Asian spinning mills, have drastically reduced or postponed capital investment. The main reasons for this are the high raw material prices and full yarn inventories, a more restrictive investment policy in China, the fading attractions of investment promotion programs in other major markets as well as higher energy costs and unfavorable exchange rates for the spinning mills. Pronounced demand cycles are typical of the textile machinery market, but the current downturn is more severe than in previous cycles, even taking industry-specific aspects into account.

Orders totaling 417.3 million CHF received by Rieter Textile Systems in the first half of 2008 were 61 % lower compared with the record figure for new orders in the same period of the previous year. Staple fiber machinery is mainly affected by this downturn. The Textile Systems Division nevertheless succeeded in maintaining its overall market share in a challenging business environment. Sales by Textile Systems were 6 % lower at 664.7 million CHF (706.2 million CHF in 2007). The decline in volumes was somewhat greater than expected, as customers postponed acceptance of products on order due to the more difficult economic situation. Textile Systems posted an operating result of 55.4 million CHF in the first six months (93.7 million CHF in 2007). This figure included a gain of 2.6 million CHF on the divestment of the pelletizing machinery business. The operating margin was therefore 8.8 % (13.0 % in 2007). In addition to the lower level of capacity utilization as a result of the decline in sales, this reduction is largely due to the less favorable product mix. The steep price rises for raw materials (steel, sheet metal, castings) and increases in the cost of transportation and energy also adversely affected the result by some 15 million CHF.

Rieter Textile Systems already initiated a number of moves in the first six months in order to reduce the negative impact on profits of the decline in volume: termination of temporary employment contracts, a halt to recruitment, reduced overtime, early retirement and short-time working at various sites. Product prices are being increased in order to offset the steep price rises for raw materials, transportation and energy. Rieter will utilize the experience gained in previous downturns to cope successfully with the economic and inflation-related challenges. Despite the cyclical downswing in the market, Rieter is convinced that the Asian textile machinery markets offer great opportunities. The expansion of manufacturing facilities in India and China is therefore being continued, although at a slower pace in line with current market trends.

Rieter Automotive Systems: Difficult business environment prevents improvement in earnings

In the first half of 2008 global automobile output rose by 3 % to 37.0 million vehicles, albeit with pronounced regional variations. The emerging markets in China, Eastern Europe and South America recorded double-digit growth rates. Automobile production stagnated in the mature markets of Western Europe and Japan, while declining steeply in North America (– 12 %). Rieter Automotive posted sales slightly below the previous year’s level in local currencies in the first six months; expressed in Swiss francs the figure declined by 6 % to 1141.9 million CHF (1213.9 million CHF in 2007). Rieter reported higher sales in the commercial vehicle sector in Europe, but sales for passenger cars were flat. In North America, Automotive Systems was unable to escape the effects of the adverse market environment despite being strongly placed with the Japanese manufacturers. In the meantime these are also being affected by the downswing, although to a lesser extent than the “Detroit Three”. Rieter Automotive recorded strong growth in the emerging economies. The Automotive Systems Division maintained its overall position in this difficult market environment.

In the first half of 2008 Rieter Automotive Systems posted an operating result before special charges of 38.6 million CHF (52.1 million CHF in 2007). This corresponds to an operating margin of 3.5 % (4.4 % in 2007). Although the division is on course with the implementation of operational improvement programs in Europe and North America, the operating result did not come up to expectations. Automotive Systems had to contend primarily with massive increases in energy and material costs, which have been passed on to customers only to a limited extent to date. In terms of material costs, savings have been achieved in consumption, but higher input prices, especially for oil- and metal-based products, which in combination with the high energy costs resulted in cost increases of more than 30 million CHF, eliminated the success of these efforts. Special charges of 20 million CHF were incurred in the period under review, mainly in the context of capacity adjustments and cost-cutting action at locations in Western Europe and North America. The operating result before interest and taxes (EBIT) amounted to 18.6 million CHF (47.3 million CHF in 2007), equivalent to 1.7 % of corporate output (4.0 % in 2007). In the first six months Automotive Systems initiated the following moves to improve the cost structure: reductions in material consumption, reductions in purchasing prices and a reduction in personnel numbers employed in high-cost countries. Negotiations to obtain higher prices to compensate for the increased cost of energy and raw materials are being pursued with high priority.

Outlook and action aimed at sustained business development

Rieter assumes that the investment climate in the textile machinery industry will not improve before 2009. Due to the cyclically related low level of orders received and expectations that more customers will postpone acceptance of machines already ordered, Textile Systems foresees a steep decline in sales of some 20 % in the second half of the year compared with the first six months. Rieter Textile Systems has already set in motion adjustments to capacity in response to lower volumes and initiated other extensive measures. Despite these efforts, the operating margin before special charges will be significantly lower than in the first half. In light of the weak economic outlook in Rieter Automotive's main markets of North America and Europe, sales at Automotive Systems in the second half of the year are expected to be some 10 % lower than in the first six months, reflecting current market trends. Additional adjustments have been initiated on the cost side in order to offset the volume effect on the operating margin before special charges.

The Rieter Group is well positioned with both divisions and acknowledged by customers as a leading supplier to the textile and automotive industries. In both fields of industrial activity it plays a significant role in shaping technological progress through its innovative thrust. For example with the new airjet spinning process or the new acoustic material Rieter Ultra Silent. Rieter has industrial experience over many years in sectors that are prone to pronounced cyclical fluctuations. Structural challenges usually emerge especially clearly during cyclical downturns. In the past Rieter has always taken advantage of these phases as opportunities to align structures with the changes in market conditions and enhance its own position.

Rieter has therefore initiated a comprehensive restructuring program that will entail capacity adjustments and a more rapid shift from traditional into emerging regions. This will result in reductions in personnel numbers at both divisions, mainly in the Western Europe and North America regions. On a current view some 15 % of the global workforce will be affected. Although part of this reduction will occur as a result of natural fluctuation and a decline in temporary employment, there may also be some redundancies among permanent employees. Specific action will be taken locally, having due regard for the information and co-determination rights of employee representatives. All activities and product segments will also be subject to review with regard to their ability to achieve sustained profits. The objective of this program is to improve the operating margin before special charges as early as 2009, create the basis for achieving the group's financial targets (5 % sales growth, 8 % EBIT margin and 5 % profit margin) and strengthen Rieter for the next growth phase.

Rieter started to implement initial elements of the restructuring program in the first half of the year. Planning and implementation of further action will be continued systematically in the second half of 2008. On a current view the restructuring program as a whole at Textile und Automotive Systems in Western Europe and North America will entail total expenditure of some 225 million CHF. Rieter expects a substantial portion of this to be charged to the 2008 annual accounts. 20 million CHF is already included in these semi-annual financial statements. At the same time investment programs are activated aiming at the establishment and expansion of facilities in the fast growing markets of Eastern Europe and Asia. The sound financial condition of the Rieter Group will enable both the restructuring and the expansion program to be financed from internal resources. With these actions and by virtue of its strong brand, good products, global presence and committed workforce, Rieter will create the basis for profitable growth.

Winterthur, August 13, 2008

Erwin Stoller	Hartmut Reuter
Chairman of the Board of Directors	Chief Executive Officer

Consolidated income statement

	January – June 2008		January – June 2007		January – December 2007	
	CHF million	% *	CHF million	% *	CHF million	% *
Sales	**1 806.6**		**1 920.1**		**3 930.1**	
Sales deductions	– 72.3		– 76.0		– 147.2	
Change in semi-finished and finished goods	7.8		51.6		35.6	
Own work capitalized	0.7		2.1		4.3	
Corporate output	**1 742.8**	**100.0**	**1 897.8**	**100.0**	**3 822.8**	**100.0**
Material costs	– 831.7	– 47.7	– 907.0	– 47.8	– 1 843.8	– 48.2
Employee costs	– 513.0	– 29.4	– 536.5	– 28.3	– 1 064.0	– 27.8
Other operating expenses	– 251.1	– 14.4	– 254.8	– 13.4	– 523.9	– 13.7
Other operating income	18.3	1.0	18.4	1.0	54.0	1.3
Depreciation and amortization	– 76.4	– 4.4	– 77.3	– 4.1	– 158.3	– 4.1
Operating result before special charges, interest and taxes	**88.9**	**5.1**	**140.6**	**7.4**	**286.8**	**7.5**
Special charges	– 20.0	– 1.1	– 4.8	– 0.2	– 8.1	– 0.2
Operating result before interest and taxes (EBIT)	**68.9**	**4.0**	**135.8**	**7.2**	**278.7**	**7.3**
Financial result	– 1.3		31.1		22.7	
Profit before taxes	**67.6**	**3.9**	**166.9**	**8.8**	**301.4**	**7.9**
Income taxes	– 26.8		– 50.2		– 89.9	
Net profit	**40.8**	**2.3**	**116.7**	**6.1**	**211.5**	**5.5**
Attributable to shareholders of Rieter Holding Ltd.	34.1		109.7		197.2	
Attributable to minority interests	6.7		7.0		14.3	
Earnings per share CHF	8.89		26.40		48.19	
Diluted earnings per share CHF	8.89		26.40		48.19	

* In % of corporate output

Consolidated balance sheet

CHF million	June 30, 2008	June 30, 2007[1]	December 31, 2007[1]
Assets			
Tangible fixed assets	864.6	875.5	917.4
Intangible assets	132.1	163.0	156.6
Financial assets, deferred tax assets	116.9	146.2	118.0
Non-current assets	**1 113.6**	**1 184.7**	**1 192.0**
Inventories	477.8	512.6	510.0
Trade receivables	607.5	658.4	625.3
Other receivables	127.2	146.4	148.0
Marketable securities	92.9	94.5	114.6
Cash and cash equivalents	261.8	194.9	257.5
Current assets	**1 567.2**	**1 606.8**	**1 655.4**
Assets	**2 680.8**	**2 791.5**	**2 847.4**
Shareholders' equity and liabilities			
Share capital	22.3	22.3	22.3
Share premium account (capital reserve)	27.5	27.5	27.5
Group reserves	1 128.7	1 330.4	1 259.6
Equity attributable to shareholders of Rieter Holding Ltd.	**1 178.5**	**1 380.2**	**1 309.4**
Equity attributable to minority interests	55.4	56.3	60.1
Total shareholders' equity	**1 233.9**	**1 436.5**	**1 369.5**
Long-term financial debt	139.8	63.3	47.5
Provisions, other non-current liabilities	253.4	277.5	274.1
Non-current liabilities	**393.2**	**340.8**	**321.6**
Trade payables	387.2	441.9	446.3
Advance payments by customers	157.8	143.0	153.1
Short-term financial debt	189.1	82.3	180.1
Other current liabilities	319.6	347.0	376.8
Current liabilities	**1 053.7**	**1 014.2**	**1 156.3**
Liabilities	**1 446.9**	**1 355.0**	**1 477.9**
Shareholders' equity and liabilities	**2 680.8**	**2 791.5**	**2 847.4**

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

Consolidated statement of cash flows

CHF million	January – June 2008	January – June 2007	January – December 2007
Net profit before taxes	**67.6**	**166.9**	**301.4**
Interest income / interest expenses	4.9	5.3	7.4
Depreciation, amortization and other non-cash income and expenses	73.6	76.9	148.5
Change in net working capital, other	– 63.5	– 42.3	5.2
Dividends received	0.1	0.1	0.2
Interest received / interest paid	– 5.2	– 9.5	– 11.5
Taxes paid	– 31.6	– 40.1	– 56.3
Net cash from operating activities	**45.9**	**157.3**	**394.9**
Capital expenditure / disposals of tangible and intangible assets	– 69.3	– 64.6	– 178.8
Investments in / disposals of non-current financial assets	– 4.3	– 5.6	12.1
Change in holdings of marketable securities	– 1.3	81.0	48.2
Acquisitions of businesses	– 8.5	0.0	0.0
Divestments of businesses	42.9	0.0	0.0
Net cash used for investing activities	**– 40.5**	**10.8**	**– 118.5**
Dividend paid to shareholders of Rieter Holding Ltd.	– 57.1	– 62.1	– 62.1
Change in holding of own shares	– 45.1	– 21.6	– 141.0
Dividends paid to minority interests	– 5.4	– 6.9	– 6.9
Repayment of bonds	0.0	0.0	– 200.0
Increase / decrease of financial debt	105.7	– 181.4	100.5
Net cash used for financing activities	**– 1.9**	**– 272.0**	**– 309.5**
Currency effects	0.8	0.4	– 7.8
Change in cash and cash equivalents	**4.3**	**– 103.5**	**– 40.9**
Cash and cash equivalents at beginning of year	**257.5**	**298.4**	**298.4**
Cash and cash equivalents at end of reporting period	**261.8**	**194.9**	**257.5**

Changes in consolidated equity

CHF million	January – June 2008	January – June 2007	January – December 2007
Total shareholders' equity at end of previous period as reported	**1 368.7**	**1 375.4**	**1 375.4**
Impact of initial application of IFRIC 14	0.8	0.8	0.8
Total shareholders' equity at end of previous period adjusted	**1 369.5**	**1 376.2**	**1 376.2**
Currency effects	– 44.3	33.5	5.9
Change in marketable securities available for sale	– 24.5	0.7	– 14.1
Results recognized directly in equity	**– 68.8**	**34.2**	**– 8.2**
Net profit	40.8	116.7	211.5
Total recognized results	**– 28.0**	**150.9**	**203.3**
Dividend of Rieter Holding Ltd.	– 57.1	– 62.1	– 62.1
Dividends to minority interests	– 5.4	– 6.9	– 6.9
Change in holding of own shares [1]	– 45.1	– 21.6	– 141.0
Total shareholders' equity at end of reporting period	**1 233.9**	**1 436.5**	**1 369.5**

1. Holding of own shares on June 30, 2008: 370 090 (on June 30, 2007: 51 919, on December 31, 2007: 258 424).

Notes to the semi-annual financial statements

1 Principles of consolidation and accounting principles

The consolidated semi-annual financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting". They are based on the financial statements of the individual group companies drawn up according to uniform accounting policies as of June 30, 2008. The principles of consolidation and accounting principles set forth in the 2007 annual report have been amended for 2008 by the new and revised IFRS standards. In doing so, only the initial application of IFRIC 14 (The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction) resulted in an increase in equity of 0.8 million CHF as of January 1, 2007, without this having an impact on net profit.

The semi-annual report is published in English and German and has not been audited by the group auditors. The consolidated income statement, balance sheet, statement of cash flows and changes in consolidated equity are presented in condensed form.

2.1 Segment information by division

Sales

CHF million	January – June 2008	January – June 2007	January – December 2007
Textile Systems	664.7	706.2	1 566.8
Automotive Systems	1 141.9	1 213.9	2 363.3
Total	**1 806.6**	**1 920.1**	**3 930.1**

Operating result before special charges, interest and taxes

CHF million	January – June 2008	January – June 2007	January – December 2007
Textile Systems	55.4	93.7	200.7
Automotive Systems	38.6	52.1	99.7
Other units, including group costs	– 5.1	– 5.2	– 13.6
Total	**88.9**	**140.6**	**286.8**

Operating result before interest and taxes (EBIT)

CHF million	January – June 2008	January – June 2007	January – December 2007
Textile Systems	55.4	93.7	200.7
Automotive Systems	18.6	47.3	91.6
Other units, including group costs	– 5.1	– 5.2	– 13.6
Total	**68.9**	**135.8**	**278.7**

Capital expenditure on tangible and intangible assets

CHF million	January – June 2008	January – June 2007	January – December 2007
Textile Systems	33.1	24.6	85.9
Automotive Systems	39.3	38.8	112.4
Other units	1.2	3.5	5.2
Total	**73.6**	**66.9**	**203.5**

Number of employees

	June 30, 2008	June 30, 2007	December 31, 2007
Textile Systems	5 259	5 239	5 476
Automotive Systems	9 913	9 680	9 878
Other units	144	143	152
Total	**15 316**	**15 062**	**15 506**

2.2 Segment information by geographical region

Sales

CHF million	January – June 2008	January – June 2007	January – December 2007
Europe	838.6	876.0	1 727.7
Asia [1]	483.8	545.4	1 205.7
North America	321.4	374.8	715.2
Latin America	122.7	93.4	204.4
Africa	40.1	30.5	77.1
Total	**1 806.6**	**1 920.1**	**3 930.1**

1. Including Turkey.

3 Sales

Change in sales

CHF million	January – June 2008	January – June 2007	January – December 2007
Change in sales due to volume and price, Textile Systems	– 25.8	83.7	216.3
Change in sales due to volume and price, Automotive Systems	– 16.0	73.5	142.7
Impact of divestments / acquisitions	– 9.5	– 39.6	– 78.5
Currency effects	– 62.2	30.9	69.7
Total change in sales	**– 113.5**	**148.5**	**350.2**

4 Changes in the scope of consolidation

In the first half of 2008 there were the following changes in the scope of consolidation:

As of January 1, 2008, Rieter acquired the textile component manufacturer Berkol. In the first half of 2008 the acquired business contributed about 4 million CHF to the Textile Systems Division's sales and an immaterial amount to the operating result before interest and taxes.

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 (2007: 67 million CHF). The resulting divestment gain of 2.6 million CHF was recognized in other operating income.

In 2007 there were no changes in the scope of consolidation.

5 Special charges

The special charges concern only the Automotive Systems Division and consist of restructuring costs in connection with cost reduction measures.

6 Average exchange rates for foreign currency translation

	January – June 2008	January – June 2007	Change	January – December 2007
1 EUR	1.61	1.63	– 1%	1.64
1 USD	1.05	1.23	– 15%	1.20
1 GBP	2.07	2.42	– 14%	2.40
100 INR	2.58	2.88	– 10%	2.91
100 CNY	14.87	15.90	– 6%	15.77

7 Events after balance sheet date; financial calendar

The semi-annual report for 2008 was approved for publication by the Board of Directors on August 8, 2008. No events have occurred up to August 8, 2008, which would necessitate adjustments to the semi-annual report.

Publication of sales figures for the 2008 financial year	January 30, 2009
Results press conference and presentation of the 2008 financial statements	March 24, 2009
Annual General Meeting	April 29, 2009

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