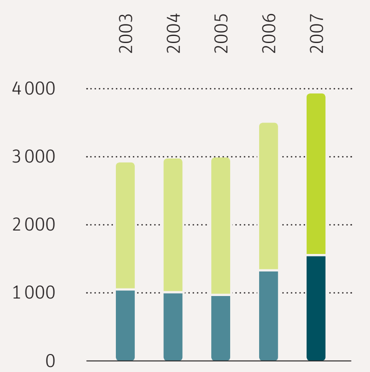
Global Teamwork Annual Report 2007

Key figures >

Rieter at a glance

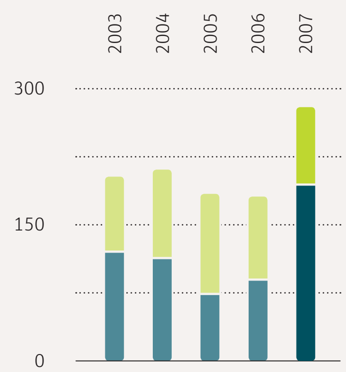
Sales[1] in CHF million



1. Excluding manmade fiber activities divested in the 4th quarter of 2006.

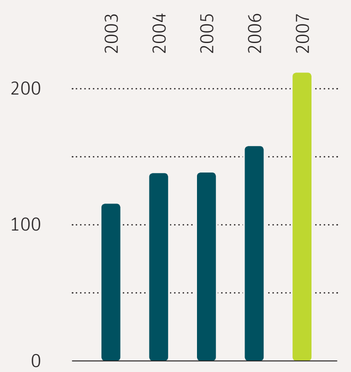
Textile Systems
Automotive Systems

EBIT in CHF million



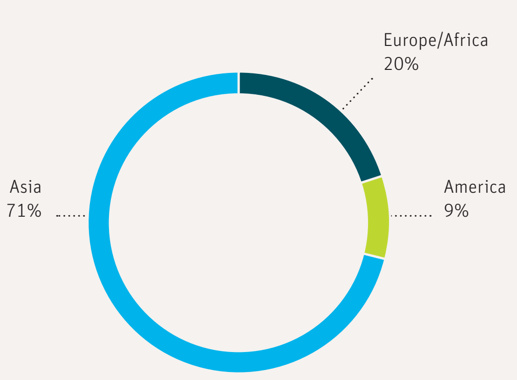
Textile Systems
Automotive Systems

Net profit in CHF million



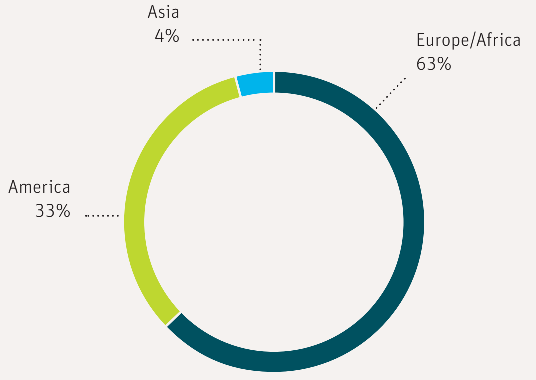
Textile Systems

Sales by geographical region (1 566.8 CHF million = 100%)



Automotive Systems

Sales by geographical region (2 363.3 CHF million = 100%)



Financial highlights

CHF million		2007	2006	Change in %
Rieter Group				
Orders received		4 066.4	3 793.5[1]	7.2
Sales		3 930.1	3 501.4[1]	12.2
Corporate output[2]		3 822.8	3 447.5	10.9
Operating result before special charges, interest and taxes		286.8	256.3	11.9
• in % of corporate output		7.5	7.4	
Operating result before interest and taxes (EBIT)		278.7	180.6	54.3
• in % of corporate output		7.3	5.2	
Net profit		211.5	157.4	34.4
• in % of corporate output		5.5	4.6	
Return on net assets (RONA)[3] %		13.8	10.8	
Cash flow[4]		360.2	329.6	9.3
• in % of corporate output		9.4	9.6	
Investments in tangible fixed assets and intangible assets		203.5	186.2	9.3
Total assets		2 834.6	2 884.6	– 1.7
Shareholders' equity before appropriation of profit		1 368.7	1 375.4	– 0.5
Number of employees at year-end[5]		15 506	14 826	4.6
Divisions				
Sales Textile Systems		1 566.8	1 322.2[1]	18.5
Operating result before interest and taxes (EBIT) Textile Systems		200.7	92.7	116.5
• in % of corporate output Textile Systems		13.1	7.0	
Sales Automotive Systems		2 363.3	2 179.2	8.4
Operating result before interest and taxes (EBIT) Automotive Systems		91.6	94.7	– 3.3
• in % of corporate output Automotive Systems		4.0	4.4	
Rieter Holding Ltd.				
Share capital		22.3	22.3	
Net profit		67.4	63.4	6.3
Gross distribution		62.8[6]	62.1	1.1
Number of registered shares, paid-in		4 450 856	4 450 856	
Average number of registered shares outstanding		4 092 265	4 149 946	– 1.4
Price of registered shares (high/low)	CHF	717/478[7]	641/387[7]	
Number of registered shareholders on December 31		7 091	6 429	10.3
Market capitalization on December 31		1 965.7	2 661.1	– 26.1
Data per registered share				
Earnings per share	CHF	48.19	35.53	35.6
Equity (group)[8]	CHF	332.86	316.34	5.2
Gross distribution (Rieter Holding Ltd.)	CHF	15.00[6]	15.00	

1. Excluding manmade fiber activities, which were divested in the 4th 2006.
2. Sales, adjustments for sales deductions and own work capitalized and changes in inventories of products manufactured by the company (cf. page 54).
3. Net profit before interest cost in % of net assets excluding financial debt.
4. Net profit plus depreciation and amortization (cf. page 88).
5. Excluding apprentices and temporary employees.
6. Proposed by the Board of Directors (cf. page 102).
7. Source: Bloomberg.
8. Shareholders' equity attributable to shareholders of Rieter Holding Ltd. per share outstanding at December 31.

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 20 countries with some 70 manufacturing facilities and has a total worldwide workforce of approximately 15 500 employees, some 13% of whom are based in Switzerland.

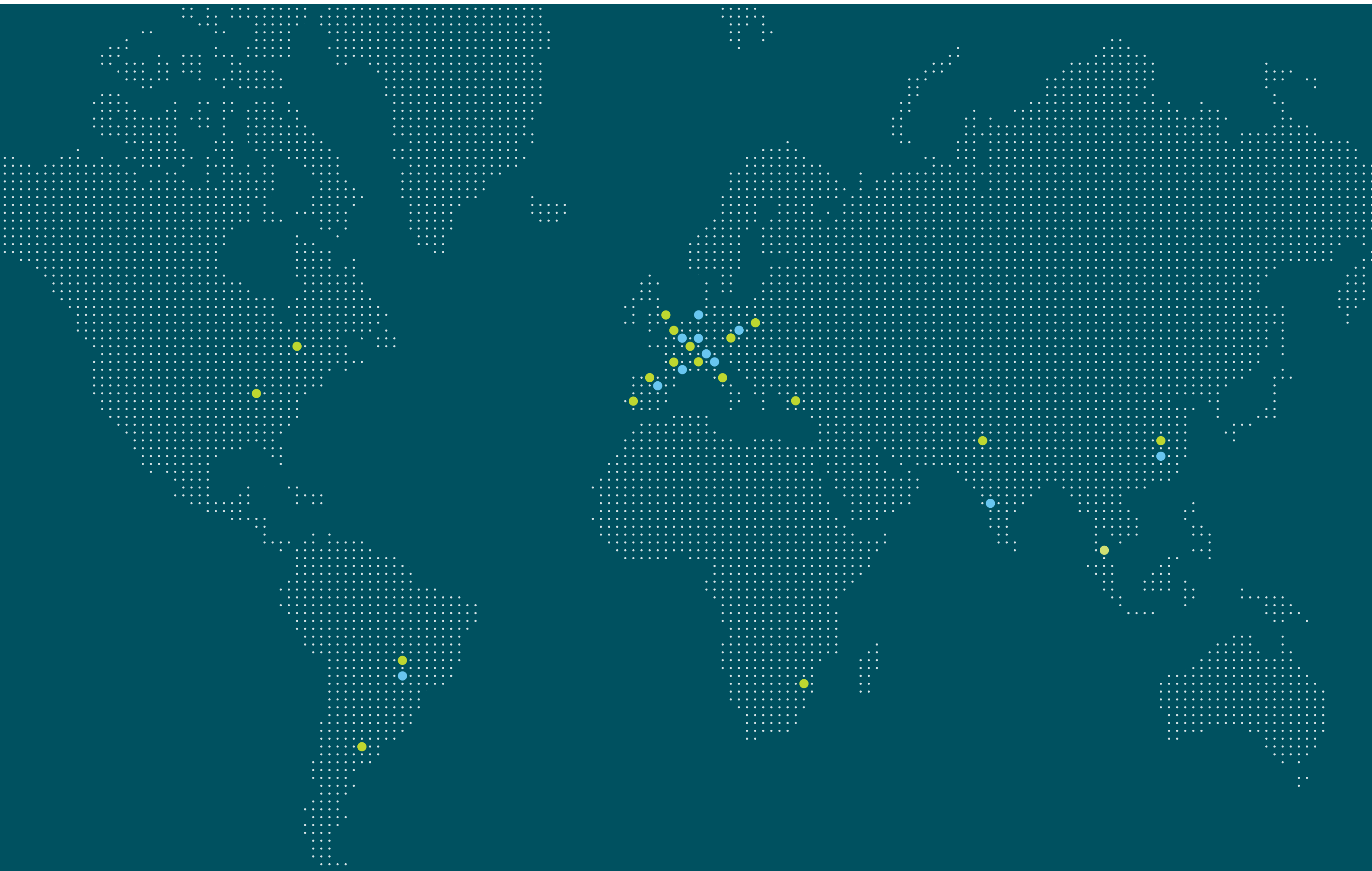
For the benefit of shareholders, customers and employees, Rieter aspires to achieve sustained growth in enterprise value. With this in mind, Rieter seeks to maintain continuous growth in sales and profitability, primarily by organic growth, but also through strategic alliances and acquisitions.

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 manmade 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 2007 the Textile Systems Division posted sales of 1 566.8 million CHF, equivalent to 40% of total group sales, with 5 476 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 countries in which its customers produce their vehicles, increasingly also in Eastern Europe and Asia. In 2007 the division posted sales of 2 363.3 million CHF, accounting for 60% of total group sales, with 9 878 employees.

Manufacturing locations by country



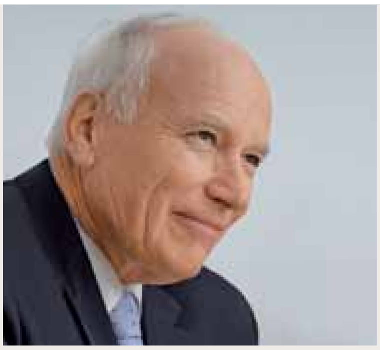
Manufacturing locactions Textile Systems

Belgium Stembert **Brasil** São Paulo **China** Changzhou **Czech Republic** Boskovice, Ústí nad Orlicí, Žamberk **France** Montbonnot, Wintzenheim **Germany** Grossostheim, 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 **Great Britain** Halesowen, Heckmondwike, Stoke-on-Trent **India** Behror **Italy** Desio, Marcianise, Pignataro Maggiore, Santhià, Vicolungo **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, St. Joseph, Valparaiso

Rieter reports record sales, operating result and net profit



Kurt Feller
Chairman of the Board of Directors

Hartmut Reuter
Chief Executive Officer

Dear shareholder

The Rieter Group set new records for sales, operating result and net profit in the 2007 financial year, thus maintaining the positive trend of recent years. The efforts of Rieter's 15 500 employees in conjunction with innovative products and services made this performance possible.

Favorable market environment
The global economy as a whole developed positively in 2007. Growth momentum was a characteristic feature in all major industrialized countries as well as the emerging economies in Asia and Latin America. Both divisions of Rieter successfully exploited this trend. The markets served by the group's two divisions, Textile Systems and Automotive Systems, recorded significant growth in the year under review. The investment climate on the world market for textile machinery was very favorable in the first six months in particular. Vehicle output by the automotive industry increased worldwide. In Rieter's principal markets vehicle production rose in Western Europe, but was slightly lower in North America. The countries in Eastern Europe, Asia and Latin America recorded strong growth.

Substantial organic growth at both divisions
Rieter's sales adjusted for divestiture rose by 12% to 3 930.1 million CHF. This good perfor-mance is attributable entirely to organic growth, which was resolutely pursued in both divisions. Exchange rate movements had a slightly positive impact on overall group sales.

At the end of 2007 the Rieter Group employed a workforce of some 15 500 worldwide, an increase of 5% compared with the end of the previous year. This increase was due mainly to the expansion of capacity in emerging economies, where both divisions of Rieter are exploiting the potential of new markets and taking advantage of lower-cost manufacturing locations.

Further increase in profitability
The operating result before interest and taxes rose by 54% in the year under review to 278.7 million CHF, equivalent to 7.3% of corporate output (5.2% in 2006). The two divisions contributed to this outcome in differing degrees. Textile Systems set a record, while margins at Automotive Systems were adversely affected by a challenging industry environment.

Higher net profit and earnings per share
Profits surged at the Rieter Group in 2007 due to a good operating performance, the absence of losses on disposals and a good net financial result. Net profit increased by 34% to 211.5 million CHF, equivalent to 5.5% of corporate output (4.6% in 2006). Cash flow rose by 9% to 360.2 million CHF (329.6 million CHF in 2006). Earnings per share improved sharply to 48.19 CHF (35.53 CHF in 2006).

Dividend

Rieter Holding Ltd. reported a net profit of 67.4 million CHF for the 2007 financial year (63.4 million CHF in 2006). Together with the retained earnings brought forward from the previous year, a total of 97.9 million CHF is at the disposal of the Annual General Meeting. The Board of Directors will propose to the Annual General Meeting of Rieter Holding Ltd. on May 8, 2008, that a dividend of 15.00 CHF per share be paid for the 2007 financial year (15.00 CHF in 2006).

Textile Systems: record orders received, sales and operating result

The trend of business at Rieter Textile Systems was very good. Compared with the previous year, orders received 2007 adjusted for divestiture was 6% higher, reaching the record level of 1 703.1 million CHF (1 614.3 million CHF in 2006). As expected, demand eased in the second half of the year. Sales increased by 18% compared with the previous year, reaching the historical record level of 1566.8 million CHF (1 322.2 million CHF in 2006).

Rieter's net profit increased by 34% to 211.5 million CHF, equivalent to 5.5% of corporate output.

Rieter Textile Systems reported a record operating result before interest and taxes of 200.7 million CHF in 2007. The high operating margin achieved in the first six months was even slightly exceeded in the year as a whole, rising to 13.1% of corporate output (7.0% or 11.1% before special charges in 2006). An attractive offering, a favorable product mix, good capacity utilization and cost discipline all contributed to this achievement. Profitability was also improved by the disposal of the loss-making manmade fiber machinery business at the end of 2006, i.e. as a result of the absence of the special charges associated with this business.

Automotive Systems: continued sales growth

The growth trend of the past five years continued at Rieter Automotive Systems in the year under review. Sales increased by 8% to 2363.3 million CHF. This growth was broad-based in terms of both geographical spread and models equipped. Rieter Automotive Systems grew significantly faster than vehicle output in both its main markets, Western Europe and North America. Rieter also achieved substantial growth in South America and Asia.

The positive sales trend was not translated into a corresponding increase in earnings: the operating result before interest and taxes (EBIT) at Automotive Systems in the 2007 financial year amounted to 91.6 million CHF (94.7 million CHF in 2006). At 4.0% of corporate output (4.4% in 2006), Automotive Systems maintained the operating margin achieved in the first half of 2007. The subdued outcome was attributable to increasingly severe pressure exerted by customers on suppliers' prices as well as the rising cost of materials and energy, only a small part of which could be passed on to customers. Rieter Automotive was unable to compensate fully for these developments through cost-cutting programs in 2007. Additional costs arose in connection with production relocations in England.

Investments to implement strategy

The Rieter Group's focus on two fields of industrial activity in all major economic regions again proved its worth in 2007. Rieter will continue to pursue this dual strategy and invest in the development of new markets, product innovation and new processes to enhance efficiency and quality at both divisions. Rieter is thus securing the basis for further profitable growth.

The growth markets in Asia are a focal point of investment for Rieter in the years to come. Especially in India, where Rieter traditionally has a strong presence, the group intends to expand the activities of both divisions substantially in the coming years. Rieter has already started to expand capacity at its existing manufacturing site near Pune in the year under review.

With the acquisition of component manufacturer Berkol, Rieter Textile Systems expanded its offering in the field of technology components for staple fiber machinery. This Swiss-based company will be consolidated as of January 1, 2008.

Especially in India, where Rieter traditionally has a strong presence, the group intends to expand the activities of both divisions in the coming years.

Rieter is continuously analyzing further opportunities for acquisitions that strategically complement existing activities and contribute to good profitability.

Sound financial condition and a healthy balance sheet

Rieter remained on a sound financial foundation at the end of the year under review with net liquidity of 144.5 million CHF (1 47.3 million CHF in 2006) and an equity ratio of 48.3% (47.7% in 2006). The good level of liquidity was maintained despite higher capital expenditure and the repayment of 200 million CHF of 4% bonds on June 21, 2007. The equity ratio of the Rieter Group has risen steadily in recent years due to the positive result of the business. This enabled Rieter to launch a share buyback program of up to 150 million CHF on September 7, 2007 without limiting its scope for industrial expansion as a result. A motion proposing a first reduction in share capital will be submitted to the shareholders at the 2008 Annual General Meeting. The share buyback program will be continued as planned until the 2009 Annual General Meeting.

Changes in the Group Executive Committee

Erwin Stoller, who has been a member of Rieter's Group Executive Committee since 1992 and CEO of the Automotive Systems Division since 2002, withdrew from operating management at the end of 2007. The Board of Directors appointed Wolfgang Drees to succeed Erwin Stoller as of January 1, 2008. Wolfgang Drees is a German national and previously headed Business Group Europe, the largest unit in the Automotive Systems Division. He was at the same time deputy to Erwin Stoller. Rieter has ensured management continuity with this appointment. The Board of Directors and the Group Executive Committee wish to thank Erwin Stoller for his many years of successful work on behalf of the company. Erwin Stoller has rendered valuable service to the group since joining Rieter in 1978. Both at Textile Systems and at Automotive Systems he has initiated and implemented decisive changes that have contributed to Rieter's long-term success.

Changes in the Board of Directors
At the Annual General Meeting held on May 10, 2007, Rudolf Hauser retired from the board upon reaching retirement age. At the same time shareholders re-elected Dr. Dieter Spälti for a further three-year term of office.

Rieter is continuously analyzing further opportunities for acquisitions that strategically complement existing activities and contribute to good profitability.

Kurt Feller will retire as Chairman of the Board and a Director of Rieter Holding Ltd. at the 2008 Annual General Meeting upon reaching retirement age as stipulated in the Articles of Association. The Board of Directors of Rieter Holding Ltd., Winterthur, has decided to propose to the Annual General Meeting scheduled for May 8, 2008, that Roland W. Hess be elected to the Board of Directors. It is intended that he should be appointed Chairman.

Rieter's Board of Directors will also propose to the Annual General Meeting on May 8, 2008, that Erwin Stoller, a member of the Group Executive Committee until the end of 2007, be elected to the Board of Directors of Rieter Holding Ltd. Erwin Stoller is nominated as Vice-Chairman. Dr. Rainer Hahn, whose term of office expires 2008, will stand for re-election as a member of the board for a further three years.

Shareholders
Barclays Plc (UK) and Rieter Holding Ltd. each held more than 5% of Rieter's registered shares at the end of 2007. No other investor held a notifiable interest in the company's share capital on record date. Rieter continues to favor a wide distribution of shareholdings.

Outlook
Economic developments in 2008 are difficult to forecast at present, since the uncertainties coming from the financial markets are persisting. Rieter expects demand for textile machinery in the 2008 financial year to develop at a lower level than in the two very good preceding years. Vehicle output will increase worldwide in 2008, but will probably decline in North America.

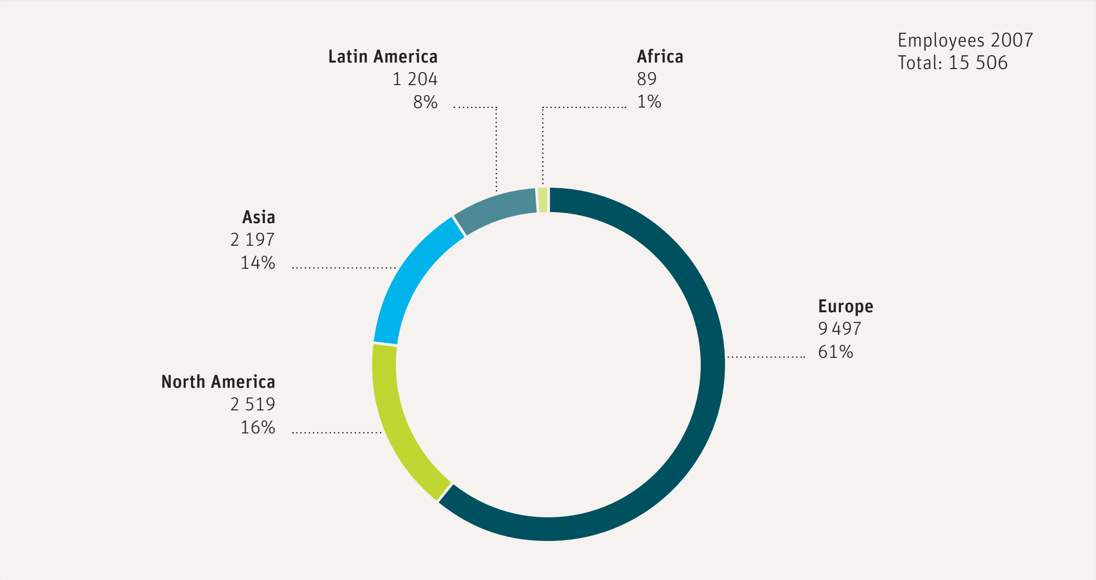
Rieter expects sales in the current year after adjustments for currency movements and divestments to be at approximately the previous year's level. On the basis of current exchange rates, however, currency translation effects are likely to have an adverse effect of 5–10% on sales revenues stated in Swiss francs compared with the previous year. Assuming increasingly weak levels of economic activity and due to additional costs incurred in establishing manufacturing capacity in the growing markets of both divisions, Rieter expects a somewhat lower operating result than in the previous year. However, the growth prospects for sales and earnings at both divisions remain positive in the medium and long term.

Thanks
On behalf of the Board of Directors and the Group Executive Committee, we wish to thank our customers for the confidence they have shown in us and our shareholders for their commitment. Thanks to our employees for all their efforts. We have been especially appreciative of the flexibility of employees and suppliers that enabled the high volume of orders at Rieter Textile Systems to be coped with successfully.

Winterthur, March 18, 2008

Kurt Feller	Hartmut Reuter
Chairman of the Board of Directors	Chief Executive Officer

Employees by geographical region 2007



Thanks to Kurt Feller

Kurt Feller will retire as Chairman of the Board and a Board member of Rieter Holding Ltd. at the 2008 Annual General Meeting upon reaching retirement age as stipulated in the articles of association.

Kurt Feller joined Rieter in 1977. He first occupied various positions in the Finance Department at Rieter Machine Works Ltd., and became Finance Director and a member of the executive management team in 1982. Two years later he became a member of the Group Executive Committee. In 1989 the Board of Directors appointed him Chief Executive Officer. In 1994 the Annual General Meeting elected him to the Board of Directors and at the same time he was appointed Executive Director. Kurt Feller presided the Board since the 2000 Annual General Meeting.

Kurt Feller has been a major influence in shaping the structure of the Rieter Group as we know it today. He was one of the driving forces behind efforts to broaden Rieter's business portfolio. With the acquisition of Unikeller in 1984 and the subsequent enlargement of the automotive component supply business, the machinery manufacturer producing mainly in Switzerland became a corporate group with an international presence based on the two operating arms of Textile Systems and Automotive Systems. Kurt Feller promoted the systematic expansion of both divisions with strategic far-sightedness based on his sound knowledge of products and markets. Under his leadership the Rieter Group achieved strong growth and dynamic expansion into new markets. Sustained profitability coupled with a sound financial base, providing an essential foundation for the ongoing development of the group, were always core concerns. Among the prime strategic goals for Kurt Feller were the preservation of the company's autonomy and independence.

The Board of Directors, the Group Executive Committee and the employees of the group wish to thank Kurt Feller most sincerely for his untiring and successful efforts on behalf of the group and wish him all the best and good health for the future.

Global teamwork at Textile Systems:
the RSB-D 40 autoleveler drawframe, a key machine in the spinning process, is a global coproduction with an international cast that has achieved resounding success.

Take a look behind the scenes!

The drawframe RSB-D 40 – an examplary co-production

1 **Martin Hrnčíř** heads order processing for the rotor and drawframe business units at Rieter in Ústí (Czech Republic).

2 **Jürgen Müller** (left), responsible for product management in the Drawframe Business Unit, and **Harald Szczepanek** (right), Head of Rieter Ingolstadt and the Drawframe Business Unit.

3 **Nikolaus Kutschera** of Rieter Ingolstadt conducts final mechanical acceptance of an RSB-D 40.

4 **Wang Luping** supervises quality control at Rieter Changzhou.

5 **Xie Guowei** (left), Technical Manager in Changzhou, coordinates projects involving different locations. **Klaus-Uwe Moll** (right) is based in Ingolstadt and heads not only research and development in the Drawframe Business Unit, but also the members of the project teams in Europe and China.

6 **Zhou Yueping** gained initial work experience in the development of the RSB-D 40 and is now working as a production engineer in Changzhou.

7 **Peter Kopold** (left), Technologist, and **Michael Werner** (right), Head of the Customer Spinning Unit at Rieter Ingolstadt.

8 **Helena Orlíková** deals with shipping and customs formalities at the Ústí plant and ensures that the drawframes also arrive safely at their destinations worldwide.

9 **Johann Schweiger** was trained at Rieter Ingolstadt and now works on the RSB-D 40 assembly line.

10 **Johann Ampferl** (left) works in the electrical development department of Rieter Ingolstadt and is responsible for the hardware design of the RSB-D 40; **Georg Pecanac** (right) from Product Development in Changzhou.

11 **Manfred Wagner** (left), from the mechanical development department in Ingolstadt cooperates closely with his colleagues in China; **Qian Jianjun** (right), from Product Development in Changzhou.

12 **Liu Jun** works as a mechanical designer for Product Development in Changzhou; he already has work experience in other fields of machine manufacturing.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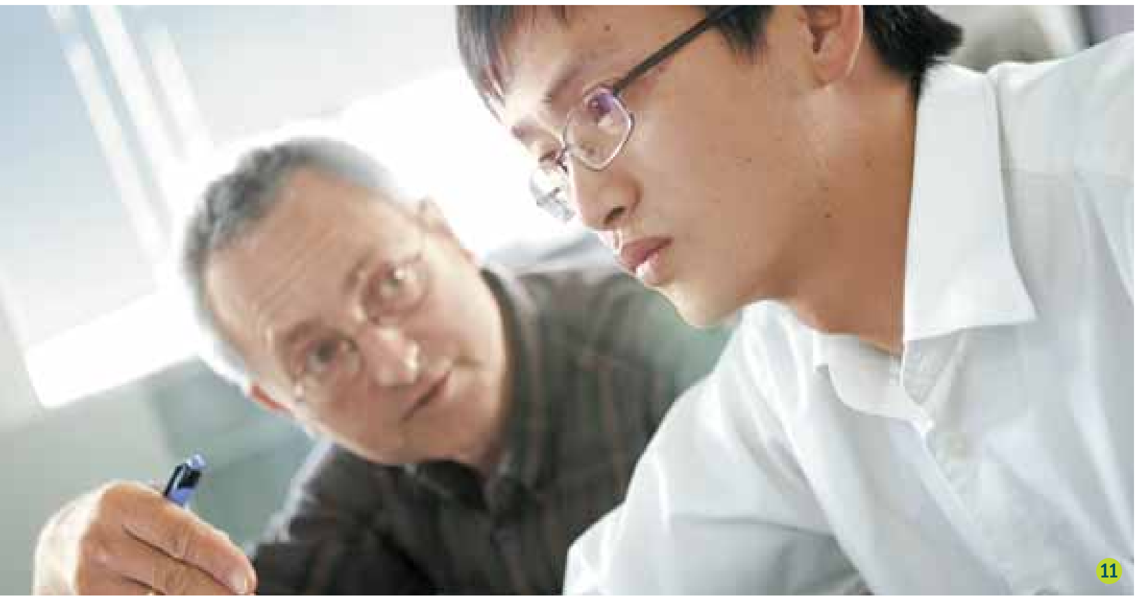
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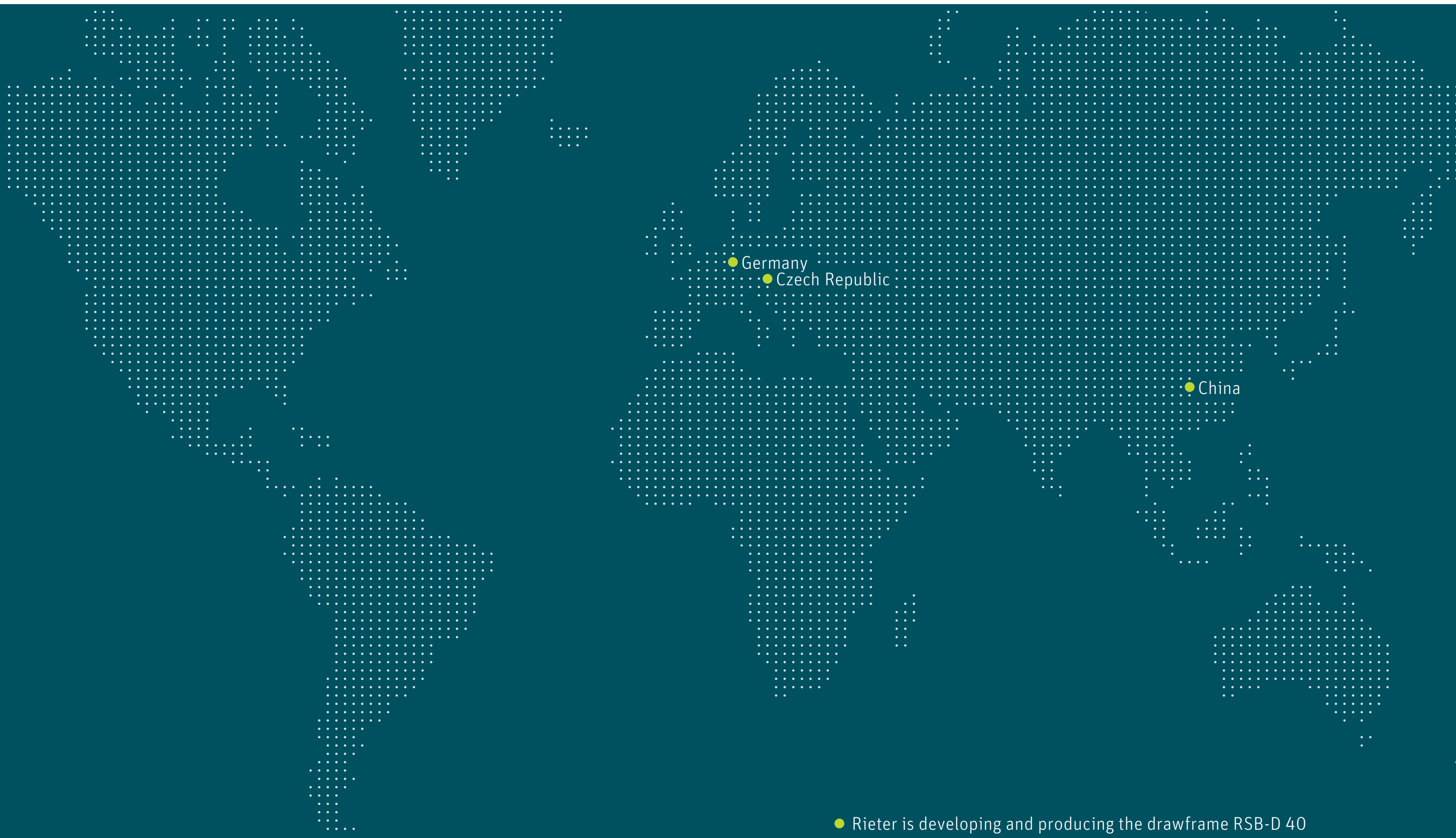


Rieter Textile Systems has customers, plants and personnel all over the world. So it's logical that many projects should be organized as global team efforts. An instructive example of the successful exchange of ideas, technologies and talents is the "RSB-D 40".

The drafting process is an important operating stage in spinning fibers into yarn, since it has a considerable influence on the quality of the yarn. Through its superior performance and economy, Rieter's autoleveler drawframe has rapidly become a benchmark: with more than 25 000 sales and exports to more than 100 countries within a short time. This success stems from international cooperation: the machine was developed and designed by Rieter in Ingolstadt (Germany); production and final assembly take place in Ingolstadt as well as in Ústí nad Orlicí (Czech Republic) and Changzhou (China). The teams in the three countries cooperate between the different sites. The project is headed by a team in Ingolstadt, which also coordinates continuous interchange between the sites and ensures smooth teamwork.

With this approach borne out by the success of the RSB-D 40, Rieter will in future increasingly rely on international project teams and collaboration between different countries. A good example of this is the new SB-D 201 double-head drawframe: it is manufactured specifically for the Chinese market and has been largely developed by design engineers at Rieter Changzhou.

This approach enables the local advantages of the location to be exploited and shipping costs and customs duties to be reduced, while at the same time customers benefit from individually tailored solutions adapted ideally to the specific features of the country in question.

Rieter Textile Systems

Divisional chief executive
Peter Gnägi

Number of employees at year-end
5 476 (5 219) employees

Orders received
1 703.1 (1 614.3)[1] CHF million

Capital expenditure of tangible fixed assets
84.1 (56.1) CHF million

Sales
1 566.8 (1 322.2)[1] CHF million

Products
Components, machines and systems for producing yarns and nonwovens

Operating result before interest and taxes
200.7 (92.7) CHF million
13.1% (7.0%) of corporate output

Return on net operating assets (RONOA)[2]
46.7% (34.5%)

(Previous year's figures are in brackets.)

1. Excluding the manmade fiber activities divested in 2006.
2. Operating result before special charges, interest and taxes in % of average net operating assets.

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 manmade 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 offering ranges from technology components through machinery and systems to complete installations. In addition, it 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 these fiber-based fabrics are continually emerging in industry, agriculture, medical technology and many other sectors, making this still young market segment correspondingly dynamic.

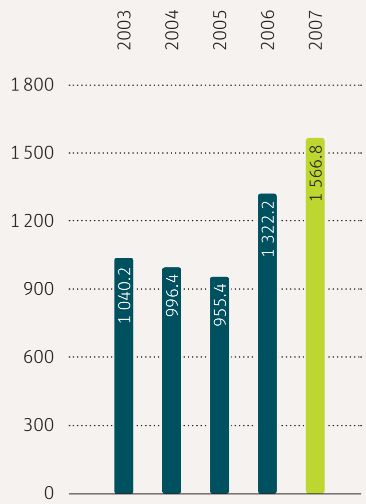
New records in orders received, sales and operating result

The investment climate on the world market for textile machinery was generally very favorable in 2007. The strongest growth momentum for spinning machinery came from Turkey, India and China. Demand was especially strong in the first six months. Due to the rapid increase in the purchasing power of the middle classes in India and China, sales of textiles and thus the potential for textile machinery have increased considerably in recent years. This new class of consumers is showing an increasing preference for textiles of higher quality. The yarns that are required for these can only be spun on machines featuring modern technology, which compels spinning mills to invest accordingly – to Rieter's benefit. A further trend in the growth markets is the increasing demand for automated installations. Booming economies have resulted in steep rises in labor costs and qualified personnel has become scarcer, even in Asia.

The growth of the textile industry in Asia is continuing. The upswing in the new markets stimulates the business of western machinery manufacturers and also local competitors. In order to hold their own, foreign suppliers need to have a local presence not only in the shape of sales organizations but also of manufacturing facilities and development of solutions specific to the markets. Rieter benefits in the Asian growth markets from its many years of experience as well as its strong brand.

Compared with the previous year, orders received rose by 6% to the record level of 1 703.1 million CHF.

Sales development[1] in CHF million



1. Excluding manmade fiber activities, which were divested in the fourth quarter 2006.

Orders received at record level

As a leading systems supplier, Rieter was able to take full advantage of the positive market environment and posted a record level of orders received in 2007. This was due to systematic upgrading of the product offering, an efficient global marketing, sales and service organization and increasing value added in India and China. Rieter Textile Systems helps customers to reinforce their market position and cut costs with innovative product and system solutions.

Compared with the previous year, orders received were 6% higher after adjustment for disposals, reaching the record level of 1 703.1 million CHF (1 614.3 million CHF in 2006). As expected, demand eased in the second half of the year, leading to a decline in orders received, but order intake of 619 million CHF still exceeded the average sixmonth figure for the years 2004 to 2006. All product segments, both spinning machinery and the technology components business, contributed to this impressive achievement. Rieter also posted an increase in orders received for nonwovens production machinery.

Further striking increase in sales

Compared with the previous year, sales increased by 18% after adjustment for disposals to the record level of 1 566.8 million CHF. This growth was entirely organic in nature. Sales revenue lost as a result of withdrawing from the manmade fiber machinery business at the end of 2006 was more than offset by other products. As in the case of orders received, Turkey, India and China also headed the sales rankings. The division generated 71% of sales in Asia (including Turkey) in the year under review (67% in 2006).

Rieter Textile Systems also posted a striking increase in operating earnings in the 2007 financial year.

Continued high profitability

Rieter Textile Systems also reported a record operating result before interest and taxes of 200.7 million CHF in 2007, equivalent to 13.1% of corporate output (11.1% before special charges in 2006). The high operating margin was due mainly to the good level of capacity utilization and a favorable mix of newly launched and mill-proven products. Despite the large volumes and the higher cost of materials, Rieter Textile Systems maintained strict cost discipline. Measures to enhance flexibility in production operations, including the employment of temporary labor, outsourcing and appropriate working-time models, also proved their worth at Rieter Textile Systems in coping with the very high order volumes. Profitability was also improved by the disposal of the loss-making manmade fiber machinery business at the end of 2006, i.e. as a result of the elimination of the special charges associated with this business.

Expansion to develop new markets

Rieter Textile Systems took further steps in 2007 to reinforce its position in strategically decisive markets such as India and China. Textile Systems is aiming progressively to manufacture its entire range of staple fiber machinery also in India and China. Rieter intends in this way to satisfy the high level of domestic demand and serve the neighboring markets. Rieter will make substantial investments in this region and establish additional capacity in the next few years.

In the year under review Rieter Textile Systems expanded its plant in Changzhou (China) and focused operations even more closely on products for the local market including, for example, the successful launch of a drawframe model designed specifically for China.

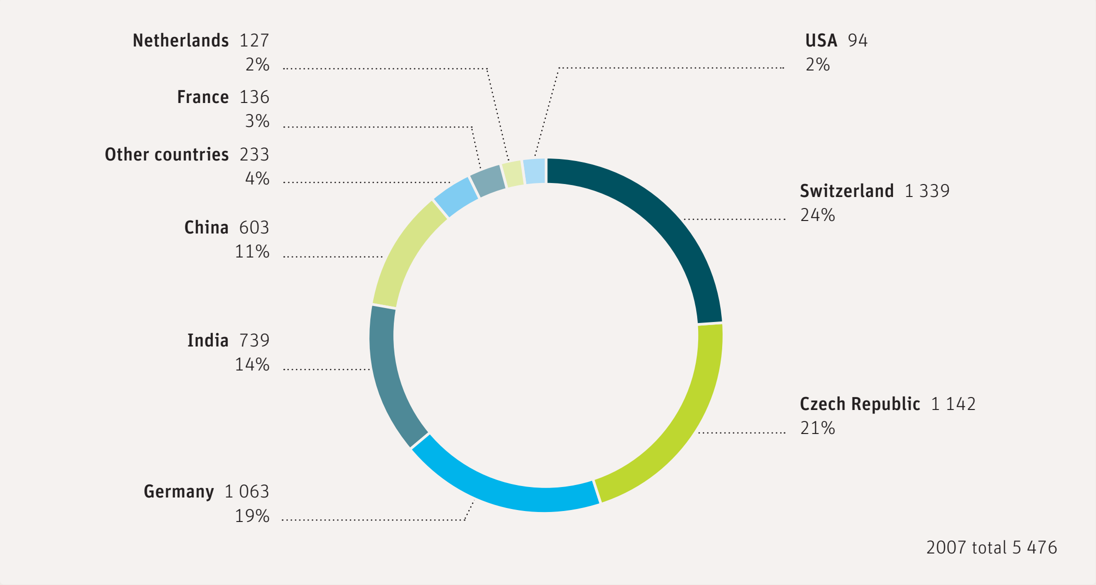
Rieter intends to continue developing and manufacturing technology components in Europe in future. These high-quality, innovative products made in Europe are in demand worldwide, especially in Asia and also from Rieter's competitors. All prominent textile machinery manufacturers in Asia are therefore purchasers of Rieter technology components. Since Rieter expects the world market to continue growing, manufacturing capacity has been expanded.

Innovations for high quality, productivity and energy efficiency
Rieter exhibited a wide range of innovations at the international textile machinery fair (ITMA) that was held in Munich in September 2007. These included four record-breakers in the field of spinning short staple yarns: the world's longest compact spinning and rotor spinning machines, and the most productive card and comber. The objective of all innovations is to enable customers to manufacture high-quality yarns while reducing operating costs at the same time. Energy efficiency is a focus of special attention.

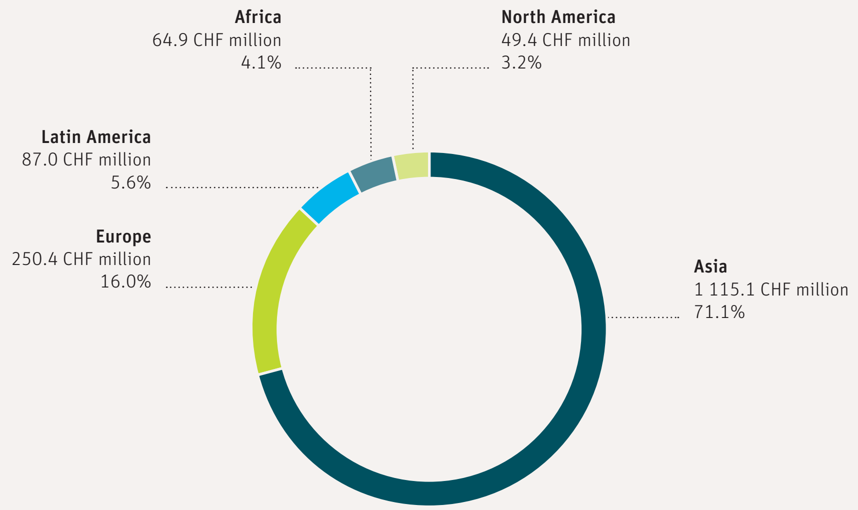
Successful strategy as a systems supplier
Rieter tested air spinning in various customers' mills in 2007 and prepared its market launch. This spinning process enables a new, high-quality yarn to be manufactured at reasonable cost. Rieter foresees considerable market potential for this new process.

The soundness of Rieter Textile Systems' strategy of being a leading supplier of products and services for the entire spinning process was confirmed by the successes achieved in the year under review: some three-quarters of all orders were for complete systems or sub-systems. The success of the complete system on the market calls for top performance from each individual product. A strong

Number of employees at year-end



Sales by geographical region 2007



product offering in all fields provides Rieter with good sales arguments against competition and its technological leadership gives it a high level of credibility with customers.

The compact spinning processes developed and marketed by Rieter under the ComforSpin and Elite brands for manufacturing high-quality yarns have continued their advance on the world market and are increasingly becoming the standard in the industry.

As a leading supplier of spinning installations for staple fibers, Rieter Textile Systems is benefiting not only from global demand for cotton products, but also from growth in the market for manmade fibers. A large proportion of manmade fibers are spun on staple fiber machines, frequently blended with natural fibers.

Market successes with nonwovens production machinery

The markets for nonwovens production machinery also continued to develop positively. Production of nonwovens will continue to be distributed worldwide across all economic regions, since freight costs for bulky nonwoven products are high. Manufacturers therefore install their equipment in the local markets.

For the first time a high-output Spunlace line for manufacturing carded nonwovens came into operation in India in 2007. Demand for nonwovens has emerged with growing prosperity in this region, enabling industry and consumers to use nonwovens-based, disposable products such as filters and tissues. Rieter Textile Systems foresees considerable market potential for nonwovens production machines in the medium and long term due to economic development in populous countries. Rieter demonstrated its expertise in this large market segment by concluding a large Spunbond contract with a prominent nonwovens manufacturer in Europe. Together with strategic business partners, Rieter is capable of delivering all nonwovens processes as a systems supplier.

Important addition in technology components

Rieter Textile Systems continued the rapid development of the business with technology components, upgrades and service offerings in 2007 and expanded its global market leadership. This business is less subject to demand cycles than machinery sales and enables sales and earnings to grow continuously. It made a substantial contribution to the growth of Rieter Textile Systems in the year under review.

In autumn 2007 Rieter signed a contract to acquire Berkol, a textile component manufacturer. As a result of this addition to its business, Rieter now supplies virtually all technology components in contact with the fiber in the spinning process. Rieter Textile Systems is thus further expanding its leading role as the world's largest supplier of technology components for staple fiber machinery.

Rieter Textile Systems continued the rapid development of the business with technology components, upgrades and service offerings in 2007 and expanded its global market leadership.

Outlook

Rieter Textile Systems believes that activity on the textile machinery markets in 2008 will be at the average level for the years 2002 to 2005 and thus lower than the record years of 2006 and 2007. Due to the good order intake in 2007, capacity is almost fully utilized into the third quarter of 2008. On a current view, the previous year's record sales will not quite be equaled after adjustments for currency movements and divestments, but a very good operating margin will be achieved.

Global teamwork at Automotive Systems: the new Honda Civic is a typical example of global customer focus.

What's behind it? ⇢

Global teamwork for the world car Honda Civic

1 **Michio Nagumo** is general manager in the sales office Honda of the Japanese Rieter partner Nittoku in Tokyo.

2 **Heinz Walter**, Stoke-on-Trent, is managing director of Rieter Automotive Great Britain.

3 **Rob Fairclough** is plant manager in Stoke-on-Trent, where Rieter is producing dashes for Honda.

4 **Hisaya Yamaguchi** is general manager at Nittoku in Japan, responsible for technical and acoustic development and acoustic strategic coordination including material development.

5 **Hiroshi Kawamura** is acoustic engineer and is working in the area of acoustic measurement and research, Nittoku, Japan.

6 **Tracy Theos** (left) is program manager at Rieter's US partner UGN and has the responsibility to manage the Honda Civic program from receipt of award letter through start of production of the parts in UGN's manufacturing plant.
Michelle Stickle (middle) is sales account manager UGN and has the responsibility for the operational activities asssociated with the Honda account in North America and has contact with the Honda buyer.
Grant Meseck (right), the business development manager of UGN, has the overall strategic responsibility for the Honda account, balancing the capabilities of UGN with the requirements of Honda.

7 **Luca Mazzarella** coordinated the acoustic development of the Honda Civic program including the vehicle benchmarking phase, acoustic measurements on the rolling test bench as well as simulations. He is working as head of the Center of Excellence Vehicle Benchmarking at Rieter Automotive in Winterthur.

8 **Gilles Duquenoy** (left) is plant manager in the French La Chapelle-aux- Pots, where Rieter is producing dampers for the Honda Civic.
Emmanuel Reymond (right), Rieter Automotive France, is technical sales representative for Japanese car manufacturers in Europe.

9 **Nedret Ferik**, operator, is producing heatshield parts at the production unit of Rieter Erkurt in Turkey.

10 **Dris Bouarfa** is managing director of Rieter Erkurt in Bursa.

11 **Teruaki Taneichi** (left) is Nittoku's representative sales liaison for Japanese car manufactures in England; he is working at Rieter Automotive Great Britain in Halesowen.
Gary Askey (right) is manager of the Rieter customer business unit responsible for the Asian car manufacturers in Europe. Together with Teruaki Taneichi he is responsible for coordinating the technical aspects of the Honda Civic project with the Honda technical center in Japan and the commercial aspects with the Honda UK purchasing team.

12 **Kenji Tanaka** is manager design section and heading the design team for the Honda Civic, at Nittoku, Japan.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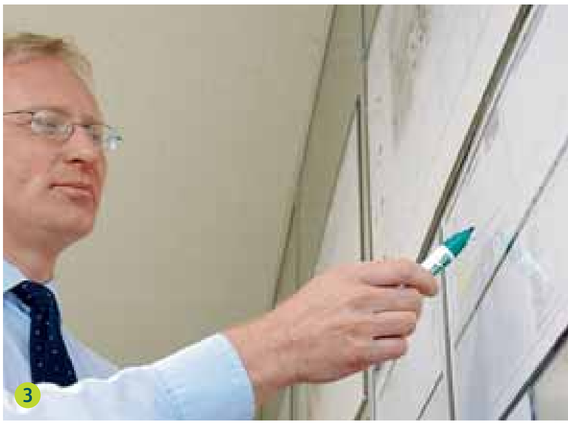
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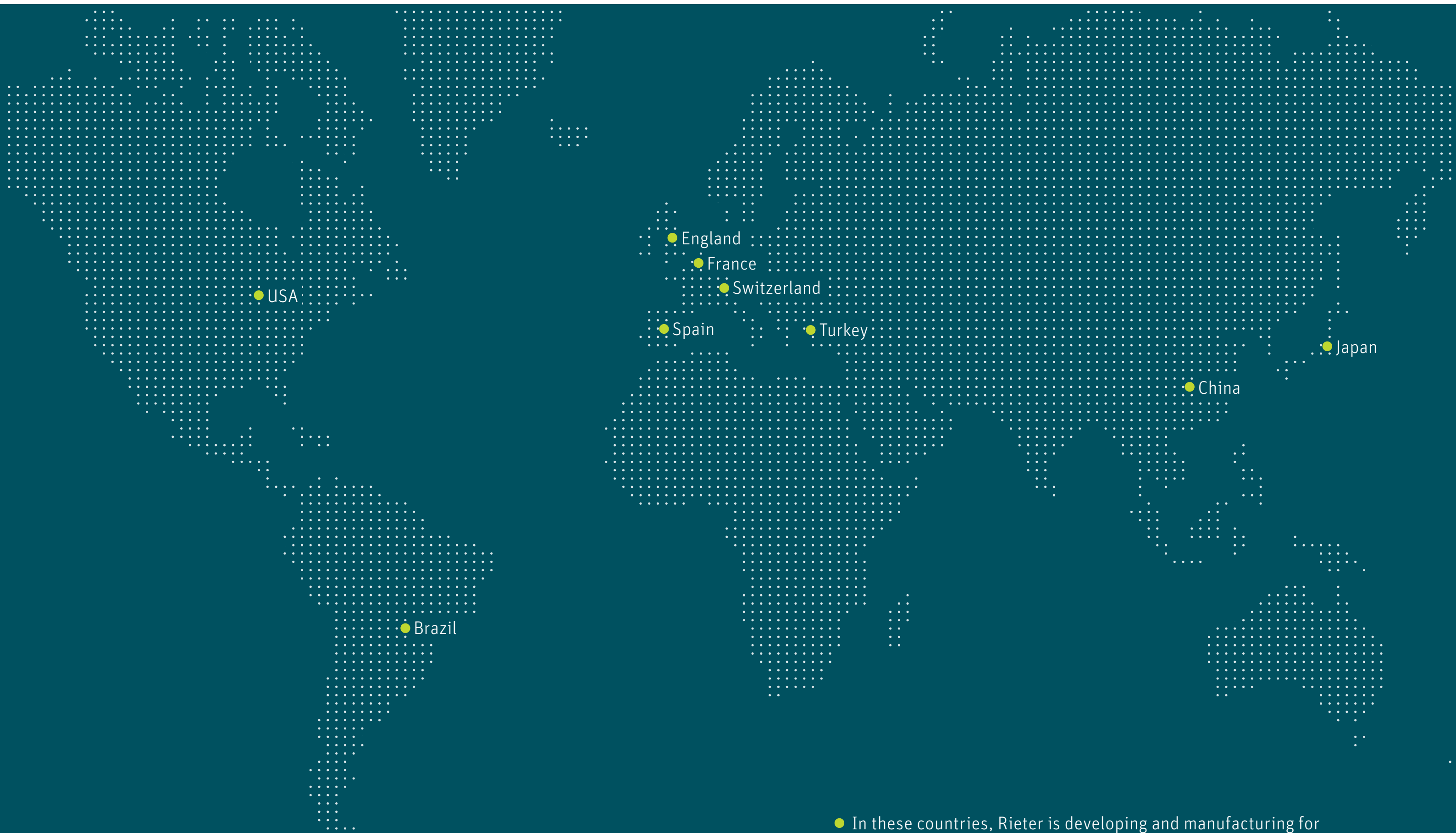


In these countries, Rieter is developing and manufacturing for the Honda Civic.

The long-standing success of Rieter Automotive Systems is based not least on the division's global presence. This is the result of the strategy of accompanying customers in their geographic expansion; through more than 50 wholly owned facilities in 20 countries or through partner companies, licensees and joint ventures. One example of this is the successful 40-year-old partnership between Rieter and Nittoku serving the Japanese automotive manufacturers.

Global teamwork for a world car. Honda produces almost one million Civics annually in twelve countries in Asia, Europe, and in North and South America. The know-how of Rieter and Nittoku enables innovative acoustic and thermal management solutions to be developed for the Honda Civic. Rieter supplies the Honda plants in Brazil, Canada, China, England, Turkey and the US with acoustic interior trim, insulating material and heat shields. The importance of geographic proximity to the customer is repeatedly evident here.

The team assembled by Rieter und Nittoku is just as global as the Civic. In addition to acoustics experts, it also includes specialists in development, design, production, procurement, finance, sales and marketing. They are based at Rieter, Nittoku and joint venture sites all over the world. Special program managers and customer relations managers coordinate work within the team and always assure Honda of the best possible solution – regardless of whether the Civic is being manufactured in the US or in Turkey.

With acoustics laboratories and development and competence centers throughout the world, Rieter Automotive Systems is ideally equipped to fulfill requirements for a world car such as the Honda Civic. Global teamwork and the exchange of ideas between different countries and cultures enable Rieter to develop products and solutions that reduce costs, weight and delivery lead times, and provide the Honda Civic with optimal acoustic comfort and thermal insulation.

Rieter Automotive Systems

Divisional chief executive
Erwin Stoller (until December 31, 2007)
Wolfgang Drees (from January 1, 2008)

Sales
2 363.3 (2 179.2) CHF million

Operating result before interest and taxes
91.6 (94.7) CHF million
4.0% (4.4%) of corporate output

Return on net operating assets (RONOA)[1]
12.0% (15.0%)

Number of employees at year-end
9 878 (9 485) employees

Capital expenditure of tangible fixed assets
112.4 (121.3) CHF million

Products
Systems and components for vehicle acoustics and thermal insulation (including interior trim and carpet systems and underfloor modules); services in the fields of acoustics and thermal insulation, plus automotive engineering, design and styling (IDEA Institute)

(Previous year's figures are in brackets.)

1. Operating result before special charges, interest and taxes in % of average net operating assets.

Rieter's Automotive Systems Division is the leading global manufacturer of systems for acoustic comfort and thermal insulation in motor vehicles. Its product range extends from individual components to modules and complete systems for the passenger, luggage and engine compartments, as well as the underfloor. Its customer list includes the names of all prominent manufacturers of passenger cars and commercial vehicles.

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

Rieter Automotive Systems operates nine acoustics laboratories as well as a central research center in Winterthur for acoustic and thermal management as well as the respective products and materials. Some 400 specialists worldwide are engaged in developing innovative customer specific products in close cooperation with the automobile manufacturers. They not only enhance the vehicle's comfort, but at the same time reduce its weight and aerodynamic drag. They thus contribute to reductions in CO_2 emissions and fuel consumption. As early as the development stage Rieter Automotive Systems attaches importance to environmentally compatible manufacturing processes and the recyclability of the components it produces using fibers, plastics and metals.

Ongoing growth entirely organic

Global automobile output rose by 5.5% to 70.7 million vehicles (passenger cars and light commercial vehicles) in 2007. Trends diverged in Rieter Automotive Systems' two main markets, Western Europe and North America. While vehicle production declined slightly in North America, it increased by 5.9% in Europe. The markets in Asia and Latin America recorded much stronger production growth.

Within Europe, Eastern Europe in particular registered strong growth (+16%). This economic region accounted for about one-fourth of European automobile production in 2007. The output of passenger cars and light commercial vehicles in North America decreased by 1.5% to 15.0 million vehicles in 2007. In Asia, vehicle output in all major automobile markets rose compared with the previous year. The increase was especially steep in China and India (21.5% and 15.3%, respectively). There were also striking rises in automobile production in Brazil and in Argentina.

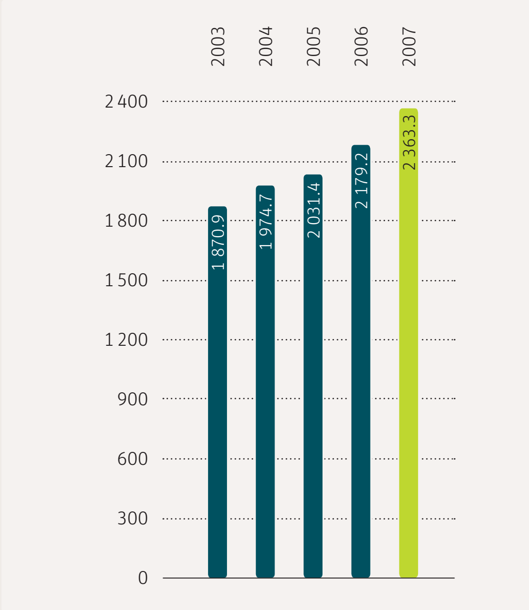
Pressure on automobile manufacturers' cost and earnings was passed on to suppliers in the form of further intensified pressure on prices; in addition to this, the rising cost of materials, energy and personnel had to be absorbed through greater economies of scale and increased efficiency.

Continued sales growth

The growth trend of the past five years continued at Automotive Systems in the year under review. The division's sales of 2 363.3 million CHF were 8% higher than the prior year. Growth at Rieter Automotive was just as strong in the second half as in the first six months of 2007. Exchange rates had a slightly positive impact on revenue development. Growth was broad-based with sales to a large number of customers. It was entirely organic, due to the division's leading position as a supplier of acoustic and thermal management systems and its global presence in almost all economic regions. Rieter Automotive continued to support the automobile manufacturers' goals of reducing weight, fuel consumption and CO_2 emissions in 2007 with its weight-saving acoustic packages and aerodynamic underfloor modules.

Automotive Systems grew much faster than overall vehicle output in Western Europe and North America. The division posted a substantial increase in sales in South America. Due to its stronger presence in Asia, Rieter also recorded significant sales in these markets in 2007. Business with Japanese

Sales development in CHF million

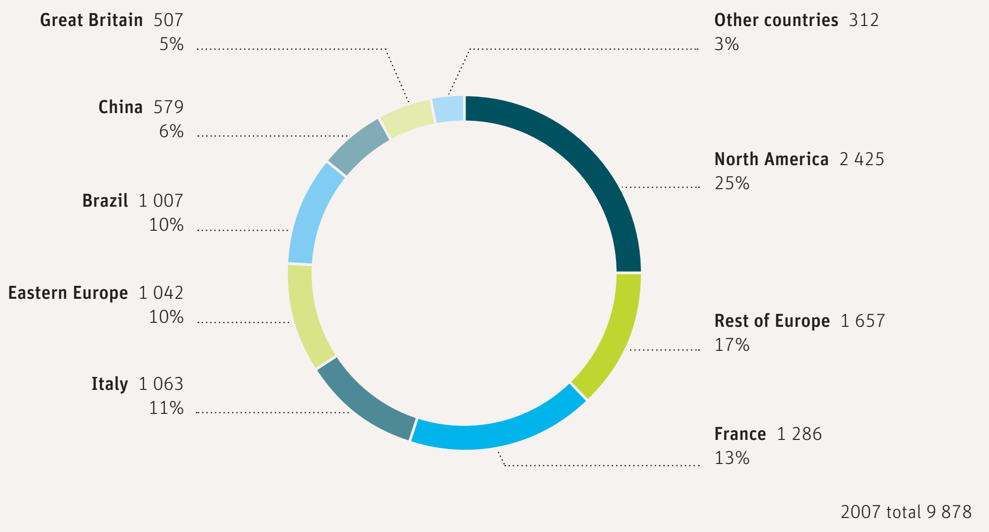


manufacturers, which Rieter Automotive Systems supplies together with its long-term partner Nittoku, developed especially positively, particularly in the US. Rieter Automotive Systems was awarded major new carpet contracts in the US and commenced deliveries for various new vehicle models in 2007. Rieter is thus well placed to achieve further sustained growth.

Operating result depressed

The positive sales trend was not translated into a corresponding increase in EBIT. The operating result before interest and taxes (EBIT) at Rieter Automotive Systems in the 2007 financial year amounted to 91.6 million CHF (94.7 million CHF in 2006). Automotive Systems thus maintained the operating margin achieved in the first half of 2007. This was equivalent to 4.0% of corporate output for the year as a whole, which was well below internal targets. The two reasons already referred to were mainly responsible for this: a further intensification of pressure on prices and the rising cost of materials, energy and personnel. Automobile manufacturers are prepared to help in compensating for these cost increases only to a small extent. Relocation of manufacturing operations in England and challenging launches of new models also resulted in additional costs. Rieter Automotive has taken radical improvement measures in England.

Number of employees at year-end



Action to enhance profitability

Rieter Automotive is taking vigorous action to enhance profitability again by considerably intensifying its cost-cutting efforts. Action at the operating level is focused mainly on reducing costs in purchasing, manufacturing and products. In purchasing, material and energy costs are being reduced. The introduction of the Rieter Production System (global, standardized manufacturing system) will enable improvements in productivity to be achieved as well as rationalization of development and production processes. Additional cost economies are also being realized by reducing waste and increasing recycling efforts in order to limit material consumption. Systematic value analysis is also a part of the efforts to reduce product costs with a view to offsetting annual price cuts called for by customers. Furthermore, discussions are being conducted with customers with regard to meeting the rising costs of raw material, and orders offering inadequate margins are being renegotiated.

In the context of relocations by the automotive industry, Rieter Automotive closed manufacturing facilities in Spain, England and the Netherlands in 2007 and undertook further structural improvements in Europe (expansion of plants in Eastern Europe) and the US.

In addition to steps taken at the operating level, structural action such as the establishment and relocation of further production capacity in low-cost countries will also contribute to a reduction in costs. In the context of moves by the automotive industry to establish production capacity in Eastern Europe, Rieter Automotive closed manufacturing facilities in Spain, England and the Netherlands in 2007 and undertook further structural improvements in Europe (especially expansion of plants in Eastern Europe) as well as the US.

Market and industry trends

The automotive industry is increasingly setting up new production capacities in the growing markets with lower labor costs. While Western European manufacturers have long had a policy of establishing new production sites in Eastern Europe, the transfer of value-adding operations abroad has now intensified in the US as well.

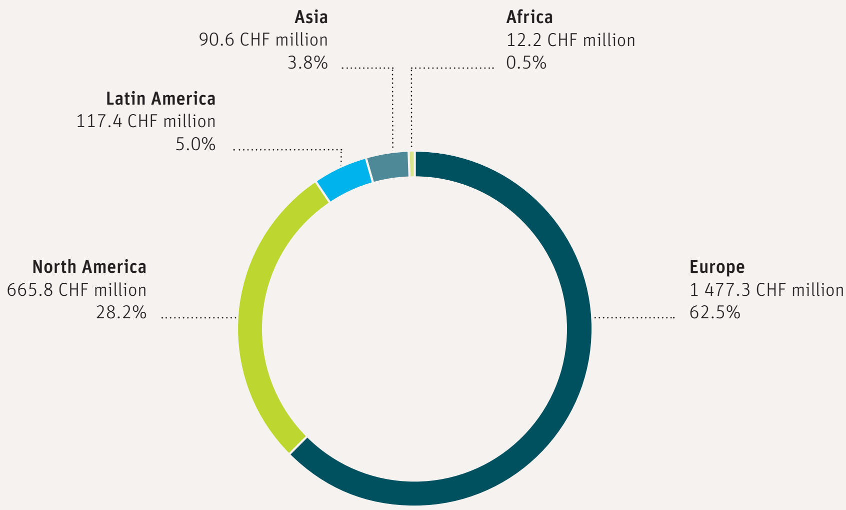
Reducing vehicles' CO_2 emissions and lowering fuel consumption in general is a core challenge facing all automobile manufacturers. Demand for diesel-powered vehicles is therefore rising. Diesel engines are usually more economical than gasoline engines in terms of fuel consumption, but produce more noise emissions. This noise has to be reduced by means of effective acoustic systems. In this field Rieter Automotive plays a leading role.

Automobile manufacturers increasingly expect suppliers not only to deliver their products worldwide, but also to participate in development projects in all regions. Innovative drive as well as financial strength are crucial competitive advantages here. In the US in particular Rieter Automotive Systems was benefiting from the fact that rivals have lost orders due to financial instability and lack of innovation.

Ongoing global expansion

Rieter made substantial investments in developing new markets and establishing manufacturing facilities also in 2007 in order to create the basis for further growth and cost economies. In Eastern Europe Rieter Automotive Systems has also continued to expand its presence. An extension is being

Sales by geographical region 2007



added to the existing manufacturing facility in Chocen (Czech Republic). The plant inaugurated in Nowogard, Poland, in 2007 has developed successfully. Growth in these countries is the result of the relocation of Rieter production operations from Western Europe on the one hand and additional deliveries to the rapidly expanding automotive industry in Eastern Europe on the other. The new plant Somerset inaugurated by Rieter and Nittoku in the US state of Kentucky to supply the Japanese automobile manufacturers located there also developed successfully.

In 2007 Rieter opened a wholly owned plant in Chongqing, central China. The two facilities established in China in previous years together with its Japanese partner Nittoku have also developed very successfully. In the year under review Rieter Automotive also gained a foothold in Korea, a market of considerable importance. Together with its Korean partner DKT, Rieter has started to build-up and expand its business for Korean customers. Rieter Automotive has made provision in organizational terms for the growing importance of Asia by creating a new Asia Business Group.

In the commercial vehicle sector Rieter Automotive Systems received initial orders in China and India and thus shared in the growing demand in these markets. Rieter is already the leading player in the commercial vehicle business in Europe, which accounts for a total of some 10% of the division's sales, and foresees substantial growth potential in the other world markets.

Major innovations

One of Rieter Automotive Systems' crucial competitive advantages is its comprehensive know-how in vehicle acoustics and thermal insulation. Rieter Automotive vigorously pursued further innovations in 2007 in order to maintain its lead. In the year under review the division again set standards in innovation with the unveiling of Rieter Ultra Silent (RUS): this is a novel material combining high stability with outstanding acoustic properties and a high market potential. One of the decisive competitive advantages of Rieter Ultra Silent is that it is totally recyclable. In contrast to existing products with similar properties, it contains no glass fibers. The material is also very light and heat-resistant, thus satisfying important requirements in automotive engineering. This material, which can be used in various parts of the vehicle, has been developed entirely by Rieter as a joint project by both divisions. Textile Systems contributed the process and materials know-how in the field of nonwovens, Automotive Systems the applications know-how. In the year under review Rieter Automotive received its first volume orders for products based on Rieter Ultra Silent.

In Eastern Europe Rieter Automotive Systems has also continued to expand its presence. An extension is being added to the existing manufacturing facility in Chocen (Czech Republic). The plant inaugurated in Nowogard, Poland, in 2007 has developed successfully.

Nurturing innovation and quality

Attendance at the biennial Rieter Automotive Conference was especially high in 2007. On these occasions Rieter's in-house specialists and representatives of customers and from universities and research institutions present their innovations and discuss trends in vehicle acoustics. The Rieter Automotive Conference was held in Switzerland for the European market in spring 2007. Corresponding conferences were held during the course of the year in the US and – together with the partner Nittoku – in Japan. Rieter Automotive also presented new products at various symposia and innovation meetings for customers throughout the world.

Rieter Automotive again received important quality awards in 2007, also for plants in China and Latin America. Rieter received the "Supplier of the Year" award from General Motors for the 15th successive year. Only Rieter and one other supplier have received this accolade every year without interruption since it was launched.

Outlook

Forecasts for global automobile production indicate growth of almost 4% for 2008. However, output is likely to be lower in North America and to stagnate in Western Europe. By virtue of its worldwide presence, Rieter Automotive Systems expects to exceed the previous year's sales slightly after adjustment for currency movements. However, currently foreseeable currency translation effects are likely to reduce stated sales revenues in Swiss francs by 5–10% compared with the previous year. Automotive Systems will continue the systematic pursuit of the operating and structural measures undertaken to improve operating results. Restructuring efforts in England will continue to depress the operating result in the current year.

Sustainability

In its "Values and Principles" Rieter not only commits itself to ambitious economic objectives but also to ecological and social responsibility. The comprehensive environment and safety mission statement has been an integral element of the group's corporate strategy since 1997. In addition to adopting a prudent attitude to the environment and natural resources, Rieter also includes risk management as well as the responsible leadership and development of personnel in this commitment. Products and manufacturing processes have to satisfy strict standards with regard to environmental compatibility as well as offering the highest possible degree of safety for customers, personnel and neighbors of manufacturing facilities.

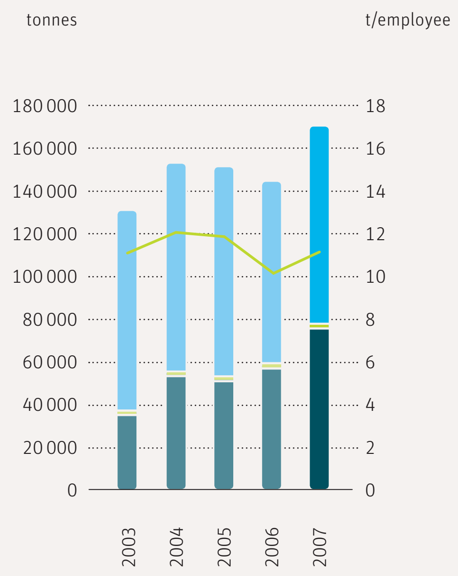
The environmental data collected from Rieter sites are an important basis for Rieter's environmental management. An IT solution that has been implemented in 2007 simplifies the systematic data acquisition in the fields of environment, health and safety.

The environmental and safety directives cover the group's entire value-adding process. Rieter strives to achieve continuous improvement in environmental compatibility and energy efficiency throughout the value chain. Development and manufacturing processes as well as the infrastructure are continuously reviewed and optimized and the development of ecologically efficient products and services is systematically pursued.

Rieter combines technological know-how with ecological benefits

The human race's need for mobility remains unbroken. However, what is called for today are vehicles that impose the smallest possible burden on the environment. As a major supplier of components to the automotive industry, Rieter is intimately involved in the development of energy-efficient vehicles. In order to ensure the environmental compatibility of a product, it is essential that ecologically relevant criteria should already be taken into account in the development process. A team formed by Automotive Systems in 2007 is working intensively on the development of standardized methods, parameters and training programs to enable environmental criteria to be systematically incorporated into all development and production phases. The goal of this program, entitled "Design for Environment", is to develop products that combine outstanding technical properties with the highest possible degree of environmental compatibility. For example, multiple benefits of this kind are offered by innovative floor coverings and insulation products made from recyclable raw materials. Due to Rieter Ultra Light technology, these components are up to 50% lighter than competing products and nevertheless display excellent sound insulation. A study conducted in 2007 into the ecological balance of carpets and engine compartment rear bulkhead linings shows that 40–80% of primary energy can be saved by using Rieter Ultra Light (RUL).

Waste and Recycling



Both divisions continued their efforts to optimize manufacturing and recycling processes in the year under review. The proportion of recyclable waste was again increased in 2007. The total volume of waste products increased due to the inclusion of six additional sites compared with the previous year. With the introduction of the new SEED software for collecting environmentally relevant statistics at the individual sites, the previous year's figures were verified and in some cases adjusted at the same time, thereby improving data quality. 66 sites and 86% of all employees are currently included in the database.

- Waste for Recycling (t)
- Other waste (t)
- Municipal waste (t)
- Total waste/employee (t/employee)

Environmental management is an area which the group will pursue further systematically. The environmental data collected from Rieter sites worldwide are an important basis for strategic decisions and for planning further improvements in environmental management. In 2007 Rieter implemented an IT solution for simplifying data acquisition in the fields of environment, health and safety. The SEED (Social, Economic and Environmental Data) program enables all measured variables to be recorded and evaluated systematically. This software makes it easier to identify environmentally relevant factors and compare the ecological performance of the sites more accurately. SEED will be implemented progressively at all sites.

Commitment to climate protection

Optimizing the energy efficiency of manufacturing processes and products is very important for both divisions. In order to raise awareness of the issue of climate protection among employees and customers, Rieter Textile Systems decided to exhibit on a CO_2-neutral basis at the ITMA textile machinery exhibition held in Munich in September 2007. The division realized this project in partnership with "my climate". In addition to technological innovations, Rieter Textile Systems also focused on the high energy efficiency of its new textile machine models at the ITMA. For example, the new SB-D 201 double-head drawframe, which has been specifically developed for the Chinese market, consumes only half the energy required by rival models. Comparative measurements on spinning machines from other suppliers reveal that Rieter machines achieve significant energy savings. The R 40 rotor spinning machine is a good example of continuous further development: compared to the technical state of the art ten years ago, it requires about 40% less energy. At the same time the production speed has been increased by almost 50%. The energy required to operate machinery is one of the largest cost factors in a spinning mill. Investment in energy-saving machines therefore pays off for Rieter customers not only in terms of the environment, but also financially. Various initiatives by the Automotive Systems Division are also aimed at identifying energy-saving potential and discovering new solutions: for example, employees at the Ons-en-Bray plant in France have developed improved insulation for the tooling, so that the relevant production process requires some 40% less energy.

Heating and air-conditioning manufacturing premises and other buildings is especially energy-intensive. Rieter is therefore investing continuously in the refurbishment and renovation of the infrastructure at all sites and seeking energy-saving alternatives. At Graf, a group company based in Rapperswil (Switzerland), a compressed-air generating plant with heat recovery is in operation. The heat is fed into the heating circuit. CO_2 emissions are reduced by some 70 000 kg annually through heat recovery. A new heating installation at the manufacturing facility in Ingolstadt (Germany) also achieves energy savings of some 40%. Various optimization measures in Ingolstadt have also enabled water consumption to be reduced by some 50% compared with the previous year – i.e. some 50 000 m³ less water and effluent.

Optimizing the energy efficiency of textile machines is very important for Rieter. Comparative measurements on spinning machines from other suppliers reveal that Rieter machines achieve significant energy savings.

Continuous improvement of process engineering
Not only products, but also manufacturing processes are continuously reviewed and improved. For example, in 2007 Rieter Textile Systems completely replaced a production installation at its plant in Pune (India) and has since been able to dispense with the use of a solvent. A novel process for the surface treatment of machine components is in use at the site in Changzhou (China) which no longer has an impact on effluent.

High priority for industrial safety
Rieter is aware of its responsibility for its employees’ health and safety, and industrial safety is of key importance. All of Rieter’s manufacturing facilities are obligated to comply with group-wide safety regulations as well as legal requirements. In many countries Rieter sets a higher standard than is required by law. The training of safety officers helps to increase employees’ awareness with regard to risks and prevents accidents. Compliance with regulations is continuously verified. Rieter specialists also periodically visit the plants and inspect the infrastructure as well as manufacturing processes with regard to technical hazards. Rieter thus supports a process of continuous improvement at all stages of production.

Employees' know-how provides the basis for Rieter's business success

Equal opportunities, fairness and treating employees with respect are firmly established in Rieter's mission statement as core management principles of the group. The commitment, loyalty and know-how of employees provide the basis for Rieter's business success. Encouraging personnel at all levels to think and act entrepreneurially is therefore a core assignment of Rieter management. The Human Resources function supports these efforts and makes a major contribution to sustained corporate development.

Rieter is strongly committed to local training facilities for skilled personnel. Rieter established an in-house apprenticeship training scheme at the Textile Systems site in Changzhou (China) in 2007 in cooperation with two engineering colleges. 25 young Chinese are currently benefitting from this opportunity.

Promoting local training and the international exchange of knowledge

The Rieter Group offers employees a wide range of training and development opportunities. These are provided both as local initiatives and also on an international basis. In addition to the international "Corporate Management Training" program for members of senior management, already held for the fifth time in 2007, there are also group-wide development activities at management level for less senior grades.

Rieter actively supports vocational training for young people and each year enables large numbers of trainees to undergo high-quality training in various occupations, especially in Germany and Switzerland. Rieter also depends on qualified personnel in countries without twin-track vocational training systems, and is strongly committed to local training facilities for skilled personnel. Rieter established an in-house apprenticeship training scheme at the Textile Systems site in Changzhou (China) in 2007 in cooperation with two engineering colleges. 25 young Chinese are currently benefiting from this opportunity.

As a group operating on an international scale, Rieter attaches considerable importance to the transfer of knowledge between plants and countries. The group supports international cooperation as well as exchange programs for personnel and also promotes intercultural understanding through various projects. The central Expatriates Team, which was reinforced in 2007, makes a major contribution toward improving the mobility and support of personnel employed abroad.

Interchange with the social environment

Customers, employees and shareholders are Rieter's core stakeholders. As a company with some 70 manufacturing facilities in 20 countries, Rieter also bears heavy social responsibility and involves itself in its local environment. In 2007 Rieter organized open days at various locations, for example in Switzerland and China. This interchange with the public and employees' families met with a very favorable response. Rieter was also involved last year in the reconstruction of a school destroyed by an earthquake in Pakistan. This is expected to be inaugurated in 2008. Grants awarded by Rieter enable students from China and India to improve their career prospects by undergoing training in Switzerland.

Board of Directors

From top left to bottom right: **Kurt Feller** Chairman, **Dr. Ulrich Dätwyler** Vice-Chairman, **Dr. Peter Wirth, Dr. Jakob Baer, Dr. Rainer Hahn, Dr. Dieter Spälti**

Group Executive Committee

From top left to bottom right: **Hartmut Reuter** Chief Executive Officer, **Urs Leinhäuser** Chief Financial Officer, **Erwin Stoller** CEO Automotive Systems (until 31.12.2007), **Wolfgang Drees** CEO Automotive Systems (from 1.1.2008), **Peter Gnägi** CEO Textile Systems

Corporate Governance

Transparent reporting creates the basis for trust. As a corporate group with an international scope, Rieter undertakes to maintain high standards of corporate management and pursue 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 SWX 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, 2007.

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 66 to 69.

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 supervisory 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, 2007. A list of the main companies can be found on pages 90 and 91. 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, 2007, Rieter was aware of the following shareholders with more than 5% of all voting rights in the company:

- Barclays Plc., including subsidiaries,
- Rieter Holding Ltd.: Rieter Holding Ltd. holds a total of more than 5% of its own shares. Refer to page 98 for details.

There are no cross-holdings in which the interests exceed 5% in terms of capital or voting rights. Further information on shareholdings can be found on page 106.

2 Capital structure

Share capital

On December 31, 2007, the share capital of Rieter Holding Ltd. totaled 22 254 280 CHF. This is divided into 4 450 856 fully paid registered shares with a par value of 5.00 CHF each. The shares are listed on the Swiss Exchange (SWX), securities code 367144; ISIN CH0003671440; Investdata RIEN.

Rieter's market capitalization on December 31, 2007, was 1 966 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, 2007.

Changes in share capital
The Board of Directors decided to buy back shares of the company for up to 150 million CHF via a second line on the SWX Swiss Exchange from September 7, 2007, until no later than the 2009 Annual General Meeting for the purpose of reducing share capital.

Refer to page 105 for further information on the capital structure.

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 27 (page 86) in the notes to the consolidated financial statements.

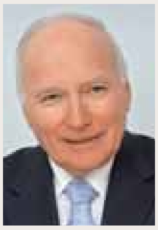
3 Board of Directors

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 2007 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
Kurt Feller*	CH	Chairman	1937	1994	2008	executive from 1994 to 2002, non-executive since 2003
Dr. Ulrich Dätwyler*	CH	Vice-Chairman	1941	1994	2009	non-executive
Dr. Rainer Hahn	DE	Member	1940	1999	2008	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. Ulrich Dätwyler);
all six members of the board are members of the personnel committee (Chairman: Kurt Feller).



Kurt Feller, Präsident (1937)

- Chairman, executive Board member from 1994 to 2002, non-executive Board member since 2003, term of office expires in 2008, Chairman of the Board since 2000, chairman of the personnel committee, member of the audit committee.
- Swiss national.
- MBA University of Massachusetts in Amherst; with
- Rieter since 1978, CEO of the Rieter Group 1989-2000.
- Vice-Chairman of the Board, Geberit AG, Jona.

Dr. Ulrich Dätwyler (1941)

- Vice-Chairman and non-executive, independent Board member since 1994, term of office expires in 2009, member of the audit committee and the personnel 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 2008, 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. and TÜV SÜD Gesellschafterausschuss GbR, Munich.

Dr. Jakob Baer (1944)
- Non-executive, independent Board member since 2006, term of office expires in 2009, member of the personnel committee.
- Swiss national.
- Dr. iur. University of Bern; CEO of KPMG Switzerland until September 30, 2004; independent consultant since 2004.
- Board member, Adecco S.A., Chéserex; Board member, Swiss Re, Zurich; Board member, Allreal Holding AG, Baar; Board member, Stäubli Holding AG, Pfäffikon, and Board member of two unlisted companies.

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, 1986–2003; CEO, Mikron Group and Managing director, Mikron Holding AG, 1991–2003 ; Partner, ex.tra experience transfer AG, Biel, since 2004.
- Board member of a non listed company.

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 comittee.
- 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.

Inter-company relationships

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. Rainer Hahn expires at the Annual General Meeting to be held on May 8, 2008. Dr. Hahn is standing for re-election. At the same meeting Kurt Feller will retire from the Board of Directors upon reaching retirement age as stipulated in the Articles of Association.

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
- 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 eight regular meetings in the 2007 financial year; six of these meetings lasted a full day, two lasted two days each. Two telephone conferences of the whole board were also held. One director was unable to attend one meeting, and one was unable to take part in a telephone conference; all directors were present at the other meetings. 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. In the year under review the Board of Directors visited the International Textile Machinery Exhibition (ITMA) in Munich and the Rieter facility in Ingolstadt. 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 three members of the board. Its chairman is Dr. Ulrich Dätwyler, the other members are Kurt Feller and Dr. Dieter Spälti.

In the 2007 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 2007. The meetings last 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. Kurt Feller held this position in 2007. 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 2007. 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 Directs 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 Georg Niederer, Certified Auditor, since 2002.

The members of the audit committee, the CEO, the CFO and appointed members of the management, receive the internal audit reports. Internal audit conducted 34 audits in 2007. 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.

Risk Management

A corporate risk council has been established at group level. This body consists of the CFO, the head of Group Legal Services /Group Secretary (chairman), the head of internal audit and other representatives of central group and divisional specialist service units. The risk council advises the Board of Directors, the CEO and the Group Executive Committee on risk management issues and also draws up risk management concepts, systems and guidelines. A report on the risks existing in the group is drawn up annually for the Board of Directors. This report sets out the individual risks existing in the group with regard to their consequences and probability. The steps taken to reduce the risk positions are also explained. So-called risk maps are used as the basis for identifying risks. Risk reporting is part of the internal monitoring system, which also includes the elements of Management Regulations, Financial Reporting and Internal Audit.

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. This code can be accessed on the Internet at www.rieter.com (Inside Rieter ›› Corporate Profile).

4 Group Executive Committee

The Group Executive Committee had four members on December 31, 2007: 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
Erwin Stoller*	CH	Head of the Automotive Systems Division	1947	1978	1992	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

* Withdrew from operating management as of 12/31/2007. Proposed for election to the Board of Directors of Rieter. Since 1/1/2008 Wolfgang Drees has headed the Automotive Systems Division and has been a member of the Group Executive Committee.

Hartmut Reuter (1957)
- Chief Executive Officer (CEO) of the Rieter Group.
- German national.
- Dipl. Wirtschaftsingenieur Technische Universität Darmstadt.
- 1981–1997, 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.
- No other activities and functions.

Erwin Stoller (1947)
- Head of the Automotive Systems Division (until 12/31/2007).
- Swiss national.
- Dipl. Masch. Ing. ETH Zurich.
- With Rieter since 1978, member of the Group Executive Committee since 1992, head of the Business Group Spun Yarn Systems 1992–1996, head of the Textile Systems Division 1996–2002, in his present function since 2002.
- Member of the Board, Bucher Industries AG, Niederweningen.

Peter Gnägi (1954)
- Head of the Textile Systems Division.
- Swiss national.
- Dipl. Masch. Ing. ETH Zurich.
- 1979–1982 Alusuisse AG, Zurich; 1982–1990 Mettler Instrumente AG, Stäfa; most recently as head Business Group Betriebsmittel; with Rieter since 1990, head of the Spun Yarn Systems Business Group 1998–2002, 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.
- 1995–1999 Georg Fischer AG, most recently as head of Finance and Controlling, Division Piping Systems; 1999–2003 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 (since 1/1/2008).
- German national.
- Masters Degree in Mechanical Engineering, Technical University of Hanover.
- 1977–2005 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 1/1/2008.
- Member of the Board of 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 98.

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 $33^1/_3$ percent 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 and group 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 3.5 million CHF (3.7 million CHF in 2006) for services in connection with auditing the annual financial statements of the group companies and Rieter's consolidated accounts in the 2007 financial year. PwC, KPMG and other auditors invoiced some 1.9 million CHF (1.3 million CHF in 2006) for additional services. 0.4 million CHF (0.2 million CHF in 2006) of this total were for services closely related to the audit, 1.0 million CHF (0.8 million CHF in 2006) for tax consulting and 0.5 million CHF (0.3 million CHF in 2006) 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 and group 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 (SWX). 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 2008	May 8, 2008
• Disbursement of dividends to the shareholders	May 15, 2008
• Semi-Annual Report 2008	August 13, 2008
• Publication of sales 2008	January 30, 2009
• Deadline for proposals regarding the agenda of the Annual General Meeting	February 23, 2009
• Results press conference	March 24, 2009
• Annual General Meeting 2009	April 29, 2009

Contacts for specific queries regarding Rieter are:

for investors and financial analysts:
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for the media:
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Phone +41 (0)52 208 70 12
Fax +41 (0)52 208 72 73, media@rieter.com

Financial report

Comments on the 2007 financial report

Sales and corporate output

Rieter's sales of 3 930.1 million CHF in the year under review were the highest in the company's history. Adjusted for the manmade fiber activities divested in the 4th quarter of the previous year, this corresponds to growth of 12%. The increase of 350.2 million CHF in sales was fueled by both divisions and was based entirely on organic growth. Positive currency translation effects on consolidated sales amounted to 2%. The appreciation of the Euro and Sterling versus the Swiss franc had a positive impact on reported sales, while the depreciation of the US dollar had a negative currency translation effect. Corporate output improved by 11% to 3 822.8 million CHF.

Operating result, operating margin, RONOA

In the year under review the operating result before interest and taxes increased by 54% to 278.7 million CHF. The operating margin as a proportion of corporate output rose to 7.3% (5.2% in 2006).

Mainly due to the strong sales growth and the absence of special charges (55.5 million CHF in 2006), the operating result before interest and taxes at the Textile Systems Division improved by 108.0 million CHF to 200.7 million CHF, which corresponds to an operating margin of 13.1% (7.0% in 2006). The return on net operating assets (RONOA) improved from 34.5% to 46.7%.

At Automotive Systems the operating result before interest and taxes was 3.1 million CHF lower at 91.6 million CHF, equivalent to a margin of 4.0% (4.4% in 2006). Cost reductions, operational improvements and increased volumes did not offset the impact of higher prices for energy and raw materials and the pressure exerted on prices by the automobile manufacturers. Restructuring costs of 8.1 million CHF (20.2 million CHF in 2006) had an impact of 0.3 percentage points on the EBIT margin at the Automotive Systems Division. RONOA declined from 15.0 to 12.0%.

Financial result

Rieter reported a positive net financial result of 22.7 million CHF in the year under review (44.5 million CHF in 2006). Income of 45.6 million CHF (55.5 million CHF in 2006) from marketable securities and other financial income in particular contributed to this good result. Rieter took full advantage of a relatively favorable market environment, especially in the first half of the year. At the end of 2007 Rieter held securities totaling 114.6 million CHF (175.9 million CHF in 2006). Valuation reserves included in shareholders' equity for marketable securities available for sale and investments amounted to 9.4 million CHF at the end of 2007 (23.5 million CHF in 2006).

Taxes

While profit before taxes increased by 76.3 million CHF (+34%), the tax charge rose by a smaller proportion (+33%) by 22.2 million CHF to 89.9 million CHF. The corporate tax rate therefore declined to 29.8% (30.1% in 2006). The good net financial result included in pre-tax profit, together with further improvements in the financing and tax structure, contributed to this outcome.

Net profit, RONA, earnings per share

Rieter's net profit increased by 54.1 million CHF or 34% to 211.5 million CHF (157.4 million CHF in 2006), due mainly to a substantial improvement in operating profitability of Textile Systems. The profit margin amounted to 5.5% (4.6% in 2006). The return on net assets (RONA)[1] rose from 10.8% to 13.8%. Earnings per share of 48.19 CHF represented an improvement of 12.66 CHF or 36% in the year under review.

Cash flow and net liquidity

The improvement in operating profit compared with the previous year resulted in a substantial increase of 30.6 million CHF in cash flow to 360.2 million CHF. Despite somewhat higher capital expenditure on tangible and intangible assets of 203.5 million CHF (186.2 million CHF in 2006), free cash flow rose to 228.2 million CHF (100.6 million CHF in 2006) caused by a positive effect of the change of the net working capital in 2007. Net liquidity declined by only 2.8 million CHF to 144.5 million CHF, despite repurchases of own shares amounting to 24.9 million CHF via a second trading line on the SWX Swiss Exchange (up to December 31, 2007) and other repurchases via the regular trading line.

Balance sheet

Total assets declined by 2% to 2 834.6 million CHF. Net working capital was 20.3 million CHF lower despite the increased volume of business. The 200 million CHF of 4% bonds were repaid out of internally generated funds in June 2007. Financial debt at the end of 2007 amounted to 227.6 million CHF (327.0 million CHF in 2006). Shareholders' equity of 1 368.7 million CHF at the end of 2007 (1 375.4 million CHF in 2006) resulted in an equity ratio of 48.3% (47.7% in 2006). Goodwill at the end of 2007 amounted to 120.4 million CHF (118.9 million CHF in 2006). In compliance with IFRS 3/IAS 36, goodwill was again tested for impairment in 2007 and was not amortized.

Proposed dividend

Rieter Holding Ltd. reported a net profit of 67.4 million CHF for the 2007 financial year (63.4 million CHF in 2006). Together with the retained earnings brought forward from the previous year, a total of 97.9 million CHF is at the disposal of the Annual General Meeting. In light of the sound balance sheet, the Board of Directors will propose to the Annual General Meeting of Rieter Holding Ltd. on May 8, 2008, that it approve a dividend of 15.00 CHF per share for 2007 (15.00 CHF in 2006). This corresponds to a total distribution of 62.8 million CHF (62.1 million CHF in 2006).

1. Net profit before interest cost in % of net assets excluding financial debt.

Consolidated income statement

CHF million	Notes	2007	%*	2006	%*
Sales	(4)	**3 930.1**		**3 579.9**	
Sales deductions		– 147.2		– 145.2	
Change in semi-finished and finished goods		35.6		8.3	
Own work capitalized		4.3		4.5	
Corporate output		**3 822.8**	**100.0**	**3 447.5**	**100.0**
Material costs		– 1 843.8	– 48.2	– 1 606.1	– 46.6
Employee costs	(5)	– 1 064.0	– 27.8	– 1 011.7	– 29.4
Other operating expenses[1]	(6)	– 532.0	– 13.9	– 555.5	– 16.1
Other operating income		54.0	1.3	51.4	1.5
Depreciation and amortization	(7)	– 158.3	– 4.1	– 145.0	– 4.2
Operating result before interest and taxes (EBIT)		**278.7**	**7.3**	**180.6**	**5.2**
Financial income	(8)	54.6		65.0	
Financial expenses	(9)	– 31.9		– 20.5	
Profit before taxes		**301.4**	**7.9**	**225.1**	**6.5**
Income taxes	(10)	– 89.9		– 67.7	
Net profit		**211.5**	**5.5**	**157.4**	**4.6**
Attributable to:					
Shareholders of Rieter Holding Ltd.		197.2		147.4	
Minority interests		14.3		10.0	
Earnings per share • average number of registered shares outstanding: 4 092 265 (4 149 946 in 2006)	CHF	48.19		35.53	
Diluted earnings per share • average number of shares to calculate diluted earnings per share[2]: 4 092 265 (4 150 198 in 2006)	CHF	48.19		35.52	

* In % of corporate output.
1. Including special charges.
2. Including dilution impact in connection with option plan.

The notes on pages 58 to 89 are an integral part of the consolidated financial statements.

Consolidated balance sheet

CHF million	Notes	December 31, 2007	December 31, 2006
Assets			
Tangible fixed assets	(12)	917.4	867.6
Intangible assets	(13)	156.6	161.0
Financial assets	(14)	93.1	111.9
Deferred tax assets	(10)	12.1	11.5
Non-current assets		**1 179.2**	**1 152.0**
Inventories	(15)	510.0	483.0
Trade receivables	(16)	625.3	654.9
Other receivables	(17)	148.0	120.4
Marketable securities	(18)	114.6	175.9
Cash and cash equivalents	(19)	257.5	298.4
Current assets		**1 655.4**	**1 732.6**
Assets		**2 834.6**	**2 884.6**
Shareholders' equity and liabilities			
Share capital		22.3	22.3
Share premium account (capital reserve)		27.5	27.5
Group reserves		1 258.8	1 270.7
Equity attributable to shareholders of Rieter Holding Ltd.		**1 308.6**	**1 320.5**
Equity attributable to minority interests	(20)	60.1	54.9
Total shareholders' equity		**1 368.7**	**1 375.4**
Long-term financial debt	(21)	47.5	66.8
Deferred tax liabilities	(10)	77.8	71.5
Provisions	(22)	180.1	174.8
Other non-current liabilities		4.2	5.0
Non-current liabilities		**309.6**	**318.1**
Trade payables		446.3	399.9
Advance payments by customers		153.1	160.6
Bonds	(21)	0.0	200.0
Other short-term financial debt	(21)	180.1	60.2
Current tax liabilities		54.7	37.9
Other current liabilities	(23)	322.1	332.5
Current liabilities		**1 156.3**	**1 191.1**
Liabilities		**1 465.9**	**1 509.2**
Shareholders' equity and liabilities		**2 834.6**	**2 884.6**

The notes on pages 58 to 89 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

CHF million	Notes	2007	2006
Profit before taxes		301.4	225.1
Interest income	(8)	– 8.8	– 6.7
Interest expenses	(9)	16.2	20.5
Depreciation and amortization of tangible and intangible fixed assets		158.3	145.0
Loss on divestments	(6)	0.0	48.5
Other non-cash income and expenses		– 9.8	– 22.7
Change in inventories		– 21.5	– 74.9
Change in receivables		13.9	– 93.7
Change in provisions		8.8	5.6
Change in trade payables		38.6	– 23.0
Change in advance payments by customers and other liabilities		– 34.6	97.4
Dividends received		0.2	1.4
Interest received		8.8	6.7
Interest paid		– 20.3	– 20.8
Taxes paid		– 56.3	– 55.8
Net cash from operating activities		**394.9**	**252.6**
Capital expenditure on tangible and intangible assets	(12/13)	– 203.5	– 186.2
Proceeds from disposals of tangible and intangible assets		24.7	32.7
Investments in financial assets		– 12.2	– 6.6
Proceeds from disposals of financial assets		24.3	14.3
Change in holdings of marketable securities		48.2	67.1
Acquisitions of businesses[1]	(24)	0.0	– 3.9
Divestments of businesses	(25)	0.0	– 2.3
Net cash used for investing activities		**– 118.5**	**– 84.9**
Dividend paid to shareholders of Rieter Holding Ltd.		– 62.1	– 41.5
Change in holding of own shares		– 141.0	3.5
Dividends paid to minority interests		– 6.9	– 7.4
Buyout of minority interests		0.0	– 14.9
Repayment of bonds		– 200.0	0.0
Increase/decrease of other short-term financial debt		119.9	– 8.8
Increase/decrease of long-term financial debt		– 19.4	1.6
Net cash used for financing activities		**– 309.5**	**– 67.5**
Currency effects		– 7.8	– 0.3
Change in cash and cash equivalents		**– 40.9**	**99.9**
Cash and cash equivalents at beginning of the year		**298.4**	**198.5**
Cash and cash equivalents at end of the year		**257.5**	**298.4**

1. Net of cash acquired.

The notes on pages 58 to 89 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, 2005	22.3	– 0.1	27.5	288.7	853.8	1 192.2	70.0	1 262.2
Currency effects	0.0	0.0	0.0	9.5	0.0	9.5	– 4.2	5.3
Change in marketable securities available for sale	0.0	0.0	0.0	7.7	0.0	7.7	0.0	7.7
Results recognized directly in equity	**0.0**	**0.0**	**0.0**	**17.2**	**0.0**	**17.2**	**– 4.2**	**13.0**
Net profit	0.0	0.0	0.0	0.0	147.4	147.4	10.0	157.4
Total recognized results	**0.0**	**0.0**	**0.0**	**17.2**	**147.4**	**164.6**	**5.8**	**170.4**
Dividend of Rieter Holding Ltd.	0.0	0.0	0.0	0.0	– 41.5	– 41.5	0.0	– 41.5
Dividends to minority interests	0.0	0.0	0.0	0.0	0.0	0.0	– 7.4	– 7.4
Buyout of minority interests	0.0	0.0	0.0	0.0	1.6	1.6	– 16.5	– 14.9
Other changes of minority interests	0.0	0.0	0.0	0.0	0.0	0.0	3.0	3.0
Change in holding of own shares	0.0	0.0	0.0	0.0	3.6	3.6	0.0	3.6
At December 31, 2006	**22.3**	**– 0.1**	**27.5**	**305.9**	**964.9**	**1 320.5**	**54.9**	**1 375.4**
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 profit	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
Change in holding of own shares	0.0	– 1.2	0.0	0.0	– 139.8	– 141.0	0.0	– 141.0
At December 31, 2007	**22.3**	**– 1.3**	**27.5**	**299.9**	**960.2**	**1 308.6**	**60.1**	**1 368.7**

1. 15.00 CHF per registered share (10.00 CHF in 2006).

Valuation reserves include after-tax valuation gains of 9.4 million CHF (23.5 million CHF in 2006) on marketable securities available for sale and investments.

The notes on pages 58 to 89 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 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 IFRS 7 (Financial Instruments: Disclosures) and the relevant amendments to IAS 1 (Presentation of Financial Statements: Capital Disclosures) for the first time in 2007. These standards require new disclosures regarding financial instruments and equity, but had no impact on the classification and valuation of the financial instruments held by the group. The IFRIC interpretations, which became effective in 2007 (IFRIC 7, IFRIC 8, IFRIC 9 and IFRIC 10) 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 benefits 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 cover.

Assumptions in relation to income taxes include also interpretations of the tax regulations in place in the relevant countries. The adequacy of this interpretation 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 90 and 91.

Changes in the scope of consolidation

There were no changes in the scope of consolidation in the year under review.

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 AG.

Transactions in foreign currencies are translated into the functional currency 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 included in the balance sheet at acquisition cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over each asset's estimated useful life. Land is written down only in the event of ongoing impairment of value.

Useful life is determined according to the expected utilization of each item. 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

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 and 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.

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

Marketable securities
Marketable securities are acquired in accordance with the group's portfolio management policy. They are measured at fair value on the balance sheet date. Changes in the value of marketable securities held for trading purposes are posted to income. Changes in the value of marketable securities available for sale are recorded in shareholders' equity until they are sold. When these securities are sold, these changes in value are recognized in the income statement. Any impairment in the value of marketable securities available for sale is charged to income.

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.

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

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 the results in the year under review which are relevant for taxation purposes.

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 expenses.

Deferred taxes on retained earnings of group companies are only accrued 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. 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 expenses 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, and sales revenues arising from services are recorded on completion of 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

As of January 1, 2009, the International Accounting Standards Board (IASB) has put into force IFRS 8 (Operating Segments) and revised versions of IAS 1 (Presentation of Financial Statements) and IAS 23 (Borrowing Costs) as well as of July 1, 2009 revised versions of IFRS 2 (Share-based Payment) and IFRS 3 (Business Combinations). In addition, the International Financial Reporting Interpretations Committee (IFRIC) has published numerous new interpretations (IFRIC 11 to 14), which will become effective after January 1, 2008. Rieter has not adopted early any of these new provisions, 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 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 unpredictability of developments on the financial markets and aims to minimize the potential adverse impact 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 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, 2007, with all other variables held constant, the group's after-tax profit would have been 0.6 million CHF higher (1.1 million CHF higher in 2006). If the US dollar had been 1% stronger versus the Swiss franc at December 31, 2007, with all other variables held constant, the group's after-tax profit would have been 0.5 million CHF higher (0.1 million CHF higher in 2006). If the reverse had been the case, the group's after-tax profit 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 holds 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 represent a fair-value interest rate risk. No interest rate hedges are in place at present.

Cash flow sensitivity analysis: A one %-point increase in interest rates would have reduced net profit by 1.1 million CHF (0.8 million CHF in 2006). Since the group has no material long-term financial debt at December 31, 2007, no sensitivity analysis of fair-value risk is disclosed.

Price risk
Holding shares and options exposes Rieter to a risk of price fluctuation. The group diversifies its portfolio in order to reduce this risk.

The group's securities portfolio at the end of 2007 contains marketable Swiss and foreign securities and options on such securities. Their weighted beta factor relative to the relevant markets is 1.09. A general price movement of 10% would therefore change the market value of the securities portfolio by some 11%, all other things being equal (ceteris paribus). This would cause a change in equity of 12.6 CHF million (19.3 CHF million in 2006) based on the securities portfolio of 114.6 CHF million at December 31, 2007.

Credit risk
Credit risks arise from deposits and financial derivatives vis-à-vis 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. Automotive Systems maintains business relationships with all significant automotive manufacturers and, compared to the industry sector, disposes of a geographically broadly diversified customer portfolio. No customer accounted for more than 14% (12% in 2006) 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 committed credit lines and 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 the cash outflows resulting from financial debt corresponds to the maturities shown in note 21. Trade payables will be settled at book value within the next 12 months. In connection with currency forward contracts a net cash outflow of 1.7 CHF million is expected within the next 12 months.

Net liquidity at December 31, 2007 and 2006, was as follows:

CHF million	2007	2006
Cash and cash equivalents	257.5	298.4
Marketable securities	114.6	175.9
Bonds issued	0.0	– 200.0
Other short-term financial debt	– 180.1	– 60.2
Other long-term financial debt	– 47.5	– 66.8
Net liquidity	**144.5**	**147.3**

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 48%. 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 to reduce debt.

In keeping with the above principles, the Board of Directors of Rieter Holding Ltd. decided on August 14, 2007, to launch a share buyback program for up to 150 million CHF. Via a second trading line on the SWX Swiss Exchange 44 800 shares were repurchased for 24.9 million CHF up to December 31, 2007. Rieter intends to cancel the repurchased shares and reduce the share capital accordingly.

The group has no financial covenants with minimal capital requirements.

3 Segment information by division

The group comprises two divisions: Textile Systems develops and produces machinery and integrated systems for converting natural and manmade fibers and their blends into yarns, as well as nonwovens and pelletizing machinery. 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	2007	2006
Textile Systems	1 566.8	1 400.7
Automotive Systems	2 363.3	2 179.2
Total	**3 930.1**	**3 579.9**

There were no material inter-divisional sales.

Operating result before interest and taxes (EBIT)

CHF million	2007	2006
Textile Systems	200.7	92.7
Automotive Systems	91.6	94.7
Other units, including group costs	– 13.6	– 6.8
Total	**278.7**	**180.6**

Operating result before interest and taxes (EBIT) in % of corporate output

in %	2007	2006
Textile Systems	13.1	7.0
Automotive Systems	4.0	4.4
Other units	n / a	n / a
Group	**7.3**	**5.2**

Assets

CHF million	2007	2006
Textile Systems [1]	954.9	849.0
Automotive Systems [1]	1 409.8	1 433.7
Other units and assets not allocated to the divisions	469.9	601.9
Total	**2 834.6**	**2 884.6**

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

Liabilities

CHF million	2007	2006
Textile Systems[1]	514.7	429.0
Automotive Systems[1]	558.5	620.1
Other units and liabilites not allocated to the divisions	392.7	460.1
Total	**1 465.9**	**1 509.2**

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

Net assets

CHF million	2007	2006
Textile Systems[1]	440.2	420.0
Automotive Systems[1]	851.3	813.6
Other units and net assets not allocated to the divisions	77.2	141.8
Total (=Total shareholders' equity)	**1 368.7**	**1 375.4**

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

Return on net operating assets (RONOA)[1]

in %	2007	2006
Textile Systems	46.7	34.5
Automotive Systems	12.0	15.0

1. Operating result before special charges, interest and taxes in % of average net operating assets.

Capital expenditure on tangible and intangible assets

CHF million	2007	2006
Textile Systems	85.9	58.7
Automotive Systems	112.4	121.3
Other units	5.2	6.2
Total	**203.5**	**186.2**

Depreciation and amortization of tangible and intangible assets

CHF million	2007	2006
Textile Systems	49.0	43.4
Automotive Systems	108.6	101.1
Other units	0.7	0.5
Total	**158.3**	**145.0**

Number of employees at year-end

	2007	2006
Textile Systems	5 476	5 219
Automotive Systems	9 878	9 485
Other units	152	122
Total	**15 506**	**14 826**

Segment information by geographical region

Sales

CHF million	2007	2006
Europe	1 727.7	1 598.0
Asia[1]	1 205.7	1 002.9
North America	715.2	726.0
Latin America	204.4	171.5
Africa	77.1	81.5
Total	**3 930.1**	**3 579.9**

1. Including Turkey.

Assets

CHF million	2007	2006
Europe	1 760.2	1 825.7
Asia[1]	219.0	162.2
North America	781.1	833.6
Latin America	65.2	50.8
Africa	9.1	12.3
Total	**2 834.6**	**2 884.6**

1. Including Turkey.

Capital expenditure on tangible and intangible assets

CHF million	2007	2006
Europe	128.6	126.6
Asia[1]	34.4	18.9
North America	37.3	35.7
Latin America	3.1	4.4
Africa	0.1	0.6
Total	**203.5**	**186.2**

1. Including Turkey.

Number of employees at year-end

	2007	2006
Europe	9 497	9 275
Asia[1]	2 197	1 816
North America	2 519	2 696
Latin America	1 204	943
Africa	89	96
Total	**15 506**	**14 826**

1. Including Turkey.

4 Sales

Change in sales

CHF million	2007	2006
Change in sales due to volume and price, Textile Systems	216.3	236.7
Change in sales due to volume and price, Automotive Systems	142.7	98.9
Change in sales due to volume and price, other units	0.0	– 5.2
Impact of divestments/acquisitions	– 78.5	73.2
Currency effects	69.7	54.3
Total change in sales	**350.2**	**457.9**

5 Employee costs

CHF million	2007	2006
Wages and salaries	874.3	831.8
Social security and other personnel expenses	189.7	179.9
Total	**1 064.0**	**1 011.7**

6 Other operating expenses

Other operating expenses include mainly the costs of maintenance, energy and external services. In addition the following special charges are included:

CHF million	2007	2006
Restructuring costs Textile Systems	0.0	7.0
Restructuring costs Automotive Systems	8.1	20.2
Loss on divestments Textile Systems	0.0	48.5
Total	**8.1**	**75.7**

The restructuring costs include cost reduction measures and transfers of production facilities from Western to Eastern Europe. The loss on divestments in 2006 resulted from the divestment of the manmade fiber business (see note 25).

7 Depreciation and amortization

CHF million	2007	2006
Tangible fixed assets	150.1	137.8
Intangible assets	8.2	7.2
Total	**158.3**	**145.0**

8 Financial income

CHF million	2007	2006
Income from marketable securities and other financial income	45.6	55.5
Interest income	8.8	6.7
Income from non-consolidated investments	0.2	1.4
Foreign exchange differences, net	0.0	1.4
Total	**54.6**	**65.0**

9 Financial expenses

CHF million	2007	2006
Interest cost	16.2	20.5
Other financial expenses and foreign exchange differences, net	15.7	0.0
Total	**31.9**	**20.5**

Part of the securities holdings are held as marketable securities available for sale. As in the previous year, the change in market value of this portion of the securities portfolio required no value adjustment in the income statement in the year under review.

10 Income taxes

CHF million	2007	2006
Current income tax expenses	84.2	68.2
Deferred income tax expenses	5.7	– 0.5
Total	**89.9**	**67.7**

As a result of higher pre-tax profits in the year under review, the income tax charge was 22.2 million CHF higher than in the previous year. The corporate tax rate was slightly reduced to 29.8% (30.1% in 2006).

Reconciliation of expected and actual tax expenses:

CHF million	2007	2006
Expected tax expenses on pre-tax profits of 301.4 million CHF (225.1 million CHF in 2006) at an average rate of 23.2% (20.7% in 2006)	70.0	46.7
Impact of non tax-deductible income/expenses	– 5.5	– 11.3
Impact of losses and loss carry-forwards	17.2	28.3
Impact of changes in tax rates and tax legislation	– 0.3	– 0.9
Other effects	8.5	4.9
Total	**89.9**	**67.7**

Deferred income taxes

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

CHF million	Deferred tax assets 2007	Deferred tax liabilities 2007	Deferred tax assets 2006	Deferred tax liabilities 2006
Tangible fixed assets	3.4	– 36.2	8.8	– 41.9
Inventories	8.0	– 10.2	4.4	– 8.7
Other assets	4.9	– 44.3	16.2	– 34.8
Provisions	7.7	– 3.0	8.5	– 9.7
Other liabilities	12.2	– 8.0	17.2	– 3.9
Valuation adjustments on deferred tax assets	– 14.1		– 28.3	
Tax loss carry-forwards and tax credits	13.9		12.2	
Total	36.0	– 101.7	39.0	– 99.0
Offsetting	– 23.9	23.9	– 27.5	27.5
Deferred tax assets/liabilities	**12.1**	**– 77.8**	**11.5**	**– 71.5**

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

CHF million	Capitalized 2007	Non capitalized 2007	Total 2007	Total 2006
Expiry in				
1 – 3 years	0.3	1.9	2.2	2.5
3 – 7 years	0.1	5.1	5.2	3.4
7 and more years	13.5	116.7	130.2	125.7
Total	**13.9**	**123.7**	**137.6**	**131.6**

11 Research and development

141.1 million CHF was spent on research and development (144.8 million CHF in 2006).

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. In the field of final spinning machines Rieter Textile Systems set new standards, launching the world's longest compact spinning machine, longest rotor spinning machine and most productive card and comber.

Developments at Automotive Systems included applications for new models and customized acoustic products, 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. In the year under review the division again set standards in innovation with the unveiling of Rieter Ultra Silent (RUS): this is a novel material combining high stability with outstanding acoustic properties and a high market potential. One of the decisive competitive advantages of Rieter Ultra Silent is that it is totally recyclable. This material, which can be used in various parts of the vehicle, has been developed entirely by Rieter as a joint project by both divisions.

As in the previous year, no development costs were capitalized in 2007, since the respective IFRS requirements were not met.

12 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, 2005	305.9	434.6	12.6	16.1	66.6	835.8
Reclassification	– 0.5	11.5	0.1	0.1	– 11.2	0.0
Additions by acquisitions	2.8	3.3	0.0	0.2	0.1	6.4
Other additions	34.2	124.4	5.0	7.9	12.0	183.5
Disposals by divestments	0.0	– 2.3	0.0	– 0.6	0.0	– 2.9
Other disposals	– 13.1	– 3.1	0.0	– 0.2	– 1.3	– 17.7
Depreciation	– 15.8	– 109.7	– 6.1	– 6.2	0.0	– 137.8
Currency effects	3.3	– 1.7	0.0	0.1	– 1.4	0.3
Net book value at December 31, 2006	**316.8**	**457.0**	**11.6**	**17.4**	**64.8**	**867.6**
Accumulated depreciation at December 31, 2006	296.2	1 178.6	59.2	84.0	0.6	1 618.6
Cost at December 31, 2006	**613.0**	**1 635.6**	**70.8**	**101.4**	**65.4**	**2 486.2**
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**
Accumulated depreciation at December 31, 2007	309.5	1 233.8	58.2	85.4	0.2	1 687.1
Cost at December 31, 2007	**647.1**	**1 719.0**	**69.8**	**105.6**	**63.0**	**2 604.5**

1. Including machinery and operating facilities.
2. Including pilot machines.

Land and buildings

CHF million	2007	2006
Land in operational use	68.8	62.3
Buildings in operational use	258.6	243.1
Non-operational property	10.2	11.4
Total	**337.6**	**316.8**

Buildings in operational use were insured at the replacement value of 1 426.0 million CHF at balance sheet date (1 302.2 million CHF in 2006) and non-operational property at the replacement value of 25.1 million CHF (26.1 million CHF in 2006).

Non-operational property

CHF million	2007	2006
Net book value at January 1	11.4	17.3
Additions	0.4	0.0
Disposals	– 1.5	– 5.8
Depreciation	– 0.1	– 0.1
Net book value at December 31	**10.2**	**11.4**
Market value at December 31	15.1	18.8

The market value of the non-operational property was calculated on the basis of estimates of future rental income and an anticipated gross yield of 6.5% (6.4 % in 2006), less prospective taxes in the event of sale.

13 Intangible assets

CHF million	Goodwill	Patents/ trademarks	Other intangible assets	Total intangible assets
Net book value at December 31, 2005	**151.0**	**45.1**	**2.1**	**198.2**
Disposals by divestments	– 33.4	0.0	0.0	– 33.4
Other additions/disposals	0.0	2.6	– 1.0	1.6
Amortization	0.0	– 6.7	– 0.5	– 7.2
Currency effects	1.3	0.5	0.0	1.8
Net book value at December 31, 2006	**118.9**	**41.5**	**0.6**	**161.0**
Accumulated amortization at December 31, 2006	–[1]	20.0	1.7	21.7
Cost at December 31, 2006	**118.9**	**61.5**	**2.3**	**182.7**
Other additions/disposals	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**
Accumulated amortization at December 31, 2007	–[1]	12.8	1.8	14.6
Cost at December 31, 2007	**120.4**	**48.7**	**2.1**	**171.2**

1. In accordance with IFRS 3, accumulated amortization of goodwill at January 1, 2005, was eliminated with a corresponding decrease in cost of goodwill.

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

CHF million	2007	2006
Textile Systems Division	69.6	68.0
Automotive Systems Division, Business Group Europe	29.8	28.9
Automotive Systems Division, Business Group Americas	21.0	22.0
Total	**120.4**	**118.9**

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 approved by the Board of Directors covering a three-year period. The calculation of the residual value was based on the expected long-term growth. These growth expectations correspond to today's best estimate by the management in charge. For the value-in-use calculation future cash flows were discounted with the weighted average cost of capital of 8%. Based on the impairment tests, there was no need for recognition of any impairment in the 2007 financial year.

14 Financial assets

CHF million	2007	2006
Investments in non-consolidated companies	13.7	14.8
Long-term interest-bearing receivables	2.2	22.6
Other long-term receivables	30.0	27.3
Pension funds	47.2	47.2
Total	**93.1**	**111.9**

Prepaid contributions and overfunding of personnel pension plans have been accrued for the expected future benefit and amount to 47.2 million CHF (as in the previous year).

15 Inventories

CHF million	2007	2006
Raw materials and consumables	97.3	77.2
Purchased parts and goods for resale	106.1	94.5
Semi-finished and finished goods	118.8	110.4
Work in progress	187.8	200.9
Total	**510.0**	**483.0**

16 Trade receivables

CHF million	2007	2006
Trade receivables	646.7	676.9
Allowance for doubtful receivables	– 21.4	– 22.0
Total	**625.3**	**654.9**

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

CHF million	2007	2006
Allowance for doubtful receivables at January 1	– 22.0	– 24.7
Increase charged to income statement	– 0.1	0.0
Utilization or reversal	0.4	2.2
Currency effects	0.3	0.5
Allowance for doubtful receivables at December 31	**– 21.4**	**– 22.0**

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 experiences.

Trade receivables include amounts denominated in the following major currencies:

CHF million	2007	2006
CHF	84.6	114.3
EUR	439.4	433.0
USD	53.2	70.8
GBP	10.5	8.7
Other	37.6	28.1
Total	**625.3**	**654.9**

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	2007	2006
Not due	527.0	516.5
Past due less than 3 months	76.7	104.9
Past due 3 to 6 months	10.8	16.4
Past due 6 months to 1 year	3.4	10.7
Past due 1 to 5 years	4.7	2.8
Past due 5 and more years	2.7	3.6
Total	**625.3**	**654.9**

17 Other receivables

CHF million	2007	2006
Prepaid expenses and deferred charges	27.8	17.6
Advance payments to suppliers	21.4	20.1
Other short-term receivables	98.8	82.7
Total	**148.0**	**120.4**

18 Marketable securities

CHF million	2007	2006
Securities held for trading	4.8	6.4
Securities available for sale	109.8	169.5
Total	**114.6**	**175.9**

Securities are stated at fair value, of which 0.4 million CHF (4.1 million CHF in 2006) was invested in options. These were mainly call options. 52.5% of the equity portfolio (58.4% in 2006) 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.

19 Cash and cash equivalents

CHF million	2007	2006
Cash and banks	234.5	274.9
Time deposits	23.0	23.5
Total	**257.5**	**298.4**

20 Minority interests

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

At the end of March 2006 Rieter acquired the remaining 50% interest in the Spanish automotive supplier Rieter Saifa S.A. Rieter had cooperated with what was then Saifa-Keller since 1975 and had held a minority interest until 2003. In 2003 Rieter increased its holding to 50% and consolidated the company for the first time. As Rieter Saifa had already been fully consolidated before the purchase of the remaining 50% interest, the difference between the purchase price and the minority interest stated before the acquisition was credited to shareholders' equity.

21 Financial debt

CHF million	Bank debt	Finance leasing obligations	Other financial debt	Total 2007	Total 2006
Less than 1 year	170.8	1.5	7.8	180.1	260.2
1 to 5 years	35.4	5.2	2.2	42.8	57.5
5 and more years	2.8	1.9	0.0	4.7	9.3
Total	**209.0**	**8.6**	**10.0**	**227.6**	**327.0**

The 4% bond 2001/2007 in the amount of 200.0 million CHF was repaid on June 21, 2007.

By currency, financial debt is divided up as follows:

CHF million	2007	2006
CHF	96.3	208.0
EUR	44.8	51.6
USD	19.4	33.1
Other	67.1	34.3
Total	**227.6**	**327.0**

22 Provisions

CHF million	Pension provisions	Guarantee and warranty provisions	Environment provisions	Other provisions	Total provisions
Provisions at December 31, 2006	**94.6**	**28.2**	**12.7**	**39.3**	**174.8**
Utilization	– 7.3	– 8.5	0.0	– 3.3	– 19.1
Release	– 1.1	– 1.8	– 0.7	– 1.6	– 5.2
Additions	5.4	12.7	0.0	9.5	27.6
Currency effects	2.1	0.2	0.0	– 0.3	2.0
Provisions at December 31, 2007	**93.7**	**30.8**	**12.0**	**43.6**	**180.1**

Pension provisions include the liabilities in connection with defined-benefit plans (see note 26) 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.

Guarantee and warranty provisions are expected to result partly in a cash outflow within 1 to 2 years on average, environment and other provisions within 2 to 3 years on average. Due to this maturity structure provisions are not discounted.

23 Other current liabilities

CHF million	2007	2006
Accrued expenses	186.2	183.2
Sales commissions	27.0	23.7
Other short-term liabilities	108.9	125.6
Total	**322.1**	**332.5**

24 Acquisitions

There were no acquisitions of businesses in 2007.

In 2006 Rieter increased the Automotive Systems Division’s market presence in Asia through two acquisitions:

Rieter acquired a 51% interest in the Chinese automotive supplier Tianjin Rieter Nittoku Automotive Sound-Proof Co., Ltd. as of January 1, 2006. The plant is operated jointly with Japanese partner Nittoku.

At the end of April 2006, Rieter raised its holding in the Indian automotive supplier Rieter Automotive India Pvt. Ltd. (formerly Unikeller India Pvt. Ltd.) to 100%. Previously, Rieter had held 35% in this Indian supplier of damping products.

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

CHF million	Fair Value[1] 2006
Non-current assets	6.4
Current assets	3.8
Liabilities	– 2.3
Net identifiable assets	**7.9**
Attributable to minority interests	– 3.0
Net acquired assets	**4.9**
Acquired cash and cash equivalents	– 1.0
Cash used for acquisitions	**3.9**

1. Book values were not adjusted substantially.

No adjustments to these amounts determined provisionally in 2006 were necessary in 2007.

Professional fees and related costs for the acquisitions amounted to 0.1 million CHF in 2006.

In 2006, the acquired activities contributed about 7 million CHF to sales and an immaterial amount to operating profit before interest and taxes since the acquisition date. If both acquisitions had occurred on January 1, 2006, group sales in 2006 would have been some 1 million CHF higher.

25 Divestments

There were no disposals of businesses in 2007.

In 2006 Rieter divested the manmade fiber activities of Division Textile Systems.

As of October 31, 2006, Rieter sold the activities in cabling, twisting and texturing machines. The French subsidiary Rieter Textile Machinery France SAS posted sales of approximately 50 million CHF during the first ten months of 2006 with a workforce of some 150 employees.

As of December 14, 2006, Rieter sold the assets and liabilities of the business in machinery and systems for manufacturing synthetic continuous filament yarns. This unit of Rieter Machine Works Ltd., Winterthur, with some 80 employees generated in 2006 sales of approximately 30 million CHF prior to its sale.

The assets and liabilities arising from the divestments in 2006 were as follows:

CHF million	2006
Non-current assets	– 36.3
Current assets	– 47.1
Liabilities	37.2
Net disposed assets and liabilities	**– 46.2**
Loss on divestments	48.5
Cash used for divestments	**2.3**

26 Pension plans

The expense for pension plans is included in employee costs.

Defined-contribution plans

The expense for defined-contribution plans amounted to 12.1 million CHF (9.5 million CHF in 2006).

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	2007	2006
Actuarial present value of defined-benefit obligation • unfunded plans	– 67.4	– 74.3
• funded plans	– 1 226.7	– 1 110.5
Defined-benefit obligation at December 31	**– 1 294.1**	**– 1 184.8**
Fair value of plan assets	1 474.4	1 443.7
Surplus at December 31	**180.3**	**258.9**
Unrecognized actuarial gains and losses	5.8	17.2
Unrecognizable assets of pension plans (due to limit of IAS 19.58)	– 202.6	– 297.0
Net asset/(liability) at December 31	**– 16.5**	**– 20.9**
Recognized in the balance sheet • as assets	62.5	60.4
• as pension provisions	– 79.0	– 81.3

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

CHF million	2007	2006
Defined-benefit obligation at January 1	**1 184.8**	**1 088.1**
Current service cost, net	15.2	19.1
Interest cost	43.9	32.9
Employee contributions	9.3	8.9
Actuarial gains/losses	20.7	82.4
Past service cost	90.0	0.1
Benefits paid	– 69.9	– 44.6
Currency effects	0.1	– 2.1
Defined-benefit obligation at December 31	**1 294.1**	**1 184.8**

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

CHF million	2007	2006
Fair value of plan assets at January 1	**1 443.7**	**1 240.9**
Expected return on plan assets	46.9	46.3
Actuarial gains/losses	26.8	174.5
Employer contributions	18.9	21.4
Employee contributions	9.3	8.9
Benefits paid	– 69.9	– 44.6
Currency effects	– 1.3	– 3.7
Fair value of plan assets at December 31	**1 474.4**	**1 443.7**

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

in %	2007	2006
Equity	59	54
Debt	15	17
Real estate	20	20
Other	6	9

Pension plan assets included 140 729 Rieter shares with a market value of 70.4 million CHF (71 000 shares with a market value of 45.3 million CHF in 2006).

Pension costs of defined-benefit plans

CHF million	2007	2006
Current service cost, net	15.2	19.1
Interest cost	43.9	32.9
Expected return on plan assets	– 46.9	– 46.3
Recognized actuarial gains / losses	4.9	– 84.1
Past service cost	90.0[1]	0.1
Impact of limit of IAS 19.58	– 96.1	86.2
Pension costs of defined-benefit plans	**11.0**	**7.9**

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 2008. The actual return on plan assets was 73.7 million CHF (220.8 million CHF in 2006).

Actuarial assumptions

Weighted average in %	2007	2006
Discount rate	3.7	3.0
Expected return on plan assets	4.2	3.8
Future wage growth	2.3	2.1
Future pension growth	1.8	1.7

Additional disclosure

CHF million	2007	2006	2005
Defined-benefit obligation	– 1 294.1	– 1 184.8	– 1 088.1
Plan assets	1 474.4	1 443.7	1 240.9
Surplus	**180.3**	**258.9**	**152.8**
Experience adjustment on plan liabilities	117.6	34.5	– 8.8
Experience adjustment on plan assets	26.8	174.5	132.0

27 Share-based compensation

Rieter has established a share purchase plan for its managers. Between May 21 and June 29, 2007, 96 participants purchased 12 078 shares at a price of 380.00 CHF per share (10 709 shares at 351.00 CHF in 2006). The average market value of shares granted was 668.96 CHF (474.88 CHF in 2006). 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 and the Group Executive Committee could subscribe to one additional free option for each share which was purchased and 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 654.00 CHF (501.00 CHF in 2006). There are no vesting conditions.

The estimated fair value of each share option granted to the members of the Board of Directors and of the Group Executive Committee in 2007 is 87.07 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	663.50
Exercise price	CHF	654.00
Expected volatility (based on historical data)	%	22.60
Option life	Years	5
Risk-free interest rate	%	3.00
Dividend yield	%	2.60

Change in options granted

	Number of options 2007	Weighted average exercise price in CHF 2007	Number of options 2006	Weighted average exercise price in CHF 2006
Outstanding at January 1	**7 374**	**427.44**	**15 678**	**338.57**
Granted	3 357	654.00	3 379	501.00
Exercised	– 3 995	365.22	– 11 683	329.45
Outstanding at December 31	**6 736**	**577.25**	**7 374**	**427.44**
Exercisable at December 31	**0**	**0.00**	**482**	**244.00**

The share options outstanding at December 31, 2007, had an exercise price between 501.00 CHF and 654.00 CHF and a weighted average contractual life of 4.03 years.

In 2007 the costs resulting from the share purchase plan amounted to 3.8 million CHF (1.3 million CHF in 2006). The costs resulting from the share option plan amounted to 0.3 million CHF (0.2 million CHF in 2006).

Long-service awards are also granted in the form of shares at some group companies.

28 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 Executive Committee was as follows:

CHF million	2007	2006
Compensation	4.6	4.2
Employee benefit contributions	0.2	0.1
Social security	0.1	0.1
Share-based compensation	1.2	0.9
Other long-term benefits	0.0	0.0
Total	**6.1**	**5.3**

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 98 to 101.

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

29 Other commitments

Commitments arising from future minimum lease payments under non-cancelable operating leases were as follows:

CHF million	2007	2006
Up to 1 year	11.7	9.8
1 – 5 years	23.4	18.3
5 and more years	4.8	3.1
Total	**39.9**	**31.2**

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

30 Cash flow

CHF million	2007	2006
Net profit	211.5	157.4
Depreciation and amortization of tangible and intangible assets	158.3	145.0
Loss on divestments	0.0	48.5
Other non-cash income and expenses	– 9.6	– 21.3
Cash flow	**360.2**	**329.6**
Change in provisions	8.8	5.6
Net cash flow	**369.0**	**335.2**
Change in net working capital	25.9	– 82.6
Capital expenditure on tangible and intangible assets, net	– 178.8	– 153.5
Change in financial assets, net	12.1	7.7
Acquisitions	0.0	– 3.9
Divestments	0.0	– 2.3
Free cash flow	**228.2**	**100.6**

31 Exchange rates for currency translation

		Average annual rates		Year-end rates	
CHF million		**2007**	**2006**	**2007**	**2006**
Argentina	1 ARS	0.39	0.41	0.36	0.40
Brazil	1 BRL	0.62	0.58	0.64	0.57
Canada	1 CAD	1.12	1.10	1.15	1.05
China	100 CNY	15.77	15.71	15.40	15.62
Czech Republic	100 CZK	5.92	5.55	6.23	5.84
Euro countries	1 EUR	1.64	1.57	1.66	1.61
Great Britain	1 GBP	2.40	2.31	2.26	2.39
Hong Kong	100 HKD	15.40	16.13	14.40	15.65
India	100 INR	2.91	2.77	2.85	2.76
Poland	100 PLN	43.50	40.40	46.20	42.00
Taiwan	100 TWD	3.65	3.85	3.47	3.74
USA	1 USD	1.20	1.25	1.13	1.22

32 Events after balance sheet date

On November 12, 2007, Rieter signed a purchase agreement to acquire textile component manufacturer Berkol. Rieter will acquire the business unit with all its employees and trademark rights as of January 1, 2008. Berkol will be integrated in Bräcker AG, the Rieter company which is also based in Pfäffikon, Switzerland. The business unit generates sales of some 11 million CHF with 23 employees and will be consolidated within segment Textile Systems as of January 1, 2008.

On February 25, 2008, Rieter signed an agreement to sell the business unit Rieter Automatik GmbH, Grossostheim, Germany, out of segment Textile Systems. Rieter Automatik GmbH employs a workforce of 230 and generated sales of some 70 million CHF in 2007 with machinery and systems for manufacturing plastics granulates. It is planned to execute the agreement in second quarter 2008.

33 Approval for publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Board of Directors on March 18, 2008. They are also subject to approval by the Annual General Meeting of shareholders. No events have occurred up to March 18, 2008, 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, 2007

			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 Maquinas Ltda., São Paulo	BRL	10 220 000	100%		•	•	•
	Rieter Automotive Brazil-Artefatos de Fibras Texteis Ltda., São Bernardo d.C.	BRL	35 107 344	100%	•	•	•	
	Rieter South America Ltda., São Paulo	BRL	2 172 653	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	10 000 000	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	2 500 000	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 Spinnereimaschinenbau AG, Ingolstadt	EUR	12 273 600	100%	•	•	•	•
	Rieter Automatik GmbH, Grossostheim	EUR	7 158 086	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	409 900 000	100%		•	•	
	Rieter India Pvt. Ltd., New Delhi	INR	10 000 000	100%		•		
	Rieter-LMW Machinery Ltd., Perianaickenpalayam	INR	250 000 000	50%			•	
	Lakshmi Machine Works Ltd., Coimbatore[1]	INR	123 692 500	13%	•	•	•	•
	Rieter Automotive India Pvt. Ltd., Gurgaon	INR	18 441 670	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., Mailand	EUR	8 400 000	100%	•	•	•	
	Idea Institute S.p.A., Turin	EUR	3 500 000	100%	•			•
Netherlands	Graf Holland B.V., Enschede	EUR	113 445	100%		•	•	•
	Rieter Automotive Nederland B.V., Weert	EUR	2 042 010	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 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, Winterthur	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%		•		
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 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 group auditors

PRICEWATERHOUSECOOPERS

Report of the group auditors to the General Meeting of Rieter Holding Ltd., Winterthur

As auditors of the group, we have audited the consolidated financial statements (income statement, balance sheet, statement of cash flows, changes in equity and notes on pages 54 to 91) of Rieter Holding Ltd. for the year ended December 31, 2007.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements 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.

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

PricewaterhouseCoopers AG

Christian Kessler
Auditor in charge

Beat Krieger

Zurich, March 19, 2008

Income statement of Rieter Holding Ltd.

for the financial year from January 1 to December 31

CHF million	Notes	2007	2006
Income			
Income from investments	(1)	89.9	72.9
Income from marketable securities and interest income	(2)	21.0	54.5
Other income	(3)	13.7	10.9
Total income		**124.6**	**138.3**
Expenses			
Financial expenses	(4)	14.4	14.1
Administration expenses		4.8	4.6
Value adjustments, provisions	(5)	38.0	56.2
Total expenses		**57.2**	**74.9**
Net profit		**67.4**	**63.4**

Balance sheet of Rieter Holding Ltd.

at December 31, before appropriation of profit

CHF million	Notes	2007	2006
Assets			
Investments in and loans to subsidiaries	(6)	600.3	648.7
Non-current assets		**600.3**	**648.7**
Accrued income and prepayments		0.4	1.6
Receivables from third parties	(7)	2.5	2.7
Receivables from subsidiaries	(8)	52.7	100.2
Receivables		**55.6**	**104.5**
Liquid funds	(9)	233.4	216.7
Current assets		**289.0**	**321.2**
Total assets		**889.3**	**969.9**
Shareholders' equity and liabilities			
Share capital		22.3	22.3
Legal reserves			
• General reserve	(10)	27.5	27.5
• Reserve for own shares	(11)	159.3	8.6
Other reserves	(12)	120.2	270.9
Retained earnings	(13)		
• Balance brought forward		30.5	29.3
• Net profit for the year		67.4	63.4
Shareholders' equity		**427.2**	**422.0**
Provisions	(14)	11.3	11.3
Non-current liabilities		**11.3**	**11.3**
Short-term liabilities	(15)	444.1	329.0
Bonds	(16)	0.0	200.0
Accrued liabilities	(17)	6.7	7.6
Current liabilities		**450.8**	**536.6**
Liabilities		**462.1**	**547.9**
Total shareholders' equity and liabilities		**889.3**	**969.9**

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.

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 bond issues, which were repaid in June, bank debt and liabilities to group companies.

5 Value adjustments, provisions

The value adjustment for general business risks was increased by 38.0 million CHF and deducted from investments in and loans to subsidiaries.

6 Investments in and loans to subsidiaries

CHF million	2007	2006
Investments in subsidiaries	274.9	221.0
Loans to subsidiaries	325.4	427.7
Total	**600.3**	**648.7**

The main subsidiaries and associated companies are listed on pages 90 and 91. These investments are held directly or indirectly by Rieter Holding Ltd. In the year under review some loans to subsidiaries were converted into equity capital.

7 Receivables from third parties

These consist of receivables from a loan and from withholding taxes and current account relationships with foundations.

8 Receivables from subsidiaries

Current account credit facilities on market terms and conditions are granted in the context of central cash management.

9 Liquid funds

CHF million	2007	2006
Cash and cash equivalents	83.4	124.1
Marketable securities[1]	150.0	92.6
Total	**233.4**	**216.7**

1. Including own shares.

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, 2007	15 514
Purchases January – December 2007 (average price 603.83 CHF)	303 046
Sales January – December 2007 (average price 632.64 CHF)	60 136
Registered shares held at December 31, 2007	258 424

A reserve for own shares has been made at an acquisition cost of 159.3 million CHF. This amount was deducted from other reserves.

12 Other reserves

CHF million	2007	2006
Opening balance	270.9	272.8
Transfer to reserve for own shares	– 150.7	– 8.4
Premium received on shares issued	0.0	6.5
Total	**120.2**	**270.9**

13 Retained earnings

Including the balance brought forward, the Annual General Meeting has a total of 97.9 million CHF at its disposal (92.7 million CHF in 2006).

14 Provisions

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

15 Short-term liabilities

CHF million	2007	2006
Liabilities to group companies	348.8	328.2
Liabilities to third parties	95.3	0.8
Total	**444.1**	**329.0**

Rieter Holding Ltd. manages liquid funds for group companies in the central cash pool. The increase of short-term liabilities in the year under review is due to higher liabilites to banks.

16 Bonds

CHF million	2007	2006
4% bonds maturing 2007	0.0	200.0
Total	**0.0**	**200.0**

The 200 million CHF of 4% bonds were repaid on June 21, 2007.

17 Accrued liabilities

These consist mainly of accrued interest and accruals for forward foreign exchange contracts.

18 Guarantees to third parties

CHF million	2007	2006
Guarantees	16.2	2.9

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 5% of all voting rights (pursuant to Art. 663c of the Swiss Code of Obligations) at December 31, 2007:

Barclays Plc, London and its subsidiaries holds 223 640 shares according to the notification on October 30, 2007.

Rieter Holding Ltd. held 258 424 of its own shares directly or indirectly at December 31, 2007 (15 514 shares at December 31, 2006).

20 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 reviews the main features of salary policy annually. 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 salary policy and 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. Members of the Board of Directors also receive an option to purchase one Rieter share for each restricted share. 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 10 trading days immediately preceding the allocation of the option.

Total compensation 2007 to the members of the Board of Directors

	Cash compensation		Shares		Options			Total
CHF	Fixed net	Variable net	Number	Value[1]	Number	Value[2]	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 10 trading days immediately preceding the allocation of the option.

Total compensation 2007 to the members of the Group Executive Committee

	Cash compensation		Shares		Options			Total
CHF	**Fixed net**	**Variable net**	**Number**	**Value[1]**	**Number**	**Value[2]**	**Contribution 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 2007, nor were severance payments disbursed to any member of the Board of Directors or the Group Executive Committee in 2007.

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 in terms of Art. 663c, Swiss Code of Obligations

	Shares	Options	
		Expiry date 2011	Expiry date 2012
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
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 (2007 financial year)

CHF	2007	2006
Net profit for the year	67 422 771	63 433 667
Retained earnings brought forward from previous year	30 549 910	29 259 638
Retained earnings at the disposal of the Annual General Meeting	**97 972 681**	**92 693 305**
Proposal		
Dividend on registered shares[1]	62 847 840	62 143 395
Retained earnings	35 124 841	30 549 910
Retained earnings at the disposal of the Annual General Meeting	**97 972 681**	**92 693 305**

1. The total dividend amount in 2007 covers all shares eligible for dividend. As there is no dividend payment for shares held in treasury, the actual total dividend payment may differ by the dividend amount for treasury shares, as in the previous year.

Upon approval of this proposal by the Annual General Meeting, a dividend for the 2007 financial year of 15.00 CHF will be paid on each registered share of 5.00 CHF p.v. on May 15, 2008. The dividend, less Swiss withholding tax, amounts to 9.75 CHF and will be paid into the bank or postal account specified by the holder of the shares.

Report of the statutory auditors

PRICEWATERHOUSECOOPERS

Report of the statutory auditors to the General Meeting of Rieter Holding Ltd., Winterthur

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes on pages 93 to 102 and pages 90 and 91) of Rieter Holding Ltd. for the year ended December 31, 2007.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply 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 Auditor in charge	Beat Krieger

Zurich, March 19, 2008

Review 2003 to 2007

Consolidated income statement

		2007	2006	2005	2004	2003
Sales	CHF million	3 930.1	3 579.9	3 122.0	3 136.6	3 086.2
• Europe	CHF million	1 728	1 598	1 439	1 448	1 443
• Asia[1]	CHF million	1 206	1 003	775	875	792
• North America	CHF million	715	726	722	674	695
• Latin America	CHF million	204	172	156	97	95
• Africa	CHF million	77	81	30	43	61
Corporate output	CHF million	3 822.8	3 447.5	3 035.6	3 018.0	2 959.2
Operating result before interest, taxes, depreciation and amortization (EBITDA)	CHF million	437.0	325.6	313.4	343.1	332.7
• in % of corporate output		11.4	9.4	10.3	11.4	11.2
Operating result before interest and taxes (EBIT)	CHF million	278.7	180.6	183.0	210.5	202.4
• in % of corporate output		7.3	5.2	6.0	7.0	6.8
Net profit[2]	CHF million	211.5	157.4	138.1	137.8	116.0
• in % of corporate output		5.5	4.6	4.5	4.6	3.9
Return on net assets (RONA) in %		13.8	10.8	10.2	11.1	10.5

Consolidated balance sheet

		2007	2006	2005	2004	2003
Non-current assets	CHF million	1 179.2	1 152.0	1 159.6	944.5	982.4
Current assets	CHF million	1 655.4	1 732.6	1 555.1	1 545.5	1 344.5
Equity attributable to Rieter shareholders	CHF million	1 308.6	1 320.5	1 192.2	1 069.8	918.0
Equity attributable to minority interests	CHF million	60.1	54.9	70.0	77.8	79.6
Non-current liabilities	CHF million	309.6	318.1	515.0	498.9	515.3
Current liabilities	CHF million	1 156.3	1 191.1	937.5	843.5	814.0
Total assets	CHF million	2 834.6	2 884.6	2 714.7	2 490.0	2 326.9
Shareholders' equity in % of total assets		48.3	47.7	46.5	46.1	42.9

Consolidated statement of cash flows[3]

		2007	2006	2005	2004	2003
Net cash from operating activities	CHF million	394.9	252.6	242.8	338.1	197.5
Net cash used for investing activities	CHF million	– 118.5	– 84.9	– 322.8	– 120.2	– 129.5
Net cash used for financing activities	CHF million	– 309.5	– 67.5	– 123.0	20.3	– 75.6
Net cash flow	CHF million	369.0	335.2	260.7	268.4	245.5
Free cash flow	CHF million	228.2	100.6	– 1.4	215.2	86.2

		2007	2006	2005	2004	2003
Number of employees at year-end		**15 506**	**14 826**	**14 652**	**13 557**	**13 316**

1. Including Turkey
2. Net profit before deduction of minority interests.
3. See pages 56 and 88.

Information for investors

		2007	2006	2005	2004	2003
Share capital	CHF million	22.3	22.3	22.3	22.3	22.8
Net profit of Rieter Holding Ltd.	CHF million	67.4	63.4	49.3	43.7	36.6
Gross distribution	CHF million	62.8[1]	62.1	41.5	41.2	34.0
Payout ratio (in % of net profit)[2]	in %	32	42	33	33	33
Market capitalization (December 31)	CHF million	1 966	2 661	1 624	1 361	1 214
Market capitalization in % of						
• sales	in %	50	74	52	43	39
• equity attributable to Rieter shareholders	in %	150	202	136	127	132

1. Proposed by the Board of Directors (see page 102).
2. Net profit after deduction of minority interests.

Data per share (RIEN)

			2007	2006	2005	2004	2003
Share prices on the SWX Swiss Exchange	high	CHF	717	641	393	350	290
	low	CHF	478	387	328	293	237
Price / earnings ratio	high		14.9	18.0	12.8	11.3	11.3
	low		9.9	10.9	10.6	9.4	9.2
Shareholders' equity (group) per registered share		CHF	332.86	316.34	286.29	260.37	230.42
Tax value per registered share		CHF	500.00	637.50	390.00	330.00	286.00
Gross distribution per registered share		CHF	15.00[1]	15.00	10.00	10.00	8.60
Gross yield on registered shares	high	in %	2.1[1]	2.3	2.5	2.9	3.0
	low	in %	3.1[1]	3.9	3.0	3.4	3.6
Earnings per share		CHF	48.19	35.53	30.80	31.04	25.68

2. Proposed by the Board of Directors (see page 102).

Additional information to shareholders

Analysis of shareholders

At the end of 2007 7 091 shareholders were entered in the shareholders' register of Rieter Holding Ltd. (6 429 in the previous year). The analysis of shareholders is as follows:

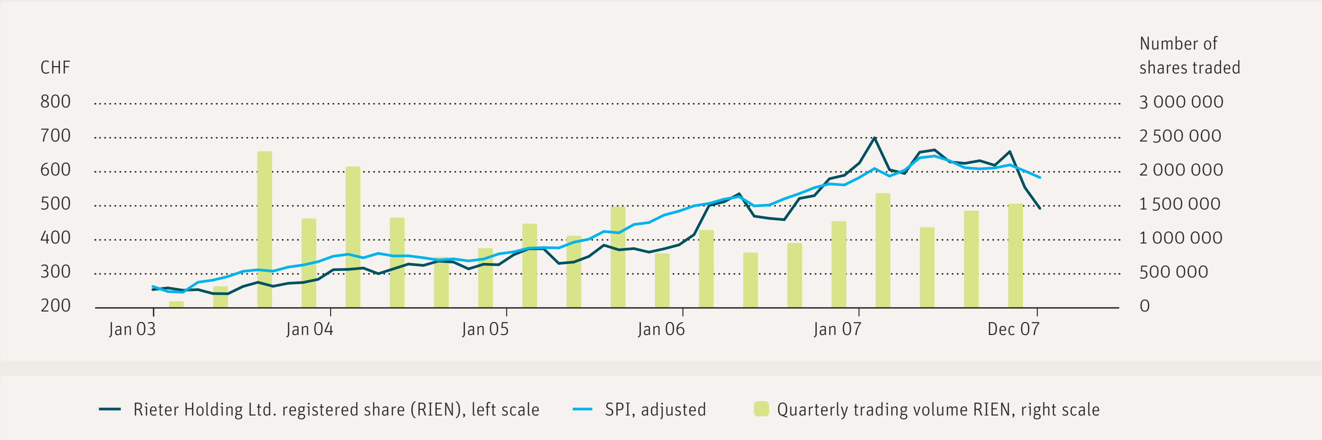
Registered shareholders

	2007		2006	
	Shares in %	Holders in %	Shares in %	Holders in %
Total:				
• Individuals	12.6	91.0	12.3	90.7
• Legal entities	55.0	9.0	54.6	9.3
• Floating shares	32.4		33.1	
Foreign investors				
• Individuals	0.9	6.0	0.8	5.9
• Legal entities	25.3	1.9	25.9	1.6

Rieter registered shares at December 31, 2007 (listed on the Swiss Stock Exchange SWX)

	Number	
Securities code 367144 (Investdata: RIEN; Reuters: RITZN)		
Share capital	4 450 856	registered shares of 5.00 CHF p.v.
Share capital eligible for dividend	4 189 856	• including 258 346 shares held by Rieter Holding Ltd. • including 78 shares held by group companies
Conditional share capital	396 312	registered shares

Share price development 2003–2007



March 2008

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