

## 2005 Semi-Annual Report

### Contents

Letter to shareholders	2-4
Consolidated income statement, balance sheet	5
Consolidated statement of cash flows, changes in consolidated equity	6
Notes to the semi-annual financial statements (incl. segment information)	6-8

# Challenging market environment for Rieter

CHF million	January–June 2005	January–June 2004	Change	Change in local currencies	January–December 2004
<b>Orders received</b>	<b>1 544.2</b>	<b>1 663.1</b>	<b>-7%</b>	<b>-7%</b>	<b>3 088.3</b>
<b>Sales</b>	<b>1 539.3</b>	<b>1 626.1</b>	<b>-5%</b>	<b>-5%</b>	<b>3 173.2</b>
thereof Textile Systems	506.2	582.4	-13%	-13%	1 175.9
thereof Automotive Systems	1 025.5	1 032.7	-1%	0%	1 978.9
<b>Corporate output</b>	<b>1 511.6</b>	<b>1 582.8</b>	<b>-4%</b>		<b>3 054.6</b>
<b>Operating result before interest and taxes (EBIT)</b>	<b>80.2</b>	<b>104.3</b>	<b>-23%</b>		<b>210.5</b>
<b>- in % of corporate output</b>	<b>5.3</b>	<b>6.6</b>			<b>6.9</b>
Textile Systems, in % of corporate output	6.0	10.2			10.2
Automotive Systems, in % of corporate output	5.2	5.0			5.1
<b>Net profit</b>	<b>54.9</b>	<b>67.7</b>	<b>-19%</b>		<b>137.8</b>
- in % of corporate output	3.6	4.3			4.5
<b>Cash flow</b>	<b>118.9</b>	<b>135.0</b>	<b>-12%</b>		<b>281.8</b>
- in % of corporate output	7.9	8.5			9.2
<b>Earnings per share</b>	<b>CHF 12.02</b>	<b>15.07</b>	<b>-20%</b>		<b>31.04</b>
<b>Capital expenditure on tangible and intangible assets</b>	<b>54.7</b>	<b>47.6</b>	<b>15%</b>		<b>120.8</b>
<b>Number of employees at end of reporting period</b>	<b>13 990</b>	<b>13 520</b>	<b>3%</b>		<b>13 557</b>

Dear shareholders,

The dominant features of the first six months of 2005 for the Rieter Group were the low inclination to invest on the part of spinning mills and continued weakness in economic activity in the automotive industry's traditional main markets. As already reported, Rieter therefore recorded lower sales and earnings in the first half of 2005.

Orders received declined by 7% to 1 544.2 million CHF. Group sales of 1 539.3 million CHF were 5% lower than in the strong first half of 2004. While the automotive supply business succeeded in maintaining the previous year's level of sales in local currencies, the trend in the textile machinery business was adversely affected by the uncertainties arising after WTO textile quota arrangements were discontinued.

The operating result before interest and taxes (EBIT) amounted to 80.2 million CHF (104.3 million CHF in 2004) or 5.3% of corporate output (6.6% in 2004). The earnings improvement at Automotive Systems was not sufficient to compensate for the volume-related decline in earnings at Textile Systems. The Rieter Group posted improved financial results. Net profit amounted to 54.9 million CHF (67.7 million CHF in 2004), which is equivalent to 3.6% of corporate output (4.3% in 2004). Earnings per share were 12.02 CHF, compared with 15.07 CHF in the first half of 2004.

The increase in the number of employees to 13 990 (13 520 in 2004) was due primarily to the integration of the components manufacturer Suessen with its locations in Germany and India, and to the expansion of activities in China.

In the first half of 2005 Rieter completed the takeover of Suessen and also acquired the shares that it did not already own in US automotive supplier Magee Rieter Automotive Systems. Suessen, which specializes in components for ring and rotor spinning machines, was fully consolidated as of January 1, 2005, and is an important element in Rieter's

strategy of further expansion in the component business. Rieter is also reinforcing its position in the strategically important Asian markets by integrating Suessen's manufacturing facility in India. By acquiring the entire capital of Magee, Rieter will further expand the automotive supply business in North America and also increasingly supply integrated acoustic systems with carpets to Japanese customers in the US.

Rieter continues to have a sound financial basis: its equity ratio is 46.0% (46.1% on December 31, 2004), net liquidity amounts to 67.2 million CHF (217.5 million CHF on December 31, 2004), and cash flow of 118.9 million CHF was generated in the first six months (135.0 million CHF in the same period of 2004). The decline in net liquidity in the first half of 2005 was due to the dividend payment to shareholders of Rieter Holding Ltd., the purchase of the remaining shares in Magee Rieter and Suessen, and a seasonal increase in working capital.

## Rieter Textile Systems: market slowdown in Asia

China made very heavy investments in textile industry expansion ahead of the new WTO quota arrangements that came into effect at the beginning of 2005. This was reflected in the steep rise in exports of Chinese textiles to North America and Europe at the start of 2005. As a consequence, the US and the EU contemplated reintroducing quotas, which caused once again uncertainty among Chinese spinning mill operators.

The market for staple fiber machinery was especially subdued in the final spinning machine segment. In the man-made fiber sector, market trends suffered additionally from the negative impact of higher crude oil prices. The component business developed much more consistently than the cyclical machinery business.

Orders received by Textile Systems in the first half of 2005 totaled 511.1 million CHF, compared with 619.4 million CHF in the strong first half of 2004. Compared with the second half of 2004, order intake improved – also due to the first-time inclusion of Suessen – by 8%, but less strongly than was still being expected at the beginning of the year. New order intake increased momentum toward the end of the first half of 2005, but at a lower level than in the previous year. Most orders came from four Asian countries: Turkey, India, China and Pakistan, although Rieter recorded substantially lower orders received in China and Pakistan compared with the previous year. Rieter registered significant growth in orders received in India, Bangladesh and South Korea.

Increased deliveries to other countries were also unable to offset the slowdown in sales in some Asian markets, especially China. Sales in the first six months of 2005 were 13% lower at 506.2 million CHF, with Asia accounting for 58% of the total (70% in the same period of the previous year). Reduced volumes and an unfavorable product mix were reflected in a lower operating result before interest and taxes (EBIT). The Textile Systems Division is vigorously engaged in flexibly adjusting capacity to the level of orders in hand and further reducing structural costs. It recorded an EBIT of 30.1 million CHF (58.1 million CHF in 2004) or 6.0% of corporate output (10.2% in 2004) in a difficult business environment.

Rieter is convinced of the potential of the Asian textile machinery market despite the current slowdown, and is continuing its expansion in China and India as planned. For example, since acquiring Suessen Rieter has been progressively expanding its production capacities in India and in the second half of the year can therefore increasingly supply cost-optimized products from there and from the manufacturing location in

## Rieter Textile Systems

### Orders received

CHF million

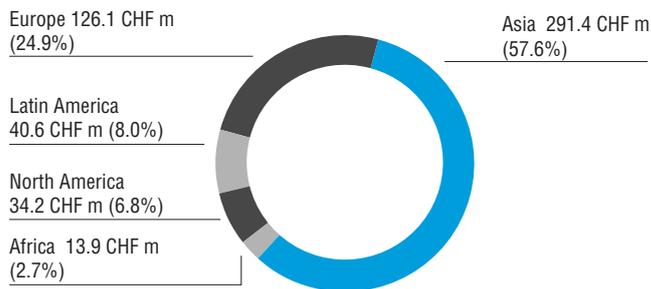


### Sales

CHF million



## Sales by geographical region



## EBIT

CHF million



China, which has also been expanded. The expansion of the nonwovens business is making progress. Rieter has concluded several sales of Spunbond and Spunlace lines, some of which will already be reflected in sales revenues in the second half of 2005.

Uncertainty among our customers regarding the further development of the textile markets and quota arrangements is only slowly being dispelled. The increase in orders received in the first half of 2005 compared with the second half of 2004 will have a positive impact on sales and EBIT in the second half of 2005, but will not be sufficient to make up for the shortfall compared with the previous year by year-end.

## Rieter Automotive Systems: earnings improvement with level of sales maintained

Global automobile production increased slightly (+1.4%) in the first six months of 2005 compared with the previous year. The trend was weaker in North America and Western Europe, the markets of greatest importance for Rieter: vehicle output was 2.7% lower in North America and 2.4% lower in Western Europe, whereas the trend was positive in Asia. The difficult overall market environment, with rising raw material costs and vehicle manufacturers with partly considerable excess capacity and severe competition with heavy price discounting, also exerted increasing pressure on the component supply industry.

In this environment Rieter Automotive recorded sales of 1 025.5 million CHF (1 032.7 million CHF in 2004). Sales expressed in local currencies amounted to 1 034.5 million CHF, slightly higher than the previous year's figure. Contrary to the

general trend, Rieter reported higher sales in North America; sales in Europe were lower than in the same period of the previous year. Rieter grew in North America due to its strong position with Japanese manufacturers and a good product portfolio. In Europe, Automotive Systems was temporarily affected by model changes in high-volume vehicles by certain manufacturers and a substantial decline in output in Southern Europe.

The Automotive Systems Division's operating result before interest and taxes (EBIT) in the first six months of 2005 increased by some 5% to 52.6 million CHF despite the unfavorable trend in the cost of materials and the sustained pressure imposed on prices by customers. This EBIT is equivalent to

5.2% of corporate output, after 5.0% in the previous year. Rieter will continue in future – together with customers – to seek solutions to offset higher raw material prices and economize on raw materials through innovation, as well as achieving further productivity gains.

In North America the integration of US carpet manufacturer Magee Rieter is making good progress. Rieter will expand its capacity in Southern China according to plan in the course of this year. Expansion in Eastern Europe is also being pursued with a further plant in Poland. Action has been initiated in the Western European plants to improve their cost position further. All these projects will result in higher capital spending in the months to come.

Rieter expects automobile production in its main markets to remain constant in the second half of 2005. At unchanged exchange rates, Rieter currently foresees Automotive Systems' sales at the previous year's level and an improvement in the operating result compared with 2004.

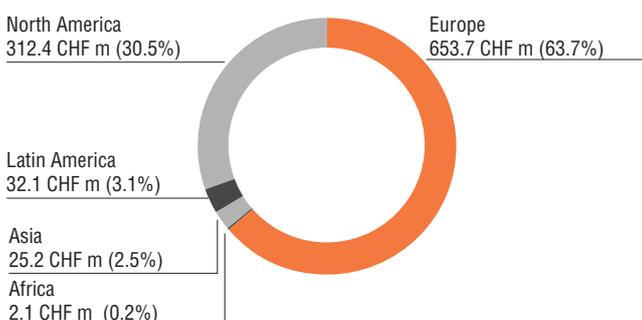
## Rieter Automotive Systems

### Sales

CHF million



### Sales by geographical region



## Outlook

Rieter does not expect any significant positive economic stimulus for the textile machinery and automotive supply markets in the second half of the year. If exchange rates remain within the current range and there is no material deterioration in financial markets, Rieter expects sales in the second half of 2005 to be almost on the same level than in the first six months and a disproportionately greater improvement in earnings.

Winterthur, August 16, 2005

Rieter Holding Ltd.

Kurt Feller  
Chairman  
of the Board of Directors

Hartmut Reuter  
Chief Executive Officer

## EBIT

CHF million



## Consolidated income statement

	Notes	January–June 2005		January–June 2004		January–December 2004	
		CHF million	%*	CHF million	%*	CHF million	%*
<b>Sales</b>		<b>1 539.3</b>		<b>1 626.1</b>		<b>3 173.2</b>	
Sales deduction, change in semi-finished and finished goods, own work capitalized		-27.7		-43.3		-118.6	
<b>Corporate output</b>		<b>1 511.6</b>	<b>100.0</b>	<b>1 582.8</b>	<b>100.0</b>	<b>3 054.6</b>	<b>100.0</b>
Material costs		-680.3	45.0	-717.1	45.3	-1 384.4	45.3
Employee costs	(5)	-468.9	31.0	-470.2	29.7	-909.5	29.8
Operating expense		-218.2	14.5	-223.9	14.1	-417.6	13.7
<b>Operating result before interest, taxes, depreciation and amortization (EBITDA)</b>		<b>144.2</b>	<b>9.5</b>	<b>171.6</b>	<b>10.9</b>	<b>343.1</b>	<b>11.2</b>
Depreciation and amortization	(6)	-64.0	4.2	-67.3	4.3	-132.6	4.3
<b>Operating result before interest and taxes (EBIT)</b>		<b>80.2</b>	<b>5.3</b>	<b>104.3</b>	<b>6.6</b>	<b>210.5</b>	<b>6.9</b>
Financial result		4.1		0.9		3.5	
Taxes		-29.4		-37.5		-76.2	
<b>Net profit</b>	(7)	<b>54.9</b>	<b>3.6</b>	<b>67.7</b>	<b>4.3</b>	<b>137.8</b>	<b>4.5</b>
Attributable to:							
Shareholders of Rieter Holding Ltd.		49.4		60.1		124.8	
Minority interests		5.5		7.6		13.0	
Earnings per share	CHF	12.02		15.07		31.04	
Diluted earnings per share	CHF	10.22		12.76		26.31	

\* in % of corporate output

## Consolidated balance sheet

	Notes	June 30, 2005 CHF million	June 30, 2004 CHF million	December 31, 2004 CHF million
<b>Assets</b>				
Tangible fixed assets		684.8	647.8	651.3
Intangible assets		176.2	152.2	145.7
Financial assets, deferred tax assets		121.1	154.8	147.5
<b>Non-current assets</b>		<b>982.1</b>	<b>954.8</b>	<b>944.5</b>
Inventories		394.7	379.0	350.1
Trade receivables		567.4	541.2	527.2
Other receivables		146.8	128.2	121.4
Marketable securities		158.3	148.2	141.2
Cash and cash equivalents		250.2	282.5	405.6
<b>Current assets</b>		<b>1 517.4</b>	<b>1 479.1</b>	<b>1 545.5</b>
<b>Assets</b>		<b>2 499.5</b>	<b>2 433.9</b>	<b>2 490.0</b>
<b>Shareholders' equity and liabilities</b>				
Share capital		22.3	22.8	22.3
Share premium account (capital reserve)		27.5	27.5	27.5
Group reserves		1 040.6	944.4	1 020.0
<b>Equity attributable to shareholders of Rieter Holding Ltd.</b>		<b>1 090.4</b>	<b>994.7</b>	<b>1 069.8</b>
Equity attributable to minority interests		60.6	81.4	77.8
<b>Total shareholders' equity</b>	(7)	<b>1 151.0</b>	<b>1 076.1</b>	<b>1 147.6</b>
Loans from banks, bonds, other long-term liabilities		292.9	293.8	293.1
Provisions, deferred tax liabilities		210.8	218.4	205.8
<b>Non-current liabilities</b>		<b>503.7</b>	<b>512.2</b>	<b>498.9</b>
Trade payables		345.2	366.1	380.5
Advance payments by customers		130.3	117.3	137.0
Short-term bank borrowings, other short-term liabilities		369.3	362.2	326.0
<b>Current liabilities</b>		<b>844.8</b>	<b>845.6</b>	<b>843.5</b>
<b>Liabilities</b>		<b>1 348.5</b>	<b>1 357.8</b>	<b>1 342.4</b>
<b>Shareholders' equity and liabilities</b>		<b>2 499.5</b>	<b>2 433.9</b>	<b>2 490.0</b>

## Consolidated statement of cash flows

	Notes	January–June 2005 CHF million	January–June 2004 <sup>1</sup> CHF million	January–December 2004 <sup>1</sup> CHF million
<b>Net profit</b>		<b>54.9</b>	<b>67.7</b>	<b>137.8</b>
Depreciation, amortization		64.0	67.3	132.6
Change in net working capital, other	(7)	-106.4	-28.5	67.7
<b>Cash flow from operating activities</b>		<b>12.5</b>	<b>106.5</b>	<b>338.1</b>
Capital expenditure / disposals of tangible fixed and intangible assets		-51.9	-46.1	-116.1
Investments / disposals of investments		0.5	-0.9	-6.8
Changes in holdings of marketable securities		-18.1	-0.5	2.7
Changes in the scope of consolidation		1.7	0.0	0.0
<b>Cash flow from investing activities</b>		<b>-67.8</b>	<b>-47.5</b>	<b>-120.2</b>
Dividend of Rieter Holding Ltd.		-41.6	-34.5	-34.5
Change in holding of own shares		1.0	51.4	75.4
Dividends and buyout minority interests	(7)	-66.2	-6.5	-8.7
Other changes arising from financing activities		-1.1	39.1	-11.9
<b>Cash flow from financing activities</b>		<b>-107.9</b>	<b>49.5</b>	<b>20.3</b>
Changes in basis of valuation, currency effects and consolidation items		7.8	-1.0	-7.6
<b>Change in cash and cash equivalents</b>		<b>-155.4</b>	<b>107.5</b>	<b>230.6</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>405.6</b>	<b>175.0</b>	<b>175.0</b>
<b>Cash and cash equivalents at end of reporting period</b>		<b>250.2</b>	<b>282.5</b>	<b>405.6</b>

<sup>1</sup> Restated due to new classification of minority interests (cf. note 7)

## Change in consolidated equity

	January–June 2005 CHF million	January–June 2004 <sup>1</sup> CHF million	January–December 2004 <sup>1</sup> CHF million
<b>Total shareholders' equity at end of previous period</b>	<b>1 147.6</b>	<b>997.6</b>	<b>997.6</b>
Dividend of Rieter Holding Ltd.	-41.6	-34.5	-34.5
Dividends and buyout minority interests	-66.2	-6.5	-8.7
Currency effects, other	55.0	-3.4	-23.8
Net profit	54.9	67.7	137.8
Change in holding of own shares <sup>2</sup>	1.0	51.4	75.4
Change in marketable securities available for sale	0.3	3.8	3.8
<b>Total shareholders' equity at end of reporting period</b>	<b>1 151.0</b>	<b>1 076.1</b>	<b>1 147.6</b>

<sup>1</sup> Restated due to new classification of minority interests (cf. note 7)

<sup>2</sup> Holding of own shares on June 30, 2005: 12 104 (on December 31, 2004: 16 063)

## Notes to the semi-annual financial statements

### 1. Principles of consolidation and accounting principles

The consolidated semi-annual financial statements have been prepared in accordance with IAS 34: "Interim Financial Reporting". They are based on the financial statements of the individual group companies drawn up according to uniform accounting policies as of June 30, 2005. The principles of consolidation and accounting principles set forth in the 2004 annual report have been amended for 2005 by the new and revised IFRS standards. The most important impacts on the consolidated financial statements resulting from application of the revised standards are summarized in the notes 5 to 7.

Spindelfabrik Suessen GmbH in Germany and its subsidiary Suessen Asia Private Ltd. in India were added to the scope of consolidation (cf. note 8: "Changes in the scope of consolidation").

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

## 2. Segment information by division

<b>Sales</b>			
CHF million	January–June 2005	January–June 2004	January–December 2004
Textile Systems	506.2	582.4	1 175.9
Automotive Systems	1 025.5	1 032.7	1 978.9
Other activities	7.6	11.0	18.4
<b>Total</b>	<b>1 539.3</b>	<b>1 626.1</b>	<b>3 173.2</b>

<b>Operating result (EBIT)</b>			
CHF million	January–June 2005	January–June 2004	January–December 2004
Textile Systems	30.1	58.1	114.1
Automotive Systems	52.6	50.3	98.3
Other activities incl. group costs	–2.5	–4.1	–1.9
<b>Total</b>	<b>80.2</b>	<b>104.3</b>	<b>210.5</b>

<b>Capital expenditure on tangible and intangible assets</b>			
CHF million	January–June 2005	January–June 2004	January–December 2004
Textile Systems	7.7	8.4	35.3
Automotive Systems	46.8	39.1	84.9
Other activities	0.2	0.1	0.6
<b>Total</b>	<b>54.7</b>	<b>47.6</b>	<b>120.8</b>

<b>Number of employees at end of reporting period</b>			
	June 2005	June 2004	December 2004
Textile Systems	4 979	4 526	4 491
Automotive Systems	8 884	8 865	8 940
Other activities	127	129	126
<b>Total</b>	<b>13 990</b>	<b>13 520</b>	<b>13 557</b>

## 3. Segment information by geographical region

<b>Sales</b>			
CHF million	January–June 2005	January–June 2004	January–December 2004
Europa	787.4	782.7	1 483.8
Asia incl. Turkey	316.7	439.2	875.4
North America	346.6	335.3	674.3
Latin America	72.6	44.7	96.9
Africa	16.0	24.2	42.8
<b>Total</b>	<b>1 539.3</b>	<b>1 626.1</b>	<b>3 173.2</b>

## 4. Sales

<b>Change in sales</b>			
CHF million	January–June 2005	January–June 2004	January–December 2004
Change in sales due to volume and price, Textile Systems	–104.1	–31.9	–50.4
Change in sales due to volume and price, Automotive Systems	1.8	85.1	126.7
Change in sales due to volume and price, other activities	–3.5	6.0	3.8
Change in the scope of consolidation	28.7	0.0	0.0
Currency effects	–9.7	11.8	–25.2
<b>Total change in sales</b>	<b>–86.8</b>	<b>71.0</b>	<b>54.9</b>

## 5. Share purchase plan and option plan

IFRS 2: "Share-based Payment", which came into force on January 1, 2005, requires the fair value of any equity instruments granted to employees to be recognized as an expense. Rieter has established a share purchase plan for its executives. In addition, there is an option plan for the members of the Group Executive Committee. The application of IFRS 2 to the share purchase plan resulted in a charge to the income statement of about 1 million CHF in the first half of 2005. On January 1, 2005, there were no unvested rights from share purchase plans of previous years. The application of IFRS 2 to the option plan resulted in a charge to the income statement of about 0.1 million CHF in the first half of 2005. The impact of the application of IFRS 2 to the option plans of previous years is immaterial (0.1 million CHF). Therefore, prior year financial statements have not been restated.

## 6. Treatment of goodwill

Under IFRS 3: "Business Combinations", with effect from January 1, 2005, goodwill is no longer amortized systematically, but is subject to annual impairment testing. Consequently, the income statement for the first half of 2005 does not include any goodwill amortization. The semi-annual and the annual income statements for 2004 included goodwill amortization of 4.9 million CHF and 9.7 million CHF, respectively.

## 7. Treatment of minority interests

IAS 1 revised: "Presentation of Financial Statements" requires minority interests to be included in the group's equity in the consolidated balance sheet instead of as a separate category. This change resulted in an increase in total shareholders' equity of 79.6 million CHF as of January 1, 2004. In calculating the group's net income, minority interests are no longer deducted. Earnings per share continue to be based exclusively on net profit attributable to the shareholders of Rieter Holding Ltd.

## 8. Changes in the scope of consolidation

A 19% interest in Spindelfabrik Suessen in Germany was acquired in 2001. Rieter had the right to acquire the remaining shares by 2007. Rieter acquired the remaining 81% of the capital of Spindelfabrik Suessen GmbH in January 2005, thus increasing its holding to 100%. These activities have been consolidated in group accounts since the date of purchase. In the first half of 2005 sales amounted to around 29 million CHF. The initial accounting for the acquisition of Suessen was determined provisionally. In accordance with IFRS 3, adjustments to the fair values assigned to identifiable assets acquired and liabilities assumed can be made within twelve months of the acquisition date.

## 9. Buyout of minority interests

The Partnership Agreement between Rieter and Magee Ltd. states that Magee Ltd. had the right to sell its 50% interest in the American partnership of Magee Rieter Automotive Systems to Rieter at market value. In 2004 Magee Ltd. advised Rieter of its intention to exercise this right. Rieter and Magee Ltd. signed a purchase agreement for the remaining 50% interest in January 2005. Rieter Magee has been wholly owned by Rieter since January 12, 2005. As Magee Rieter had already been fully consolidated before the purchase of the remaining 50%, the difference between the purchase price and the minority interest stated before the acquisition of the remaining 50%, was charged to shareholders' equity.

## 10. Exchange rates for currency translation

	Average rates			
	January–June 2005	January–June 2004	Change	2004
1 EUR	1.55	1.55	0%	1.54
1 USD	1.20	1.27	-6%	1.24
1 GBP	2.26	2.31	-2%	2.28

	Closing rates			
	June 30, 2005	June 30, 2004	Change	2004
1 EUR	1.55	1.53	1%	1.54
1 USD	1.28	1.25	2%	1.13
1 GBP	2.30	2.27	1%	2.19

## 11. Annual General Meeting and dividend

The Annual General Meeting of Rieter Holding Ltd. held on Thursday, April 28, 2005, fixed the gross dividend for the 2004 financial year at CHF 10.00 (previous year CHF 8.60) per registered share of CHF 5.00 par value. This dividend was payable to shareholders on May 6, 2005.

## 12. Financial calendar

The semi-annual report for 2005 was approved for publication by the Board of Directors on August 12, 2005.

Publication of sales figures for the 2005 financial year	February 3, 2006
Results press conference and presentation of the 2005 financial statements	March 29, 2006
Annual General Meeting	April 27, 2006

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