

Financial report**Consolidated financial statements**

38	Consolidated income statement
39	Consolidated balance sheet
40	Consolidated statement of cash flows
41	Changes in consolidated equity
42	Notes to the consolidated financial statements
74	Significant subsidiaries and associated companies
76	Report of the statutory auditor

Financial statements of Rieter Holding Ltd.

78	Income statement
79	Balance sheet
80	Notes
87	Proposal of the Board of Directors
88	Report of the statutory auditor

Appendix

90	Review 2004 to 2008
92	Additional information to shareholders

Consolidated income statement

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

* In % of corporate output.

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

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

Consolidated balance sheet

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

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

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

Consolidated statement of cash flows

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

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

Changes in consolidated equity

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

1. 15.00 CHF per registered share.

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

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

Notes to the consolidated financial statements

1 Summary of significant accounting policies

Basis of preparation

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

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

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

Assumptions and estimates

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

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

Tangible and intangible assets are tested for impairment whenever there are indications that, due to changed circumstances, their carrying value may no longer be fully recoverable. If such a situation arises, recoverable amount is determined on the basis of expected future cash flows, corresponding to either the discounted value of expected future

net cash flows or the expected net selling price. If the recoverable amount is below the carrying amount, a corresponding impairment loss is recognized in the income statement. The main assumptions on which these measurements are based include growth rates, margins and discount rates.

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

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

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

Scope and principles of consolidation

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

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

Changes in the scope of consolidation

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

Foreign currency translation

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

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

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

Tangible fixed assets

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

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

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

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

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

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

Leases

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

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

Intangible assets

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

Research and development

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

Goodwill

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

Impairment of non-financial assets

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

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

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

Financial assets

Rieter classifies its financial assets in the following categories:

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

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

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

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

Derivative financial instruments

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

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

Inventories

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

Trade receivables

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

Marketable securities

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

Cash and cash equivalents

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

Financial debt

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

Provisions

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

Current income taxes

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

Deferred income taxes

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

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

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

Pension funds

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

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

Share-based compensation

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

Revenue recognition

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

Financing costs

Financing costs are recognized in the income statement.

Standards that have been published but not yet applied

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

2001. The directive defines the main risk categories to be considered for risk management, the persons in charge of the various risks within the Group, and the workflows regarding identification, reporting and handling of risks. The directive further defines criteria for the qualitative and quantitative risk assessments, as well as thresholds for the reporting of identified exposures.

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

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

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

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

2.1 Risk management process

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

The risk management process is regulated by the Group directive "Rieter Risk Management System", issued by the Board of Directors on August 31,

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

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

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

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

Interest rate risk

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

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

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

2.2 Financial risk management

Financial risk factors

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

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

Foreign exchange risk

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

Price risk

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

Credit risk

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

Liquidity risk

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

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

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

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

Capital management

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

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

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

3 Segment information by division

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

Sales

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

There were no material inter-divisional sales.

Operating result before special charges, interest and taxes

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

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

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

Special charges

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

Operating result before interest and taxes (EBIT)

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

Assets

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

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

Liabilities

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

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

Net assets

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

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

Capital expenditures on tangible and intangible assets

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

Depreciation and amortization of tangible and intangible assets

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

Number of employees at year-end¹

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

1. Excluding apprentices and temporary employees.

Segment information by geographic region**Sales**

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

1. Including Turkey.

Assets

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

1. Including Turkey.

Capital expenditures on tangible and intangible assets

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

1. Including Turkey.

Number of employees at year-end¹

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

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

4 Sales**Change in sales**

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

5 Employee costs

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

6 Other operating expenses

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

7 Depreciation and amortization

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

8 Special charges

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

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

9 Financial income

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

10 Financial expenses

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

11 Income taxes

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

Reconciliation of expected and actual tax expense:

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

Deferred income taxes

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

CHF million	Deferred tax assets 2008	Deferred tax liabilities 2008	Deferred tax assets 2007	Deferred tax liabilities 2007
Tangible fixed assets	4.7	-24.7	3.4	-36.2
Inventories	9.2	-7.4	8.0	-10.2
Other assets	4.7	-30.4	4.9	-56.3 ¹
Provisions	5.5	-3.4	7.7	-3.0
Other liabilities	15.2	-16.8	12.2	-8.0
Valuation adjustments on deferred tax assets	-15.1	0.0	-14.1	0.0
Tax loss carry-forwards and tax credits	1.0	0.0	13.9	0.0
Total	25.2	-82.7	36.0	-113.7 ¹
Offsetting	-20.3	20.3	-23.9	23.9
Deferred tax assets/liabilities	4.9	-62.4	12.1	-89.8¹

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

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

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

12 Research and development

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

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

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

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

13 Tangible fixed assets

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

1. Including machinery and operating facilities.

2. Including pilot machines.

3. Thereof 9.0 Mio. CHF write-offs in connection with the restructuring program.

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

Land and buildings

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

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

Non-operational property

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

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

14 Intangible assets

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

Goodwill has been allocated to the cash-generating units as follows¹:

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

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

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

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

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

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

15 Other non-current assets

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

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

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

16 Inventories

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

The following summarizes the movement in the allowance for inventories:

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

17 Trade receivables

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

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

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

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

Trade receivables include amounts denominated in the following major currencies:

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

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

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

18 Other receivables

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

19 Marketable securities

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

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

20 Cash and cash equivalents

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

21 Minority interests

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

22 Financial debt

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

By currency, financial debt is divided up as follows:

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

23 Provisions

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

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

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

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

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

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

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

24 Other current liabilities

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

25 Financial instruments

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

CHF million	2008	2007
Cash (excluding time deposits)	257.5	234.6
Securities held for trading	0.1	0.6
Positive replacement values of derivative financial instruments	1.0	4.2
Investments in non-consolidated companies	4.2	1.7
Total financial assets at fair value through profit and loss	5.3	6.5
Time deposits with original maturities up to three months	25.1	22.9
Time deposits with original maturities between three and twelve months	4.6	4.2
Trade receivables	382.1	625.3
Other short-term receivables	66.3	98.8
Long-term interest-bearing receivables	4.3	2.2
Total loans and receivables	482.4	753.4
Securities available for sale	3.0	109.8
Investments in non-consolidated companies	11.8	12.0
Total available for sale financial assets	14.8	121.8
Total financial assets and derivatives	760.0	1 116.3
CHF million	2008	2007
Short-term financial debt	198.3	180.1
Long-term financial debt	128.8	47.5
Negative replacement values of derivative financial instruments	3.4	5.9
Total financial debt and derivatives	330.5	233.5

26 Acquisitions

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

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

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

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

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

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

There were no acquisitions of businesses in 2007.

27 Divestments

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

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

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

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

There were no divestments of businesses in 2007.

28 Pension plans

The expense for pension plans is included in employee costs.

Defined contribution plans

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

Defined benefit plans

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

Funded status of defined benefit plans

CHF million	2008	2007
Actuarial present value of defined benefit obligation		
• unfunded plans	-46.4	-67.4
• funded plans	-989.0	-1 226.7
Defined benefit obligation at December 31	-1 035.4	-1 294.1
Fair value of plan assets	1 010.4	1 474.4
Deficit/surplus at December 31	-25.0	180.3
Unrecognized actuarial gains and losses	58.2	5.8
Unrecognizable assets of pension plans (due to limit of IAS 19.58)	-20.3	-189.8 ¹
Net asset/(liability) at December 31	12.9	-3.7¹
Recognized in the balance sheet		
• as assets	71.6	75.3 ¹
• as pension provisions	-58.7	-79.0

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

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

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

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

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

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

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

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

Pension costs of defined benefit plans

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

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

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

Actuarial assumptions

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

Additional disclosure

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

29 Share-based compensation

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

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

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

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

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

Change in options granted

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

No options expired in 2008 and 2007.

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

30 Related parties

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

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

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

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

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

31 Other commitments

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

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

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

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

32 Cash flow

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

33 Exchange rates for currency translation

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

34 Events after balance sheet date

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

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

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

35 Approval for publication of the consolidated financial statements

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

Significant subsidiaries and associated companies

at December 31, 2008

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

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

1. Non-consolidated associated company.

2. Partnership without registered paid-in capital

Report of the statutory auditor on the consolidated financial statements



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

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

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

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

Report on other legal requirements

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

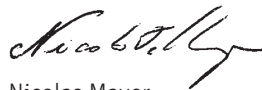
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG



Christian Kessler
Audit expert
Auditor in charge



Nicolas Mayer

Zurich, March 20, 2009

Income statement of Rieter Holding Ltd.

for the financial year from January 1 to December 31

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

Balance sheet of Rieter Holding Ltd.

at December 31, before appropriation of profit

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

Notes to the financial statements of Rieter Holding Ltd.

1 Income from investments

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

2 Income from marketable securities and interest income

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

3 Other income

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

4 Financial expenses

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

5 Value adjustments, provisions

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

6 Investments in and loans to subsidiaries

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

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

7 Receivables

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

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

8 Liquid funds

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

1. Including own shares.

9 Share capital

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

10 General reserve

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

11 Reserve for own shares

Shares held by all group companies

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

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

12 Other reserves

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

13 Retained earnings

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

14 Long-term financial debt

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

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

15 Provisions

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

16 Short-term liabilities

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

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

17 Accrued liabilities

These consist mainly of accrued interest.

18 Guarantees to third parties

CHF million	2008	2007
Guarantees	12.3	16.2

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

19 Shareholders

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

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

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

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

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

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

20 Risk management

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

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

Content and process for specifying remuneration and equity participation programs

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

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

Remuneration of the Board of Directors

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

Total 2008 compensation to the members of the Board of Directors

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

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

Total 2007 compensation to the members of the Board of Directors

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

1. For the purpose of inclusion in the total compensation, the shares are valued at 531 CHF (average trading price 20 days prior to the March 2007 Board meeting [= 633 CHF] less a 16% discount for the three-year restriction on sale).

2. One option entitles the holder to purchase one Rieter share at the exercise price of 654 CHF. The awarded options are valued according to the Black-Scholes formula at 87 CHF per option.

Remuneration of former members of the Board of Directors

No remuneration was disbursed to former directors and officers.

Remuneration of the Group Executive Committee

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

In the context of the share purchase plan the members of the Group Executive Committee can purchase Rieter shares up to the amount of their bonus at a variable discount. The number of shares is calculated on the

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

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

Total 2008 compensation to the members of the Group Executive Committee

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

1. For the purpose of inclusion in the total compensation, the shares are valued at 99 CHF (difference between the preferred purchase price [= 249 CHF] and the average trading price 20 days prior the March 2008 Board meeting less a 16% discount for the three-year restriction on sale [= 348 CHF]).

2. One option entitles the holder to purchase one Rieter share at the exercise price of 359 CHF. The awarded options are valued according to the Black-Scholes formula at 36 CHF per option.

Total 2007 compensation to the members of the Group Executive Committee

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

1. For the purpose of inclusion in the total compensation, the shares are valued at 151 CHF (difference between the preferred purchase price [= 380 CHF] and the average trading price 20 days prior the March 2007 Board meeting less a 16% discount for the three-year restriction on sale [= 531 CHF]).

2. One option entitles the holder to purchase one Rieter share at the exercise price of 654 CHF. The awarded options are valued according to the Black-Scholes formula at 87 CHF per option.

Additional fees and payments

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

Directorships with other companies

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

Loans to directors and officers

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

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

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

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

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

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

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

Proposal of the Board of Directors

for the appropriation of profit (2008 financial year)

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

Report of the statutory auditor on the financial statements



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

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

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

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

Report on other legal requirements

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

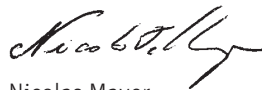
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG



Christian Kessler
Audit expert
Auditor in charge



Nicolas Mayer

Zurich, March 20, 2009

Review 2004 to 2008

Consolidated income statement

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

Consolidated balance sheet

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

Consolidated statement of cash flows⁴

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

Number of employees at year-end

2008	2007	2006	2005	2004
14 183	15 506	14 826	14 652	13 557

1. Including Turkey

2. Net profit before deduction of minority interests.

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

4. See pages 40 and 72.

Information for investors

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

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

2. Net profit after deduction of minority interests.

Data per share (RIEN)

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

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

Additional information to shareholders

Analysis of shareholders

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

Registered shareholders

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

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

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

Share price development 2004–2008

