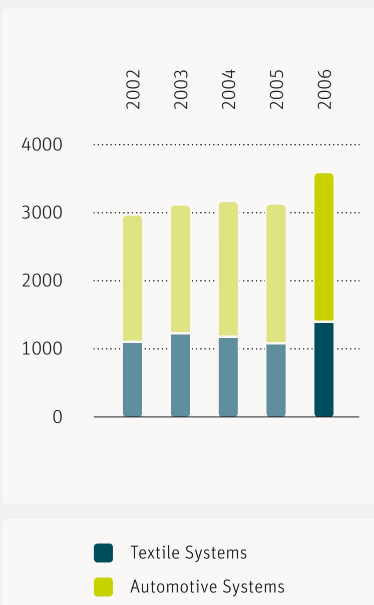
On the move Annual Report 2006

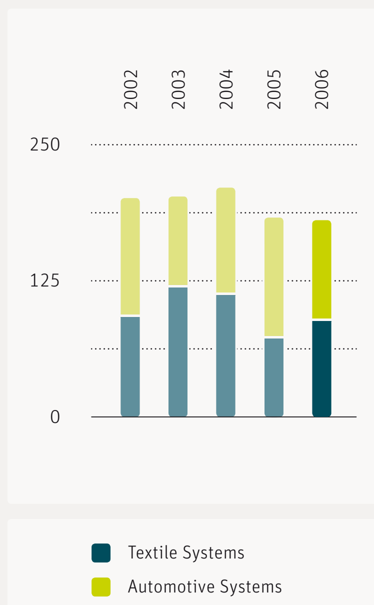
Key figures >

Rieter at a glance

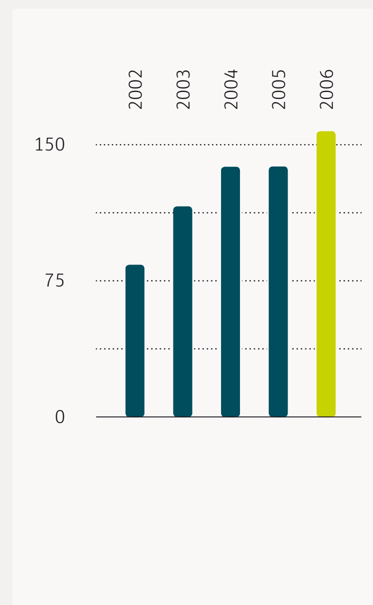
Sales in CHF million



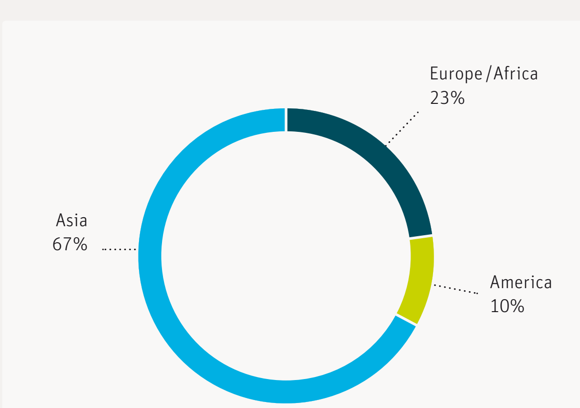
EBIT in CHF million



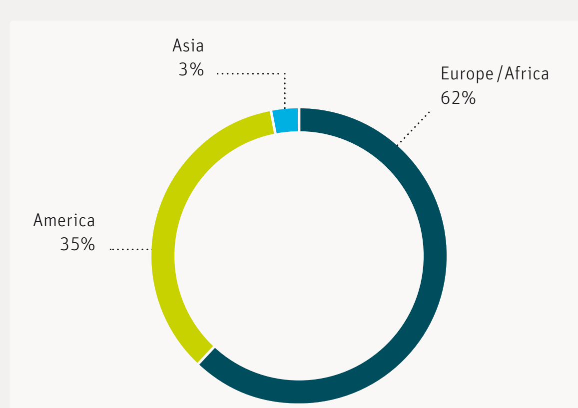
Net profit in CHF million



Textile Systems
Sales by geographical region (1 400.7 CHF million = 100%)



Automotive Systems
Sales by geographical region (2 179.2 CHF million = 100%)



Financial highlights

CHF million		2006	2005	Change in %
Rieter Group				
Orders received		3 903.5	3 233.6	20.7
Sales[1]		3 579.9	3 122.0	14.7
Corporate output[1, 2]		3 447.5	3 035.6	13.6
Operating result before special charges, interest and taxes		256.3	195.7	31.0
• in % of corporate output		7.4	6.4	
Operating result before interest and taxes (EBIT)		180.6	183.0	–1.3
• in % of corporate output		5.2	6.0	
Net profit		157.4	138.1	14.0
• in % of corporate output		4.6	4.5	
Cash flow[3]		329.6	256.9	28.3
• in % of corporate output		9.6	8.5	
Investments in tangible fixed assets and intangible assets		186.2	182.3	2.1
Assets		2 884.6	2 714.7	6.3
Shareholders' equity before appropriation of profit		1 375.4	1 262.2	9.0
Number of employees at year-end[4]		14 826	14 652	1.2
Divisions				
Sales Textile Systems		1 400.7	1 085.4	29.0
Operating result Textile Systems before special charges, interest and taxes		148.2	80.7	83.6
• in % of corporate output Textile Systems		11.1	7.7	
Operating result before interest and taxes (EBIT) Textile Systems		92.7	74.7	24.1
Sales Automotive Systems		2 179.2	2 031.4	7.3
Operating result Automotive Systems before special charges, interest and taxes		114.9	118.1	–2.7
• in % of corporate output Automotive Systems		5.4	5.9	
Operating result before interest and taxes (EBIT) Automotive Systems		94.7	111.4	–15.0
Rieter Holding Ltd.				
Share capital		22.3	22.3	
Net profit		63.4	49.3	28.6
Gross distribution		62.8[5]	41.5	51.3
Number of registered shares, paid-in		4 450 856	4 450 856	
Average number of registered shares outstanding		4 149 946	4 120 304	0.7
Price of registered shares (high/low)	CHF	641/387[6]	393/328[6]	
Number of registered shareholders on December 31		6 429	6 757	–4.9
Market capitalization on December 31		2 661.1	1 624.1	63.9
Data per registered share				
Earnings per share	CHF	35.53	30.80	15.4
Equity (group)[7]	CHF	316.34	286.29	10.5
Gross distribution (Rieter Holding Ltd.)	CHF	15.00[5]	10.00	50.0

1. Excluding other operating income (2005 adjusted).
2. Sales, adjustments for sales deductions and own work capitalized and changes in inventories of products manufactured by the company (cf. page 60).
3. Net profit plus depreciation and amortization (cf. page 90).
4. Excluding apprentices and temporary employees.
5. Proposed by the Board of Directors (cf. page 102).
6. Source: Bloomberg.
7. Shareholders' equity attributable to shareholders of Rieter Holding Ltd. per share outstanding on December 31.

The Rieter Group

An industrial group based in Winterthur, Switzerland, and operating in all regions of the world, Rieter is a leading supplier to the textile, automotive and plastics industries. Since it was established in 1795, Rieter's innovative momentum has been a powerful driving force for industrial progress. Products and solutions are ideally tailored to its customers' needs and are increasingly also produced in customers' markets. Rieter has a presence in 20 countries with some 70 manufacturing facilities and has a total worldwide workforce of approximately 14 800 employees, 13% of whom are based in Switzerland. The company comprises two divisions: Textile Systems and Automotive Systems.

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

Rieter Textile Systems

Rieter Textile Systems develops and produces machinery and integrated systems for converting natural and manmade fibers and their blends into yarns, as well as nonwovens and pelletizing machinery. Rieter Textile Systems' core business is staple fiber machinery. Rieter is the leading supplier of integrated installations for short staple spinning mills, from the spinning preparation stage to the final spinning process. Rieter is one of the world's leading suppliers of technology components and service offerings. The Textile Systems Division posted sales of 1 400.7 million CHF or 40% of total group sales in 2006.

Manufacturing locations Textile Systems (incl. Joint Venture)

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

Rieter Automotive Systems

As a partner and supplier to automotive manufacturers, Rieter Automotive Systems develops and manufactures components, modules and total systems for acoustic comfort and thermal management in motor vehicles, based on fibers, plastics and metals. Automotive Systems' customers include all the world's major automotive manufacturers. Rieter Automotive manufactures in the countries in which its customers produce their vehicles, increasingly also in Eastern Europe and Asia. The division posted sales of 2 179.2 million CHF or 60% of total group sales in 2006.

Manufacturing locations Automotive Systems (incl. Joint Ventures)

Argentina Córdoba **Belgium** Genk **Brasil** Betim, Gravataí, São Bernardo do Campo, Taubaté **Canada** London, Tillsonburg **China** Guangzhou, Tianjin, Chongqing (from middle of 2007) **Czech Republic** Chocen, Hnátnice **France** Blainville, Dieppe, Rémy, La Chapelle-aux-Pots, Moissac, Ons-en-Bray **Germany** Bebra, Gundernhausen **Great Britain** Halesowen, Heckmondwike, Stoke-on-Trent **India** Behror **Italy** Desio, Marcianise, Pignataro Maggiore, Santhià, Vicolungo **Netherlands** Weert (until middle of 2007) **Poland** Katowice, Nowogard **Portugal** Setúbal **Switzerland** Sevelen **Spain** A Rúa, Sant Vincenç, Terrassa, Valldoreix **South Africa** Rosslyn **Thailand** Chonburi **Turkey** Bursa **USA** Aiken, Bloomsburg, Chicago Heights, Jackson, Lowell, Oregon, Shreveport, Somerset, St. Joseph, Valparaiso

Substantial increase in sales and orders received

Kurt Feller Chairman of the Board of Directors

Hartmut Reuter Chief Executive Officer

Dear shareholder

The global economy as a whole developed well in 2006. The emerging economies – in particular the dynamically expanding markets of China and India – again provided substantial support for global economic activity in the year under review.

Market trends differed for our two divisions – Textile Systems and Automotive Systems – in the year under review. In the textile machinery sector the positive momentum that had already become apparent in the second half of 2005 continued throughout 2006. Demand for staple fiber machinery was especially strong in Asia. By contrast, vehicle output by the automotive industry declined in Rieter's main markets of Western Europe and North America, also due in part to high fuel prices. Growth of automotive production was confined to the emerging markets in Eastern Europe, Asia and South America.

Growth in both divisions

Orders received by Rieter in 2006 rose by 21% to 3 903.5 million CHF. Consolidated sales also showed a striking increase, rising by 15% (11% excluding currency movements and acquisitions) to 3 579.9 million CHF, thus surpassing the previous record figure of 3 136.6 million CHF set in the 2004 financial year. The group's sales growth was fueled mainly by Textile Systems, but Automotive Systems also achieved a new record, despite declining vehicle output in its main markets. The healthy development of order intake and sales was due mainly to organic growth.

At the end of 2006, the Rieter Group employed a workforce of some 14 800 worldwide, an increase of 1% compared with the end of the previous year. This was due mainly to the commissioning of new plants by Rieter Automotive Systems in regions with lower labor costs. Rieter Textile Systems processed higher order volumes with a virtually unchanged permanent workforce. Compared with the previous year, the overall proportion of the total workforce employed in low-cost countries increased by 5 percentage points to 33%.

Strategic focus at Textile Systems

A strategic review of the manmade fiber activities revealed that Rieter's growth and profitability targets could not be achieved even in the medium term. After examining all possible options, the Board of Directors and the Group Executive Committee decided to dispose of the manmade fiber activities.

Rieter sold its subsidiary in Valence, Rieter Textile Machinery France SAS, with the ply twisting, doubling and texturing machinery business units to the French company Co-Martin as of October 31, 2006.

Rieter Textile Machinery France SAS employed a workforce of some 150 and generated sales of some 50 million CHF in 2006. The business of machinery and systems for manufacturing manmade continuous filament yarns owned by Rieter Machine Works Ltd. in Winterthur was sold to the German company Bavaria Maschinenfabrik GmbH as of November 30, 2006. This business unit generated sales of some 30 million CHF with approximately 80 employees in 2006.

Rieter's net profit increased by 14% to 157.4 million CHF, equivalent to 4.6% of corporate output.

The withdrawal from manmade fiber activities resulted in a loss of some 48.5 million CHF on divestments in the 2006 financial year. Rieter's strategic focus on more profitable product segments created a favorable base for further profitable growth in the textile machinery sector. Despite withdrawing from the manmade fiber machinery business, Rieter will nevertheless continue to participate in the growing market for processing manmade fibers into yarns: staple fiber machinery, of which Rieter is a leading supplier, is also being used increasingly to spin manmade fibers and fiber blends in addition to cotton fibers.

Operating result depressed by special factors

Excluding special charges, the operating result before interest and taxes increased by 31% to 256.3 million CHF, equivalent to 7.4% of corporate output (195.7 million CHF or 6.4% in 2005). Due to the above-mentioned loss on divestments in connection with the withdrawal from manmade fiber activities and restructuring costs of 27.2 million CHF, the Rieter Group's operating result before interest and taxes (EBIT) did not reflect the growth in corporate output. The outcome was 1% lower at 180.6 million CHF (183.0 million CHF in 2005), equivalent to 5.2% of corporate output (6.0% in 2005).

Higher net profit and earnings per share

Rieter's net profit increased by 14% to 157.4 million CHF, equivalent to 4.6% of corporate output (138.1 million CHF or 4.5% in 2005). A slightly lower EBIT, a reduced tax charge and a higher net financial income contributed to this development. Excluding loss on divestments, net profit amounted to 205.9 million CHF (138.1 million CHF in 2005). Cash flow rose by 28% to 329.6 million CHF (256.9 million CHF in 2005), equivalent to 9.6% of corporate output (8.5% in 2005). Earnings per share increased to 35.53 CHF (30.80 CHF in 2005).

Dividend

Rieter Holding Ltd. reported a net profit of 63.4 million CHF for the 2006 financial year (49.3 million CHF in 2005). Together with retained earnings brought forward from the previous year, a total of 92.7 million CHF is at the disposal of the Annual General Meeting. On the basis of the good net profit before losses on divestments, the sound balance sheet with positive net liquidity and the confident outlook for the 2007 financial year, the Board of Directors will propose to the Annual General Meeting of Rieter Holding Ltd. on May 10, 2007, that it approve a 50% increase in the dividend for 2006 to 15.00 CHF per share (10.00 CHF in 2005). This corresponds to a total distribution of 62.8 million CHF (41.5 million CHF in 2005). Based on the year-end share price of 637.50 CHF, this results in a dividend yield of 2.4% on Rieter shares.

Textile Systems: striking rise in sales and earnings

The trend of business at Rieter Textile Systems was very good throughout 2006. Growth was achieved mainly in the whole product range of systems, machinery and components for staple fiber spinning and in numerous national markets. In India, where Rieter booked a large proportion of its order volume, the industry has been in a sustained growth phase since 2005. Rieter also recorded strong demand in Turkey, and orders from China also increased again compared to the previous year.

Compared with 2005, orders received by Rieter Textile Systems rose by 46% to 1 724.3 million CHF and sales increased by 29% to 1 400.7 million CHF. Orders received by the manmade fiber business divested in the 4th quarter of 2006 amounted to 110.0 million CHF in the year under review (135.4 million CHF in 2005) and sales to 78.5 million CHF (129.9 million CHF in 2005). Due to good capacity utilization, an attractive product range and cost discipline, Rieter Textile Systems also reported a striking increase in the operating result before special charges, interest and taxes in the 2006 financial year; this figure rose by 84% to 148.2 million CHF, equivalent to 11.1% of corporate output (7.7% in 2005). EBIT amounted to 92.7 million CHF (74.7 million CHF in 2005), equivalent to 7.0% of corporate output (7.1% in 2005).

Compared with 2005, orders received by Rieter Textile Systems rose by 46% to 1 724.3 million CHF.

Automotive Systems: higher sales – lower profitability

Although vehicle output was lower in both its main markets – Western Europe and North America – Rieter Automotive Systems posted higher sales revenues in 2006. Sales by the division rose by a total of 7% to 2 179.2 million CHF. This growth was almost entirely organic. Sales trends diverged in the division's two main markets. Contrary to the market trend, Automotive Systems achieved growth in Western Europe, primarily due to successful new models and strong output growth in Italy. Sales by the division in North America were somewhat lower, due mainly to the decline in output by US manufacturers and a slower increase in the production volumes of Japanese manufacturers. Exchange rate movements had a marginally positive impact on the division's sales figure.

After rising in the first six months, the operating result before interest and taxes (EBIT) declined in the second half of the year. The outcome of 94.7 million CHF for the 2006 financial year as a whole was 15.0% lower, equivalent to 4.4% of corporate output (111.4 million CHF or 5.6% in 2005). The division suffered from a series of negative market factors in the second half in particular. The higher cost of energy and materials, which could not be offset by price increases, and interruptions to production at short notice by the large American vehicle manufacturers reduced margins. Lower output in major markets such as France could not be compensated in full by higher production in other markets.

In 2006 the restructuring and realignment of Automotive Systems was expanded and the process accelerated by the closure of various plants and the establishment of new facilities. Rieter will continue vigorously to pursue the cost-cutting and improvement programs within the scope of the «Roadmap for Profitable Growth».

Sales by the division rose by a total of 7% to 2 179.2 million CHF.

Ongoing implementation of strategy

The Rieter Group's focus on two fields of industrial activity with differing markets in all strong economic regions worldwide again proved its worth in 2006. Rieter will continue to pursue this dual strategy and invest in a global market presence, innovation and the optimization of production and business processes at both divisions. Rieter thus seeks to adapt continuously to the needs of customers and create the preconditions for further profitable growth. Rieter seeks to generate primarily organic growth, but also makes acquisitions when they make strategic sense and contribute to good profitability. In the context of implementing its strategy Rieter increased its holding in Spanish automotive components supplier Rieter Saifa to 100% at the end of March 2006. The entire share capital of Indian automotive component supplier Rieter Automotive India was also acquired in the year under review. This acquisition will provide Rieter with improved access to the rapidly growing Indian automobile market.

Investment – the basis for organic growth

In 2006 the Rieter Group made investments in the sustained further development of the business at both divisions. At Textile Systems Rieter invested in the expansion of manufacturing capacity in the major Asian markets of India and China as well as in the modernization of production processes at plants in Eastern and Western Europe, where key parts and components will continue to be developed and manufactured in future. Investments at Automotive Systems were also aimed at establishing and expanding production facilities in emerging economic regions in Eastern Europe and Asia, while at the same time adjusting capacity in Western Europe. Rieter Automotive therefore opened a new manufacturing facility in northern China, and a plant will commence production in the current year. Rieter also established locations in Poland, Spain, Brazil and the US in order to support customers even more effectively.

Reinforcing and protecting the brand

The initiative launched in the previous year to unify the market image of the group worldwide and to reinforce the Rieter brand was continued in 2006. The brand based on a corporate history stretching back more than 210 years stands both for tradition and for ongoing innovation, reliability, commitment and customer benefits.

Sound financial condition and a healthy balance sheet

The buyout of minority shareholders at Rieter Saifa, the acquisition of the entire share capital of Indian automotive component supplier Rieter Automotive India and other moves to boost profitable growth were financed from internal resources. The losses on divestments in connection with the disposal of the manmade fiber activities, which had virtually no impact on liquidity, and restructuring costs had only a minor impact on the consolidated balance

The Board of Directors will propose to the Annual General Meeting of Rieter Holding Ltd. on May 10, 2007, that it approve a 50% increase in the dividend for 2006 to 15.00 CHF per share.

sheet. Rieter remained on a sound financial foundation at the end of the year under review with net liquidity of 147.3 million CHF (96.7 million CHF in 2005) and an equity ratio of 47.7% (46.5% in 2005).

Shareholders and Annual General Meeting
Credit Suisse Asset Management, Zurich, and UBS Fund Management (Switzerland) AG, Basel, reduced their holdings in Rieter to less than 5% each in the 2006 financial year. No shareholder held more than 5% of Rieter's shares at the end of 2006. Rieter continues to favor a broad shareholder base.

At the Annual General Meeting held on April 27, 2006, Dr. Jakob Baer was elected to the Board of Directors of Rieter Holding Ltd. to take office on October 1, 2006, as a new, additional member of the board. Dr. Ulrich Dätwyler and Dr. Peter Wirth were re-elected for a three-year term of office. Dr. Dieter Spälti, whose term of office expires in 2007, will stand for re-election as a member of the board for a further three years at the forthcoming Annual General Meeting on May 10, 2007.

Rudolf Hauser will retire from the Board of Directors at the 2007 Annual General Meeting upon reaching retirement age as stipulated in the Articles of Association.

Rieter's Board and the Group Executive Committee wish to express their sincere thanks to Rudolf Hauser for all his efforts and his valuable contribution to the further development of the group.

Outlook
Rieter is confident of achieving a further increase in sales and a continued improvement in earnings in 2007.

Thanks
On behalf of the Board of Directors and the Group Executive Committee, we wish to thank our shareholders for their commitment. We also want to thank our customers for the loyalty they have shown toward us and our products in the past year. Our thanks go to our employees for all their efforts. Exceptional flexibility and enthusiasm were called for on the part of employees and suppliers in the Textile Systems Division in 2006 in response to the high level of order intake.

Winterthur, March 20, 2007

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

Sustainability

Rieter regards the obligation to act responsibly and sustainably as extremely important. This calls for an optimal balance between business, ecological and social requirements. The relevant principles have been set out in the group's corporate strategy since 1997 in the form of a group-wide environment and safety mission statement. The safety of customers, employees and neighbors of Rieter's manufacturing facilities as well as the development of environmentally compatible and safe products take priority in this context. In addition to responsible behavior vis-à-vis the environment and natural resources, Rieter also regards the topic of risk management and the responsible leadership and development of personnel as further aspects of sustainability.

Rieter is working intensively on substituting renewable and recyclable materials for conventional materials. For example, abaca natural fibers obtained from banana plants are used instead of glass fibers for reinforcing plastic components.

The group's principles with regard to the environment and safety are an integral part of its business processes and strategic planning. Development and production processes as well as the infrastructure are continuously reviewed and optimized with ecological criteria in mind. Rieter is able to offer customers innovative products and services that are also eco-efficient. In 2006 both the Automotive Systems Division and the Textile Systems Division made further progress in developing and introducing sustainable products and manufacturing processes.

Developing and manufacturing eco-efficient products

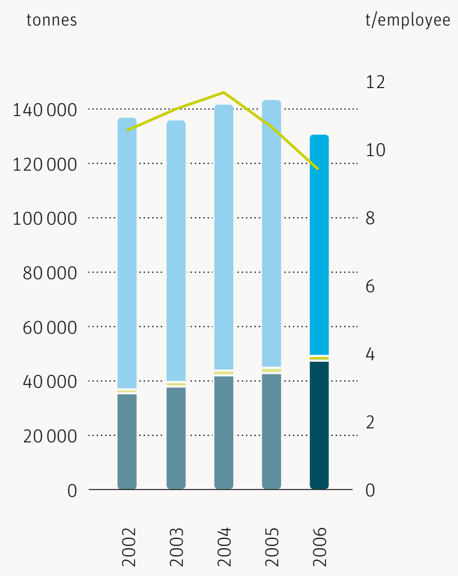
Rieter Automotive Systems' environmental policy, revised in 2006, emphasizes the division's ecological approach in theory and practice. The increased focus on environmental criteria in research, development and manufacturing enables Rieter Automotive Systems to meet the growing demand from vehicle manufacturers for ecological manufacturing processes and products.

Environmentally compatible manufacturing starts with the selection of raw materials and covers the entire life cycle of a product through to its disposal. With its "Design for Environment" program, Rieter Automotive Systems is establishing a method that enables ecologically relevant factors to be systematically included in the development process. One example of more eco-efficient products are the vehicle underbody modules developed by Rieter Automotive: they optimize the vehicle's aerodynamics so that its fuel consumption is lowered significantly. The impact of engine noise emissions on the environment is also reduced. Rieter is working intensively on substituting renewable and recyclable materials for conventional materials. For example, abaca natural fibers obtained from banana plants are used instead of glass fibers for reinforcing plastic components. Using natural fibers can also offer cost benefits and is thus doubly useful for customers.

Recycling conserves resources

Alongside the development of environmentally compatible products, Rieter devotes special attention to the continuous further development of ecological manufacturing processes. In 2006 Rieter Automotive Systems intensified its efforts to reduce

Waste and Recycling



Efficient utilization of resources enabled Rieter to achieve a further reduction in the total volume of waste products in 2006. At the same time the proportion of recycled waste was increased. The fact that three plants were added to the total in the year under review and the overall number of employees also increased underscores the effectiveness of the efforts undertaken. The progress made is attributable in particular to the systematic implementation of various initiatives by Rieter Automotive Systems aimed at a worldwide reduction in the volume of waste products.

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

the consumption of energy and raw materials. Various recycling projects launched in the year under review offer potential for saving some 4 000 tonnes of raw material annually and in addition to preserving the environment also contribute to cost optimization efforts. Rieter's "Recycling Center of Excellence" in Aubergenville (France) has launched and monitored a number of recycling initiatives. At the French sites in Dieppe and Ons-en-Bray, for example, the waste resulting from the manufacturing process is separated into its original components, such as felt or different plastics, and ground into fibers and pellets, respectively. The processed waste materials are either sold or recycled to the manufacturing process. The plant in Sevelen (Switzerland) recycles 300 tonnes of production waste (plastics and aluminum) annually. Since 2003 the volume of waste at the plant in Tillsonburg (Canada) has been reduced by 225 tonnes. Other locations have also achieved similar improvements.

Rieter Automotive has undertaken to introduce an environmental management system conforming to ISO 14001 worldwide. A further 5 Rieter Automotive Systems locations obtained ISO 14001 certification in the year under review. The intention is to have more than 80% of the total of 53 sites certified for compliance with ISO 14001 by the end of 2008. Manufacturing and sales at 38 companies generating some 80% of divisional sales thus currently comply with this environmental standard.

Rieter supports the sustainable utilization of energy

The development and manufacture of energy-efficient machinery is a high-priority goal for Rieter Textile Systems which the division has also defined in its product strategy. The most energy-intensive aspect of a textile machine is not its manufacture, but rather its virtually uninterrupted daily operation in the customer's spinning mill. The spinning machine accounts for some three-quarters of the energy consumed in processing fibers into yarns in a spinning mill. Rieter Textile Systems contributes to reducing energy consumption in the spinning process by means of technological innovations. An integrated cooling system for the G 33 ring spinning machine reduces the heat released by the machine into the environment by 20%. Energy savings can thus be achieved in air conditioning the production premises. The C 60 card is very compact and has a high production capacity. By virtue of its innovative design the machine requires considerably less energy per kilogram of processed fibers.

The energy-optimized air conditioning system installed at Rieter Textile Systems in Changzhou (China) enables energy consumption for air conditioning the manufacturing premises and offices to be reduced by some 50%.

The Rieter Group is continually investing in the refurbishment and renewal of infrastructure at its various locations. At the plant in Sevelen (Switzerland) a process and building management system has been installed and upgraded continuously in the meantime. This system enables, for example, the resources utilized – such as electricity, water, heating, ventilation and air conditioning – to be controlled and optimized. As a result of the heat recovery achieved in this way, annual consumption of heating oil has been reduced by some 30 000 liters. The consumption of chemicals in the cooling water system has also been reduced by 30%. The energy-optimized air conditioning system installed at Rieter Textile Systems in Changzhou (China) enables energy consumption for air conditioning the manufacturing premises and offices to be reduced by some 50%.

Pelletizing machinery manufacturer Rieter Automatik in Germany has also assumed a pioneering role in the development of energy-saving equipment and manufacturing methods and has developed a process for manufacturing PET that significantly reduces energy consumption.

Comprehensive risk management for safe products and processes

The occupational safety of employees and the safety of manufacturing facilities, industrial production processes and products manufactured by Rieter are of key importance at all Rieter locations. Compliance with legal provisions and internal Rieter standards, which in many countries exceed government requirements, is regularly verified and assessed worldwide. Last year Rieter inspected 40 out of a total of 72 manufacturing sites in respect of technical risks. The findings from these inspections are integrated in the process of continuous improvement.

Rieter participates in standardization bodies and thus actively contributes to the further development of international standards for improving product safety. Rieter develops employees' safety consciousness in regular training courses. Rieter also pursues an integrated risk management policy encompassing all stages of in-house processes as well as suppliers and customers. Rieter shows an active concern for its employees' health. This also includes the design of workplaces and the tools used in accordance with ergonomic criteria.

With the establishment of operations in India and China the recruitment of local specialists and managers has also been intensified. Rieter promotes the integration of the different cultures through further training activities, especially including the topic of international cooperation.

Reinforcing human resources functions

The know-how, efforts and economic performance of employees form part of the basis for Rieter's business success. The commitment to act responsibly and respectfully toward employees is of key importance for Rieter and is included in the Group's mission statement. Rieter's human resources function supports the group in its strategic further development. In order to advance corporate development, the group reinforced the human resources functions in 2006, both in terms of personnel and organizational structure.

Personnel development is a core concern for Rieter. The group promotes targeted training and development efforts, both at the individual locations with local responsibility and through international training programs for young management staff and also for specialists. The "Corporate Management Training" scheme, already held for the third time in 2006, is an international program for members of senior management in various functions. The managers become better acquainted with Rieter's corporate culture, group and divisional strategies and leadership principles. The international training events for young management staff are a further example of the activities pursued in the personnel development field.

In countries with a twin-track vocational training system, Rieter offers large numbers of apprenticeships in a variety of occupations. The Apprenticeship Training Department at Rieter Machine Works Ltd. in Winterthur (Switzerland) received an award from the Swiss Federal Office for Vocational Training and Technology (BBT) in the year under review for its long-standing and innovative commitment to basic vocational training.

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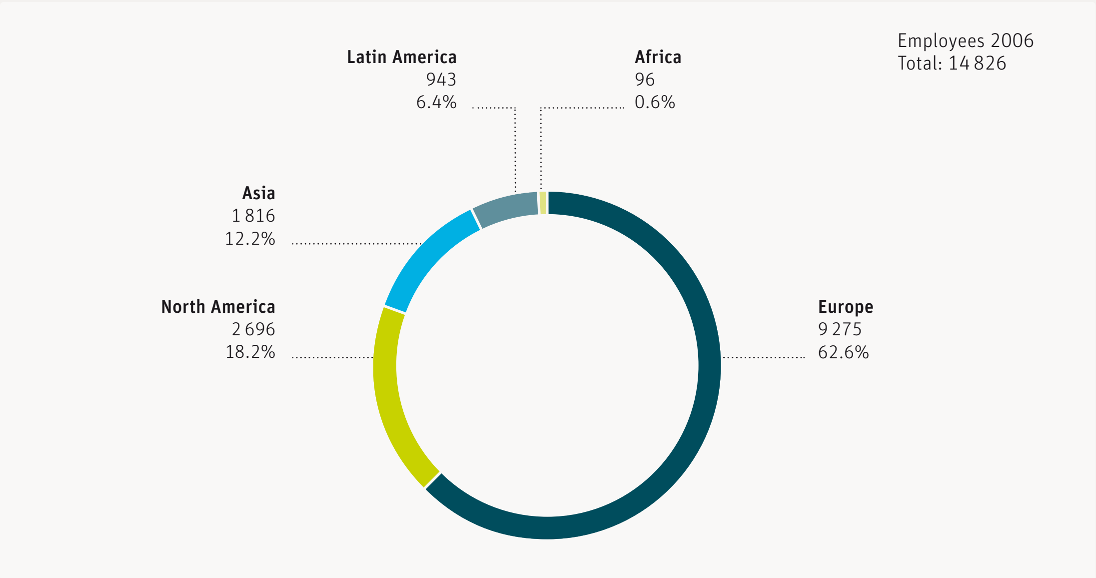
Social engagement

With some 70 locations in 20 countries, the Rieter Group is well aware of its social responsibility. This is fulfilled by the local units. For example, Rieter has been involved in the reconstruction of a school destroyed by an earthquake in Pakistan, one of Rieter's most important textile machinery markets. Substantial donations have also been made to the city of Bloomsburg (PA) in the US, where Automotive Systems has a plant, to assist residents who were victims of flood damage.

Employees by geographical region 2006



A customer in India has ordered nine new E 65 combers from Rieter. Sergio Massarotto is coating the center frames delivered from a foundry with the typical Rieter color. The know-how components of the comber and the machine control systems are manufactured in separate processes.

Large CNC machining centers are milling and drilling the center frames for the comber. At the same time the custom-made shipping crates are being assembled by a joiner so that the combers can embark safely on their long journey.

All the comber modules produced in Winterthur or delivered from elsewhere are made ready in the shipping department of Rieter Machine Works Ltd. Other machines and spare parts for the customer in India are also prepared for dispatch here.

Highly qualified personnel assemble the combers in the assembly department and make them ready for operation. 20 to 25 machines leave the production facility every week. Personnel are proud to be producing the first comber worldwide with a daily output of more than 1.5 tonnes per machine.

Packed in crates, the combers start out on their journey to the customer: by rail to Basel, on a Rhine river barge to Rotterdam and from there on a container ship to India. From the Indian port of Nhavasheva they continue by road to the customer's spinning mill in Punjab, northern India. While these machines are being exported to India from Switzerland, Rieter is also manufacturing increasing numbers of machines directly in India and China.

The machines have arrived on the scheduled delivery date at the mill of Mr. Dinesh Oswal; Managing Director (MD) of the Nahar Group, one of India's largest textile companies. Within a few days the new combers will be assembled and commissioned by the Rieter installation team. Dinesh Oswal appreciates the good service and the flexibility on-site. He also knows that he can rely on the top quality and the experience of Rieter as systems supplier.

Rieter Textile Systems

Divisional chief executive
Peter Gnägi

Sales
1 400.7 (1 085.4) CHF million

Operating result before interest and taxes
92.7 (74.7) CHF million
7.0% (7.1%) of corporate output

Number of employees at year-end
5 219 (5 422) employees

Capital expenditure of tangible fixed assets
56.1 (26.4) CHF million

Products
Systems, machines, technology components and service offerings as well as integrated systems solutions for processing natural and man-made fibers and their blends into yarns and nonwovens as well as manufacturing pellets

Previous year's figures are in brackets.

Rieter Textile Systems is the leading supplier of integrated systems for manufacturing yarns from natural and manmade fibers and their blends for all applications. Rieter Textile Systems is the world's only supplier with comprehensive know-how covering the entire spinning process and can therefore develop optimal solutions for customers.

Rieter Textile Systems supplies systems for producing nonwovens, a rapidly growing segment that is continually expanding into new applications ranging from agriculture to the industrial and medical sectors. For the plastics industry, the division develops and produces systems for manufacturing pellets, which are used in the fiber manufacturing process or for further processing into plastics used in injection molding, for example to manufacture PET bottles.

Rieter Textile Systems is one of the world's leading suppliers of technology components for the spinning industry. The product program is rounded off by consulting services for planning, construction, installation, commissioning and operation of integrated installations. A global presence, especially in rapidly growing markets such as China and India, is a crucial factor for the success of Textile Systems.

Striking increase in sales and earnings

Market development

The global textile machinery market in 2006 was characterized by strong demand from the major Asian growth regions. The growth momentum in India that was already apparent in the second half of the previous year continued undiminished. The Indian government has defined the textile industry

Orders received rose by 46% to 1724.3 million CHF. This growth was broad-based.

as a key sector of the economy and is promoting its development with investment incentives. This policy will continue in the foreseeable future. Demand increased again in the Chinese market in 2006, following a subdued trend in the previous two years due to uncertainty in connection with the WTO textile quota regime. Both western textile machinery manufacturers and local suppliers benefited from the healthy trend in India and China. Rieter also recorded strong demand from Turkey and Bangladesh. In addition to these four main markets, demand was sustained by other Asian countries, such as Pakistan, South Korea, Thailand and Indonesia.

The shift in the textile industry in general from Europe and North America to Asia continued. Western manufacturers of textile machinery are challenged to develop and supply products that meet the specific needs of these markets. In order to hold their own against local competitors, foreign suppliers have to establish a local presence and develop and manufacture products close to local customers as well as expanding their sales and service facilities.

Sales development in CHF million

By virtue of its long-term presence and local value-added chain in Asia, with a strong brand and an innovative product range targeting specific markets, Rieter Textile Systems is well positioned to exploit these trends.

Order intake and sales at record levels

The growth in orders received by Rieter Textile Systems that had already been recorded in the second half of 2005 gained even greater momentum in the year under review, especially in the first six months. Compared with 2005, orders received rose by 46% to 1724.3 million CHF. This growth was broad-based and demand was strong for the whole product range of systems, machines and components for staple fiber machinery. The division consolidated its leading position on the world market for staple fiber machinery and gained market share in the year under review. Orders received by the manmade fiber business divested in the 4th quarter of 2006 amounted to 110.0 million CHF in the year under review (135.4 million CHF in 2005).

Rieter Textile Systems also achieved a striking increase in the operating result before special charges in the 2006 financial year. EBIT before special charges rose by 84% to 148.2 million CHF.

Orders were received from a large number of countries, although the boom was clearly fueled by India, where Rieter booked about one-quarter of its order volume. Rieter Textile Systems' success on the Indian market is attributable to several factors: Rieter has had a presence in India for more than forty years and is especially well placed to exploit the currently favorable investment climate by virtue of its familiarity with this market and a strong relationship network. Its product offering also comprehensively covers the growing needs of Indian customers for products dedicated to the technological improvement of the spinning process.

Rieter Textile Systems also continued to expand its strong position in Turkey in the year under review. A government-sponsored program to promote investment in the east of the country by means of incentives made a significant contribution to the healthy condition of this important textile machinery market. The European fashion industry is transferring an increasing portion of its value-added chain to this country.

As was the case with orders received, Rieter Textile Systems also posted a new record for sales in 2006. Due to the exceptionally high level of new orders, delivery lead times became extended in some cases, so that – as was to be expected – the increase in sales revenues did not keep pace with the trend in orders received. Sales in the 2006 financial year rose by 29% to 1 400.7 million CHF. The majority of this growth was organic. The Graf Group, which has been fully consolidated since October 1, 2005, contributed some 90 million CHF to sales by the division in the year under review (20 million CHF in 2005).

The units of the manmade fiber machinery business that were sold in 2006 contributed 78.5 million CHF to the division's total sales in the 2006 financial year (129.9 million CHF in 2005).

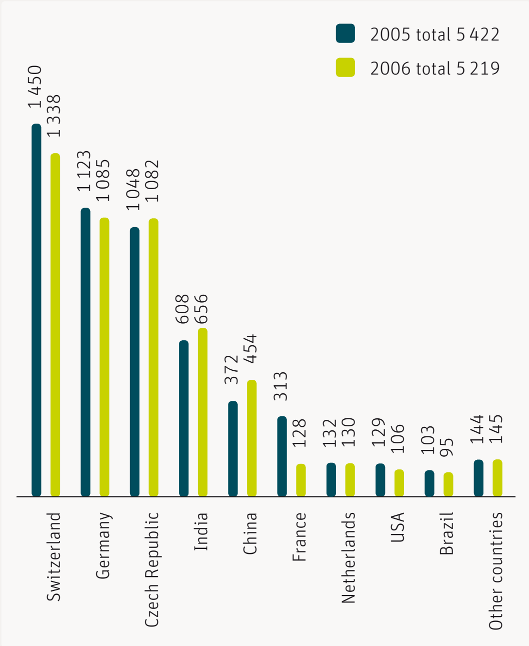
Improved profitability

Rieter Textile Systems also achieved a striking increase in the operating result before special charges in the 2006 financial year. It rose by 84% to 148.2 million CHF. This is equivalent to 11.1% of corporate output (7.7% in 2005). This increase was attributable to the favorable sales trend and the resulting good level of capacity utilization as well as attractive products that enabled good margins to be earned. Flexibility and cost discipline, which continued to be the cornerstones of Rieter's cyclical textile machinery business in the boom year of 2006, also contributed to higher profitability. The division coped with the very high order volumes while fully maintaining flexibility and further reducing fixed capacity in high-cost countries. The proven measures to enhance flexibility came into play: these include a high proportion of temporary labor, outsourcing and the utilization of tried and tested working-time models. Moderate investments were also made in new manufacturing capacity, half of them in low-cost countries. This challenging, forward-looking form of capacity management has proved its worth for Rieter in the textile machinery business with its pronounced demand cycles. EBIT also rose in comparison with the previous year by

Rieter extended its lead on the world market for staple fiber machinery in the year under review and benefited to the full from favorable economic and structural trends in important markets.

24% to 92.7 million CHF. The special charges included losses on divestments in connection with the sale of the manmade fiber machinery business and restructuring costs for transferring production capacity from Germany to the Czech Republic.

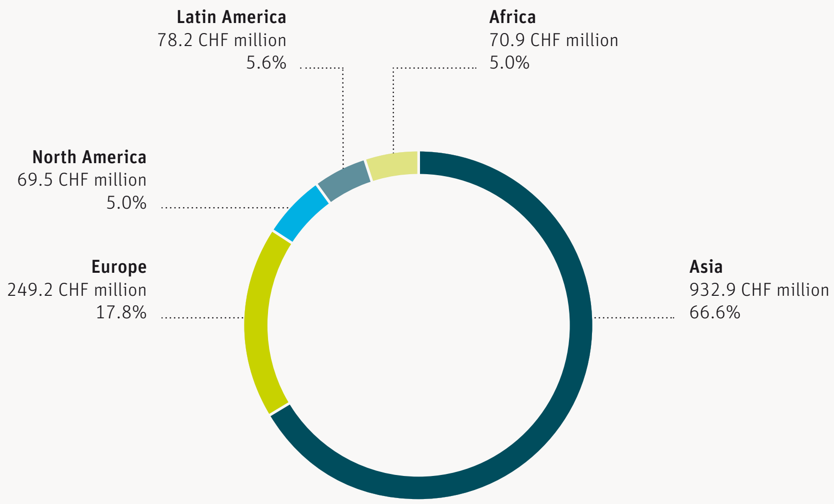
Number of employees at year-end



Strategy, trends and innovations

Rieter Textile Systems will continue to extend its leading market position in the staple fiber sector through a long-term innovation strategy. Further strategic moves are the reinforcement of its presence in Asia and the expansion of the business in technology components and in nonwovens machinery. Rieter Textile Systems again invested some 5% of corporate output in research and development in 2006. Through its close contacts with customers, Textile Systems is able to identify the needs of markets and customers at an early stage and translate them rapidly into marketable products. Rieter thus

Sales by geographical region 2006



pursues innovations that help customers to reinforce their market position and at the same time reduce costs. The focus is on new yarn properties, improved utilization of raw materials, a good price/performance ratio and energy efficiency.

Market and technology leadership in staple fiber machinery

Rieter extended its lead on the world market for staple fiber machinery in the year under review and benefited to the full from favorable economic and structural trends in important markets. The strategic focus on being a leading supplier of products and services for the spinning process as a whole proved its worth. A large proportion of the order volume in 2006 was for total or partial systems. Rieter has a strong range of coordinated products for all three major spinning processes, namely ring spinning, compact spinning and rotor spinning.

The compact spinning process developed by Rieter Textile Systems for manufacturing high-quality yarns continued to gain in importance in 2006 and is increasingly becoming the standard in the industry. Rieter supplies both new installations with compact spinning machinery and components that enable ring spinning installations to be converted to the compact spinning process.

Despite withdrawing from the manmade fiber machinery business, Rieter will continue to participate in the growth of the market for manmade fibers. About half of the manmade fibers produced worldwide are spun as continuous yarns, the other half in cut form, mostly blended with natural fibers, as so-called staple fibers. These fibers and fiber blends are processed on staple fiber machines, in which Rieter has a leading position.

The market for rotor spinning machines made strong gains in the 4th quarter of 2006 after an extended period of subdued demand. New complete installations in particular were in demand. Rieter benefited two-fold from this development. In addition to the successful fully automated and semi-automatic rotor spinning machines, most customers also opted for Rieter machines for use in spinning preparation. Trends in rotor spinning machinery are clearly toward functions that contribute to the economical production of rotor-spun yarns with high quality and productivity. The yarns currently produced on the proven R 40 rotor spinning machine display such high quality that Rieter labels them with a registered trademark.

Rieter Textile Systems has organically expanded the business in technology components, upgrades and service facilities in recent years and additionally reinforced its global leadership with selective acquisitions.

Global lead in the components business reinforced

Rieter Textile Systems has organically expanded the business in technology components, upgrades and service facilities in recent years and additionally reinforced its global leadership with selective acquisitions. This product segment is less exposed to demand cycles than the machinery and systems business. It therefore enables continuous growth to be achieved in sales and earnings. There was strong demand on the market for the products sold under the Rieter, Bräcker, Suessen, Novibra, Gretener and Graf brands in 2006 and they made a substantial contribution to the division's sales. An important driver of this business is demand from customers in emerging economies for modern technology that enables higher-value yarns to be manufactured for export, and also increasingly for the domestic market. Numerous ring spinning installations were again retrofitted with technology components for compact spinning in 2006.

Business in nonwovens production lines and pelletizing machines well positioned

The global market for nonwovens machinery developed positively in 2006. In contrast to staple fiber machinery, sales in this market segment are not focused on Asia. Since shipping costs are high for bulky nonwovens, they are mainly produced locally in the markets in which they are used. Rieter Textile Systems is well established in all the principal technologies in this segment – Spunlace, Spunbond and Spunjet – and is thus well positioned to benefit from the growing market for nonwovens. The first industrial Spunjet installation came into operation on the market in 2006. Together with cooperative venture partner NSC, a Spunlace pilot line incorporating machines from both manufacturers came on stream.

The pelletizing machinery business developed well in 2006. Rieter also has all the relevant technologies at its disposal in this sector. Its good position in continuous pelletizers has been expanded and dryers manufactured in-house have been added to the product range. A new underwater pelletizing system was successfully launched on the market in competition with two established rivals. Rieter is also increasingly supplying the Chinese market with innovative products from its local facility.

Protecting know-how and core technologies

With Rieter Textile Systems' growing presence in new markets the protection of know-how and core technologies is also becoming a key issue. Rieter reduces the risk of being copied by means of rapid innovation and production features that are difficult to replicate, or only with considerable effort. In addition, components and processes have been defined which will not be transferred from Europe. Visitor regulations and access authorization to electronic documents have also been made more restrictive with the protection of Rieter's intellectual property in mind.

In the year under review Rieter Textile Systems made investments to maintain state-of-the-art manufacturing facilities at its sites in Switzerland, Germany and the Czech Republic, so that large volumes of orders can also be handled with high quality. By systematically enhancing manufacturing operations at its European sites, Rieter seeks to maintain production know-how at the high level expected by customers. Rieter pursues a strategy of retaining core technologies in Switzerland, Germany and the Czech Republic, thus ensuring their long-term protection.

Rieter sees further long-term growth potential in the major Asian markets and is therefore expanding its presence progressively in this region.

Further expansion in Asia

Rieter sees further long-term growth potential in the major Asian markets and is therefore expanding its presence progressively in this region. In order to hold its own against local textile machinery manufacturers, Rieter has to have a local presence. Rieter is thus close to its customers and is better able to identify their needs and to develop and manufacture attractive products for the local market. Rieter Textile Systems continued to expand assembly and manufacturing capacity in China and India in 2006. Rieter is thus exploiting the labor-cost advantages of these countries, avoiding shipping and customs clearance costs and utilizing the local supplier base.

Rieter Textile Systems achieved a striking increase in sales in India in 2006 and broadened its customer base. Even during the boom years in China, Rieter had continued its marketing efforts in India, and this has contributed to its current success in that country. In India there are still large numbers of small spinning mills in which there is little automation; however, the consolidation and technological upgrading of the sector is proceeding rapidly. In order to maintain a lead over local competitors and serve the growing market even more effectively, Rieter has reinforced its service organization and expanded the plant in Pune.

Rieter Textile Systems' sales and distribution operations in China were reinforced and given a market-specific focus in 2006. Rieter also expanded the manufacturing premises at the Changzhou plant and started to establish sheet metal manufacturing operations, which will come on stream in the first quarter of 2007.

In order to maintain a broad base worldwide and benefit from the economic upswing in new regions, Rieter also systematically cultivates other important markets in Asia, such as South Korea, Bangladesh, Thailand, Indonesia and Vietnam.

Dialog with customers and exchange of technical expertise

Rieter attended numerous symposia and trade fairs worldwide in 2006. These serve to present products, but primarily to exchange views and information with customers. Cooperation in international bodies has enabled the number of trade fairs to be reduced.

Through roadshows such as that conducted in China in the spring of 2006, Rieter also reaches customers in remote regions. As a result of these marketing efforts the largest spinning mill in China, which had purchased only local products to date, placed its first large order with Rieter.

Rieter Textile Systems has presented the Rieter Award each year since 1989 to students or young textile specialists in recognition of outstanding achievements during their studies. The award-winners spend a week in Switzerland and get to know the company and the industry. In 2006 the award-winners came from India, Pakistan, Syria and Germany.

Outlook

Based on the high level of orders received in 2006, the division’s sales and operating result in the current year will exceed those of the previous year. The disposal of the manmade fiber business in 2006 will contribute to an improvement in margins.

Rieter has been awarded a major order by BMW Group to develop and manufacture carpets for the new MINI. These will be produced at Rieter's UK plant in Halesowen. Here Roy Little is taking from the chute a carpet that has just been molded into its final shape at high pressure and temperature in a large press.

In a subsequent stage a polyurethane foam layer is applied to the back of the carpet; this contributes to the good acoustic performance of the carpet and thus of the passenger compartment. Right from the start of volume production the Rieter plant in Halesowen (UK) has had to manufacture some 1 000 carpets every day.

Logistics are a
crucial factor for automotive
component suppliers;
the bulky, carefully packaged carpet
components have to be transported
by road from the Rieter factory
to the BMW Group production plant in
Oxford, where they are delivered
to the customer’s assembly
line just-in-time.

In addition to the foam-backed carpets Rieter also supplies some 60 additional noise control components such as bonnet liners and trunk treatments but also underfloor panels and heatshields.

The carpets developed in cooperation with the customer have arrived on time in the required versions at the assembly line, where they are installed by nimble BMW Group personnel. Over 600 new MINIs are currently leaving the Oxford plant every day seven days a week.

The successful production start-up of a new car requires good teamwork between the OEM and the supplier. 185 000 models of the new MINI were already delivered in 2006 and output is to be increased to 240 000 units per year in the future.

Rieter Automotive Systems

Divisional chief executive
Erwin Stoller

Sales
2 179.2 (2 031.4) CHF million

Operating result before interest and taxes
94.7 (111.4) CHF million
4.4% (5.6%) of corporate output

Number of employees at year-end
9 485 (9 098) employees

Capital expenditure of tangible fixed assets
121.3 (154.3) CHF million

Products
Components, modules, systems and services for acoustic comfort as well as thermal and underfloor protection in motor vehicles, based on fibers, plastics and metals; interior floor systems and carpet systems; design, styling and engineering services

Previous year's figures are in brackets.

Rieter Automotive Systems is one of the world's leading manufacturers of systems for acoustic comfort and thermal insulation in motor vehicles. By virtue of its core competences of acoustic and thermal management in motor vehicles as well as design & engineering, Automotive Systems is a leading supplier of acoustic components and systems for the passenger compartment, the luggage compartment, the underfloor and the engine compartment.

The division develops innovative solutions and products under contract to and in close cooperation with all major automotive manufacturers worldwide. Automotive Systems maintains ten acoustics laboratories and eight centers of excellence for material, product and module development worldwide with a total of more than 300 technical experts.

Automotive Systems operates more than 50 production plants in Europe, North and Latin America as well as in South Africa, India and China. It also cooperates with partners for the markets in Japan and other Asian countries. The components, modules and systems developed by Automotive Systems reduce noise and provide thermal insulation in passenger cars and commercial vehicles. They enhance driving comfort and help to reduce fuel consumption by reducing vehicle weight and aerodynamic drag (underfloor). Environmentally friendly manufacturing processes and recyclability take high priority in product development.

Higher sales – lower profitability

Market development
2006 was a year of diverse challenges for the automotive industry. The intense competition among automobile manufacturers already prevailing in previous years continued, and was reflected in pricing pressure on component suppliers. Higher raw material prices increased production costs for manufacturers and suppliers. The rapid rise in fuel prices influenced consumers' purchasing decisions in many markets. This was especially the case in the world's largest market, the USA.

Global automobile output (light vehicles) in 2006 rose by some 4% to 66.1 million vehicles. However, it declined in Rieter Automotive Systems' two main markets of Western Europe and North America. By contrast, striking growth rates were recorded in the emerging markets of Eastern Europe, Asia and South America. The Japanese and Korean manufacturers continued to expand their capacity worldwide.

Automobile output in Europe increased by almost 3% to 20.8 million vehicles in 2006. While production in Western Europe declined very slightly to 16.0 million vehicles, it rose significantly in Eastern Europe, where 4.8 million vehicles were produced in 2006, equivalent to an increase of 13.9% compared with the previous year. This region's share of European vehicle production increased again in 2006 to 23%.

In North America the production of automobiles and light commercial vehicles declined by 2.6% to a total of 15.3 million in the year under review. All three major American manufacturers produced considerably fewer vehicles in 2006 than in the previous year. Output by the Japanese automobile manufacturers, who had achieved double-digit growth rates in previous years, stagnated for the most part in 2006. Only the European and the Korean manufacturers produced more vehicles in North America and gained market share, albeit on the basis of relatively lower unit volumes.

The expansion of manufacturing capacity in Asia continued: the strongest growth was recorded in China (+26.0% compared with the previous year) and South Korea (+8.6%). Growth was also recorded in Japan and the rest of Asia.

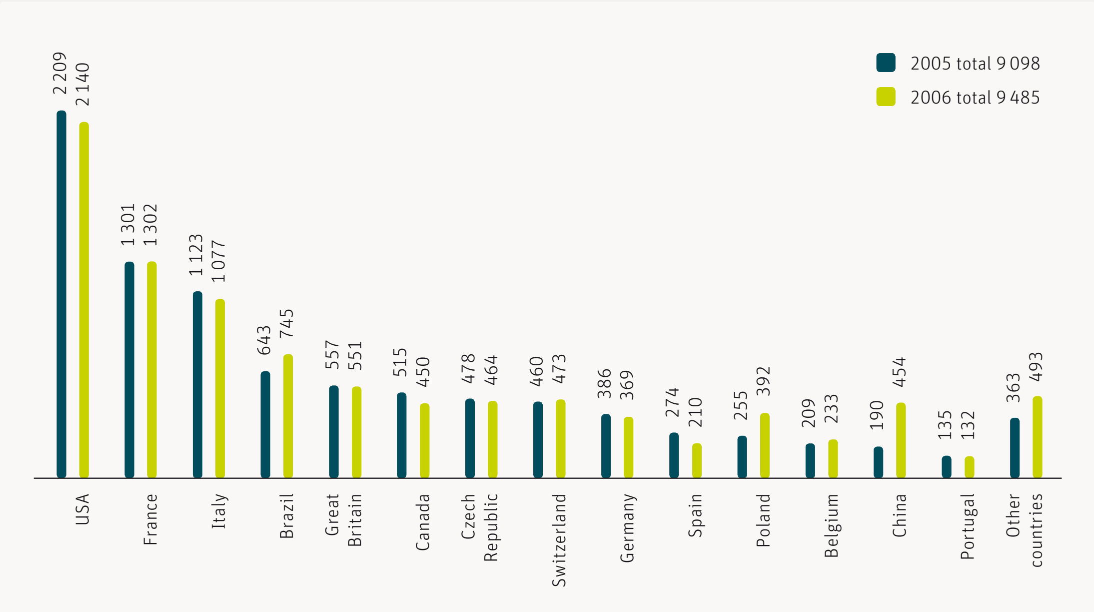
Sales development in CHF million

The automotive component supply industry in Western Europe and North America is currently in a difficult phase. Even major players are operating with inadequate returns; in North America some have had to seek protection from creditors. The mismatch between the rising cost of raw materials and the expectations of the automobile manufacturers for lower prices on the part of component suppliers is also a major challenge in Europe.

Higher sales volumes despite weaker main markets

Although vehicle output in both main markets was lower, Rieter Automotive Systems posted higher sales revenues in 2006. Sales by the division rose by a total of 7% to 2 179.2 million CHF. This growth was largely organic. The strategically important acquisition of Rieter Automotive India made little impact, contributing 2 million CHF to total sales. Sales trends diverged in the two main markets. Automotive Systems achieved growth in Western Europe, although the trend in overall vehicle output there, especially by the French manufacturers, was

Number of employees at year-end



negative. The positive sales trend was based on the market success of numerous new models, e.g. of Italian brands. Higher-than-average tooling sales to automobile manufacturers also contributed to growth in the year under review.

By contrast, sales by the division in North America were slightly lower, due mainly to the decline in output by US manufacturers. Large customers of Automotive Systems reduced vehicle production at short notice in the second half of the year in order to wind down high inventory levels at dealers. High fuel prices and thus also lower demand for pick-ups and heavy off-road vehicles were significant contributory factors. Rieter was unable to offset this decline entirely with deliveries to the Japanese manufacturers. Output growth by the Japanese manufacturers in North America also eased slightly overall, and major delivery programs by Rieter only came successfully on stream in the autumn.

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Operating result depressed by restructuring and higher costs of materials and energy

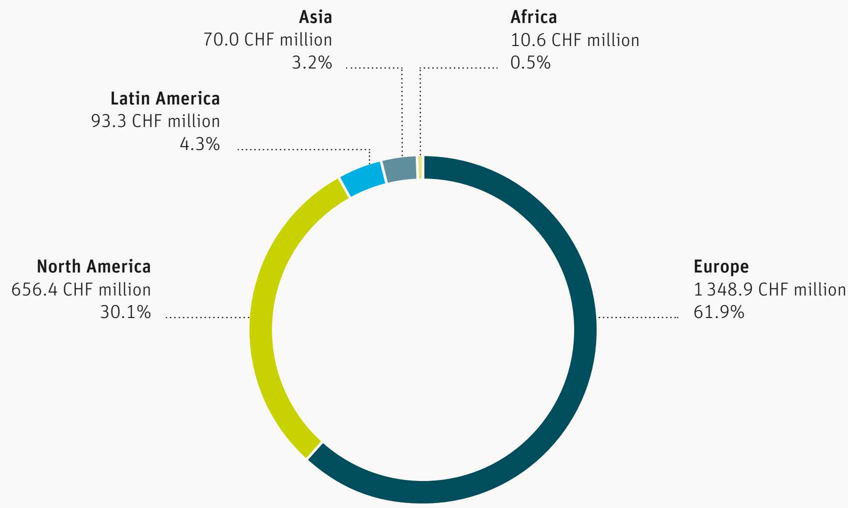
The operating result before interest and taxes (EBIT) did not develop in line with sales in 2006. After rising in the first six months it declined sharply in the second half of the year. EBIT of 94.7 million CHF for the 2006 financial year as a whole was 15% lower and equivalent to 4.4% of corporate output (111.4 million CHF or 5.6% in 2005). This outcome was attributable to several factors. On the one hand the cost of energy and materials, which turned out higher than expected in Europe and North America, depressed the operating result. In contrast to the previous year, in 2006 customers were unwilling to accept price rises which would have been necessary by virtue of the higher cost of energy and materials. These increases mainly affected aluminum and oil-based products, such as manmade fibers, polyurethane foam and asphalt, which Rieter Automotive uses in its manufacturing operations. At the same time, a number of challenging model startups also generated additional expenditure. Furthermore, plant closures and last-minute interruptions to production at the US manufacturers as well as declining output volumes in major markets such as France also depressed the operating result at Rieter Automotive Systems. Almost all automobile manufacturers operating in France produced less vehicles. The relocation of manufacturing operations in Western Europe also resulted in significantly higher costs than planned.

Excluding the special charges attributable to planned restructuring costs, Rieter Automotive Systems posted an operating result before interest and taxes of 114.9 million CHF or 5.4% of corporate output in 2006 (118.1 million CHF or 5.9% in 2005).

Action to enhance profitability

The systematic implementation of the program entitled “Roadmap to Profitable Growth” continued in the year under review. In addition to a cost-cutting program in procurement and production and a reduction of fixed costs, this also includes a stronger focus on specific customer needs and the expansion of locations in low-cost countries. While brisk progress was made with the expansion of produc-

Sales by geographical region 2006



tion capacity in Poland, Brazil and China, the division was unable to achieve its ambitious cost-cutting targets in full, especially in the second half of the year, due to the overall market situation. The restructuring and the cost-cutting action carried out in the year under review will improve the cost structure, but will only begin to take effect later. Rieter will continue to pursue these programs vigorously in the years to come.

Cost pressure on the automotive component supply industry will persist in the years to come. Rieter Automotive is responding to this challenge not only through continuous improvement of processes, but especially also with innovative products for which there is good demand from customers. New start-ups for a large number of models will generate sales growth for the division in the years to come. Rieter Automotive Systems is thus well equipped for the challenges of the future.

Market and industry trends
High fuel prices reduced demand for multi-purpose and light commercial vehicles such as pick-ups in the year under review. These models were especially popular in North America and had developed at high growth rates in previous years. The decline in demand for so-called Sport Utility Vehicles (SUVs) that had already become apparent in 2005 continued. High fuel prices in the main markets as well as purchasers’ preferences in the growth regions of Asia, Eastern Europe and South America are boosting demand for smaller, more inexpensive vehicles, a sector in which Japanese and Korean manufacturers in particular are strongly positioned.

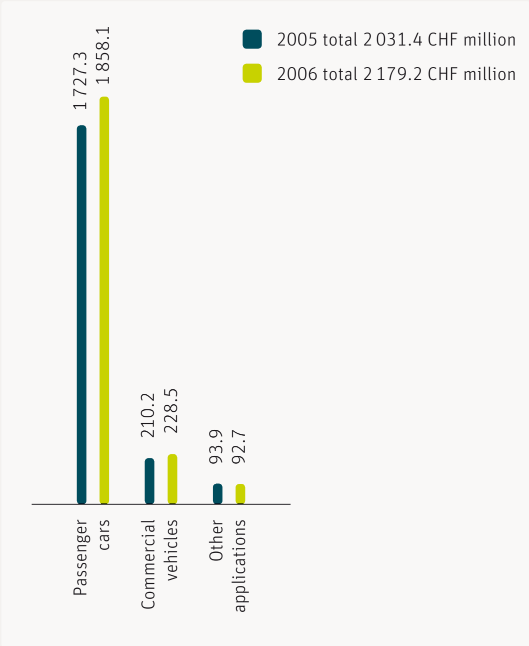
Expansion in Eastern Europe and Asia
Automobile manufacturers call for innovation, low prices and a global presence on the part of their suppliers. Rieter Automotive is able to accompany its customers in their expansion into new markets and to develop and manufacture innovative, marketable products in close cooperation with them.

Rieter expects future growth in the industry to take place principally in the emerging markets of Asia and Eastern Europe. The division is therefore systematically expanding its activities in these regions. In this way Automotive Systems supports its customers in the new markets and at the same time benefits from the advantages offered by countries with lower labor costs.

Rieter Automotive's operations in Asia developed positively in 2006. The plant in the southern Chinese province of Guangdong doubled its production capacity. In the year under review Rieter Automotive commenced production in a new plant in Tianjin, northern China. Rieter operates both manufacturing facilities together with its Japanese joint venture partner Nittoku to supply Japanese automobile manufacturers in China. Rieter Automotive also proceeded with the commissioning of a wholly-owned manufacturing plant in Chongqing, central China, which will commence production in mid-2007. In Shanghai Rieter Automotive has a sales and development team and a center for conducting automotive acoustic analysis and simulation.

Rieter expects future growth in the industry to take place principally in the emerging markets of Asia and Eastern Europe. The division is systematically expanding its activities in these regions.

Sales by product group



In India, the second-largest market in Asia, Rieter increased its holding in its former licensee Unikeller India, based in Behror, Rajasthan, from 35% to 100% in April 2006. This acquisition provides Rieter with access to the rapidly growing Indian automobile market. Rieter will expand production capacity in India and plans to widen the product range. From Behror in the Greater Delhi region Rieter Automotive can efficiently serve about one-third of the total Indian automobile market. The company employs some 80 personnel.

Rieter serves the manufacturers operating in Thailand through a joint venture and is currently setting up cooperative ventures with the Korean manufacturers, who are operating very successfully in Asia, North America and Europe.

However, Rieter Automotive Systems is investing not only in Asia and Eastern Europe, but also in the traditional automobile manufacturing countries of Western Europe and North America. In 2006 Rieter Automotive commenced production at new locations in England, Spain, Poland and the southern USA, and closed older plants. These moves ensure that Rieter Automotive stays close to the automobile manufacturers' plants, benefits from the local advantages of newly developed industrial regions and enable the latest manufacturing processes to be utilized.

Rieter Automotive Systems' innovative thrust in the development of acoustic and thermal management solutions and its comprehensive expertise in the production of systems, modules and components are acknowledged by customers worldwide and give it a decisive competitive lead.

Rieter is well positioned in the commercial vehicle market in Europe and posted some 10% of the division's sales there in the year under review. In order to supply commercial vehicle manufacturers worldwide, the organization has been reinforced by forming a separate business unit within the Automotive Systems Division. Rieter foresees considerable further growth potential in this segment, especially also in Asia, where Automotive Systems will utilize existing manufacturing sites.

Global solutions, innovation and quality are success factors

Rieter Automotive Systems' innovative thrust in the development of acoustic and thermal management solutions and its comprehensive expertise in the production of systems, modules and components are acknowledged by customers worldwide and give it a decisive competitive lead. The crucial aspect for customers is that all Rieter Automotive locations are part of a global network through which know-how is available worldwide, as well as promoting understanding for the specific features of regional markets.

In the 2006 financial year Rieter Automotive launched a series of new products and introduced new manufacturing processes, materials and technologies. One such example is a new generation of needlepunch carpets which is environmentally friendly. One of the major requirements in automobile engineering is weight reduction. Rieter Ultra Light technology enables systems to be manufactured which absorb noise more effectively and at the same time are lighter than competing products. Rieter Ultra Light Eco plus is a further development offered by Rieter Automotive, which is also cooperating closely with customers on additional applications. In light of persistently high fuel prices and increasingly severe restrictions on CO_2 and NO_x emissions in Europe and the US, demand will continue to grow for vehicle components that help to reduce weight and thus save fuel. Recycled and recyclable materials are being used for increasing numbers of components at Automotive Systems in response to the requirements of the automobile industry and legislative bodies, whether for acoustic components in the engine compartment, in the passenger compartment or for underfloor modules. For example, in 2006 the production and delivery of underfloor modules with natural fiber reinforcement was extended to further Daimler Chrysler models after deliveries had been launched in 2005 for a single vehicle type. In cooperation with a European manufacturer Rieter has developed a headliner which provides improved acoustic absorption with new materials.

Innovation not only in products, but also in processes is a success factor in the automotive component supply industry. Joint development platforms (collaborative engineering), a uniform workflow and IT systems support the development and manufacturing processes throughout the life cycle of products and technologies. Rieter Automotive's customers benefit from these methods through access to Rieter's know-how and solutions worldwide. In 2006 Rieter Automotive took decisive steps to focus processes even more closely on "lean production" principles.

Rieter Automotive received a number of awards for outstanding achievements in the fields of innovation and quality in 2006. US-based Rieter Automotive North America, which supplies carpets to automobile manufacturers, was presented with General Motors' "Supplier of the Year" award for the 14th time. Only Rieter and a German supplier have received this accolade every year without interruption since it was launched. In addition, the prominent American trade journal "Industry Week" named the plant of this company in Bloomsburg, Pennsylvania, "one of the world's ten best factories". Rieter Automotive received further awards for quality and innovation, for example from its customers Fiat, Toyota and Honda.

Outlook

Automobile output in Rieter's main markets of Western Europe and North America will probably stagnate in 2007. There are signs that growth will continue in Asia and Eastern Europe. Nevertheless, there are good prospects for Rieter Automotive Systems for slightly higher sales revenues in the current year on the basis of current exchange rates. Rieter Automotive will continue to pursue systematically the actions initiated to improve profitability.

Board of Directors

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

Group Executive Committee




From top left to bottom right: **Hartmut Reuter** Chief Executive Officer, **Urs Leinhäuser** Chief Financial Officer, **Erwin Stoller** CEO Automotive Systems, **Peter Gnägi** CEO Textile Systems

Corporate Governance in the Rieter Group

Transparent reporting creates the basis for trust. As a corporate group with an international scope, Rieter undertakes to maintain high standards of corporate management and pursue a transparent information policy vis-à-vis its stakeholders.

The basis for the contents of the following chapter is provided by the Articles of Association of Rieter Holding Ltd. and the Management Regulations of Rieter as well as the guidelines issued by the Swiss Stock Exchange. The structure of this report conforms to the corporate governance guidelines issued by the SWX Swiss Exchange (in force since July 1, 2002) and the pertinent commentaries, as well as the principles and rules of the "Swiss Code of Best Practice" issued by Economiesuisse. Unless otherwise stated, the data refer to December 31, 2006.

1 Group structure and shareholders

Group structure

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

The divisions conduct their business within the framework of the internal management regulations and are responsible for profitability with reference to sales and capital employed. The heads of the divisions report to the Group CEO. Detailed segmental reporting can be found on pages 70 to 72.

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

More than 100 companies worldwide belonged to the Rieter Group as of December 31, 2006. A list of the main companies can be found on pages 92 and 93. The management organization of the Rieter Group is independent of the legal structure of the group and the individual companies.

Notifiable shareholdings/Cross-holdings

As of December 31, 2006, Rieter was not aware of any shareholders with more than 5% of all voting rights in the company.

UBS Fund Management (Switzerland) AG, Basel, informed Rieter Holding Ltd. on January 23, 2006, that its holding was reduced to below the 5% limit of the voting rights registered in the Commercial Register. Credit Suisse Asset Management Funds (Zurich) advised Rieter on March 10, 2006, that its holding was also less than the 5% limit.

There are no cross-holdings in which the interests exceed 5% in terms of capital or voting rights. You will find further information on shareholdings on page 106.

2 Capital structure

Share capital

On December 31, 2006, the share capital of Rieter Holding Ltd. totaled 22 254 280 CHF. This is divided into 4 450 856 fully paid-in registered shares with a par value of 5.00 CHF each. The shares are listed on the Swiss Exchange (SWX), securities code 367144; ISIN CH0003671440; Investdata RIEN.

Rieter's market capitalization on December 31, 2006, was 2 661.1 million CHF. Each share entitles the holder to one vote at general meetings of shareholders.

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

Contingent and authorized share capital
The share capital of Rieter Holding Ltd. can be increased by up to 1 981 560 CHF by the issue of 396 312 registered shares with a par value of 5.00 CHF each, to be fully paid by the exercise of warrants or conversion rights granted in connection with bonds issued by the company or one of its subsidiaries, or warrants allotted to shareholders. Shareholders' pre-emptive subscription rights are precluded. Holders of warrants or conversion rights are entitled to acquire the new registered shares. The Board of Directors is authorized to revoke shareholders' pre-emptive subscription rights when issuing convertible bonds or bonds with warrants if the bonds in question are issued to finance the acquisition of companies, parts of companies or equity interests in companies. If pre-emptive subscription rights are revoked, the bonds must be issued at terms and conditions customary on the market in respect of structure, maturity and amount, including the non-dilution of equity. The exercise period of warrants must not exceed five years, that of conversion rights ten years from the date of issue of the relevant bonds. Rieter Holding Ltd. had no authorized capital on December 31, 2006.

Changes in share capital
On March 16, 2004, Rieter successfully completed a share repurchase program with a view to reducing its share capital. The Annual General Meeting held on May 5, 2004, adopted a resolution to reduce the company's share capital from 22 845 280 CHF to 22 254 280 CHF by canceling 118 200 registered shares. The registration of the share capital reduction took place on August 6, 2004.

Further information on the capital structure can be found on page 105.

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

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

Convertible bonds and options
Rieter Holding Ltd. has no convertible bonds or shareholders' options outstanding. For details of the option plan for the Board of Directors and the Group Executive Committee, please refer to section 5 of this report and to note 26 (page 88) in the notes to the consolidated financial statements.

3 Board of Directors

Directors

Pursuant to the articles of association, the Board of Directors of Rieter Holding Ltd. consists of no less than five and no more than nine members. In the 2006 financial year, no member of the board performed any executive duties.

Name	Nationality	Position	Year of birth	On the board since	Elected until	Executive/ non-executive
Kurt Feller*	CH	Chairman	1937	1994	2008	Executive from 1994 to 2002, non-executive since 2003
Rudolf Hauser*	CH	Vice-chairman	1937	1987	2008	Non-executive
Dr. Ulrich Dätwyler*	CH	Member	1941	1994	2009	Non-executive
Dr. Rainer Hahn	DE	Member	1940	1999	2008	Non-executive
Dr. Peter Wirth	CH	Member	1946	2000	2009	Non-executive
Dr. Dieter Spälti	CH	Member	1961	2001	2007	Non-executive
Dr. Jakob Baer	CH	Member	1944	2006	2009	Non-executive

* Members of the audit committee (Chairman: Rudolf Hauser).
All seven members of the board are members of the personnel committee (Chairman: Kurt Feller).

Kurt E. Feller (1937)

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

Rudolf Hauser (1937)

- Vice-chairman and non-executive, independent Board member since 1987, term of office expires in 2008, chairman of the audit committee, member of the personnel committee.
- Swiss national.
- Dipl. Ing. ETH Zurich, MBA Insead; Managing director, Bucher Industries AG, Niederweningen, until 2001; Chairman of the Board, Bucher Industries AG, since 2001.
- Vice-chairman of the Board, Neue Zürcher Zeitung AG, Zurich.

Ulrich Dätwyler (1941)

- Non-executive, independent Board member since 1994, term of office expires in 2009, member of the audit committee and the personnel committee.
- Swiss national.
- Dr. oec. HSG; CEO of SIG Holding AG until 1996.
- Board member of four unlisted companies.

Rainer Hahn (1940)

- Non-executive, independent Board member since 1999, term of office expires in 2008, member of the personnel committee.
- German national.
- Dr. Ing.; Managing director, Robert Bosch GmbH, Stuttgart, until 2001.
- Member of the supervisory board, Robert Bosch GmbH, Stuttgart; Member of the Supervisory Board, Bosch Rexroth AG, Stuttgart; Member of the supervisory board, ElringKlinger AG, Dettingen/Erms (Germany); Board member, TÜV SÜD e.V. and TÜV SÜD Gesellschafterausschuss GbR, Munich.

Jakob Baer (1944)

- Non-executive, independent Board member since October 2006, term of office expires in 2009.
- Swiss national.
- Dr. iur. University of Bern; CEO of KPMG Switzerland until September 30, 2004, independent consultant since 2004.
- Board member, Adecco S.A., Chéserex; Board member, Swiss Re, Zurich; Board member, Allreal Holding AG, Baar. Board member of two unlisted companies.

Peter Wirth (1946)

- Non-executive, independent Board member since 2000, term of office expires in 2009, member of the personnel committee.
- Swiss national.
- Dr. sc. techn. ETH Zurich; with Mikron Group, Biel, 1986–2003; CEO, Mikron Group and Managing director, Mikron Holding AG, 1991–2003 ; Partner, ex.tra experience transfer AG, Biel, since 2004.
- Member of the Swissmem technical committee "Machine Tools and Production Engineering".

Dieter Spälti (1961)

- Non-executive, independent Board member since 2001, term of office expires in 2007, member of the personnel committee.
- Swiss national.
- Dr. iur. University of Zurich; Partner, McKinsey, until 2001; Managing partner, Spectrum Value Management, Jona, since 2002.
- Board member, IHAG Holding, Zurich; Board member, Holcim AG, Jona.

Inter-company relationships

There are no reciprocal appointments to Boards of Directors.

Group Secretary

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

Election and term of office

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

The term of office of Dr. Dieter Spälti expires at the Annual General Meeting to be held on May 10, 2007. Dr. Spälti is standing for re-election. At the same meeting Rudolf Hauser will retire from the Board of Directors upon reaching retirement age as stipulated in the Articles of Association.

Internal organization

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

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

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

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

The Board of Directors met for eight regular meetings in the 2006 financial year, each lasting a full day. All board members attended all the board meetings. One telephone conference of the whole board was also held. Two directors were unable to attend one meeting; all directors were present at the other meetings. The agendas for the board meetings are drawn up by the chairman on the basis of proposals by the CEO. Any member of the board can also propose items for inclusion on the agenda. The board usually makes an annual visit to one group location. In the year under review the Board of Directors visited Automotive Systems' newly opened plant in England and met with the management of a major customer for an exchange of views. The members of the Group Executive Committee also usually attend the meetings of the Board of Directors. They present the strategy as well as the results of their operating units and the projects requiring the approval of the Board of Directors.

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

The **audit committee** currently consists of three members of the board. Its chairman is Rudolf Hauser, the other members are Kurt Feller and Dr. Ulrich Dätwyler.

In the 2006 financial year none of the members of the audit committee performed executive duties. The chairman is elected for one year. The audit committee meets at least twice a year. The head of internal audit, representatives of the statutory and group auditors PricewaterhouseCoopers AG, the CEO and the CFO and other members of the Group Executive Committee and management as appropriate, also attend the meetings.

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

The audit committee met for two regular meetings in 2006. The meetings last between half a day and a full day. All committee members attended all the meetings and regularly received the written reports of the internal auditors.

Since Rieter's Board of Directors has only seven members, the entire board currently acts as the personnel committee/nomination committee. The chairman of this committee is appointed by the Board of Directors. Kurt Feller held this position in 2006. It stipulates the profile of requirements and the principles for selecting members of the Board of Directors and prepares the election of new members of the Group Executive Committee and their terms of employment. It establishes the principles for the remuneration of directors and top management at the Rieter Group, especially bonus programs, share purchase plans and option programs. The personnel committee and the Board of Directors are also informed about plans for senior management succession and the relevant development plans.

The personnel committee met for two regular meetings in 2006. The meetings lasted between half a day and a full day. All committee members attended all the meetings.

Allocation of authority

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

Information and control instruments regarding the Group Executive Committee

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

Internal Audit has been headed by Georg Niederer, Certified Auditor, since 2002.

The members of the audit committee, the CEO, the CFO, and appointed members of the management receive the internal audit reports. Internal audit conducted 37 audits in 2006. The results were discussed in detail with the companies and divisions concerned, and with the CEO and the CFO, and appropriate measures have been initiated accordingly.

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

Risk Management

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

Code of Conduct
Rieter revised its code of conduct in the year under review, and in particular included new regulations on the topic of "Whistle-blowing Protection for Employees". The code of conduct is an integral part of every employee's contract of employment. The code of conduct is explained to employees in the individual units and is verified regularly in the context of internal audits and by additional audits. This code can be accessed on the Internet at www.rieter.com (Inside Rieter >> Corporate Profile).

4 Group Executive Committee

The Group Executive Committee had four members on December 31, 2006: the CEO, the heads of the two divisions, and the CFO.

Name	Nationality	Position	Year of Birth	With Rieter since	Member of the Executive Committee	Current function since
Hartmut Reuter	DE	Chief Executive Officer	1957	1997	1997	2002
Erwin Stoller	CH	Head of the Automotive Systems Division	1947	1978	1992	2002
Peter Gnägi	CH	Head of the Textile Systems Division	1954	1990	2002	2002
Urs Leinhäuser	CH	Chief Financial Officer & Head Corporate Center	1959	2003	2003	2004

Hartmut Reuter (1957)
- Chief Executive Officer (CEO) of the Rieter Group.
- German national.
- Dipl. Wirtschaftsingenieur Technische Universität Darmstadt.
- 1981–1997 Robert Bosch GmbH, Stuttgart, for the last two years as member of the Executive Committee in the corporate headquarters, in charge of Planning and Controlling. Member of Rieter's Group Executive Committee since 1997, first as head of Group Controlling, from 2000 to 2002 as head of the Corporate Center, in his present function since 2002.
- No other activities and functions.

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

Peter Gnägi (1954)

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

Urs Leinhäuser (1959)

- Chief Financial Officer (CFO) and Head of the Corporate Center.
- Swiss national.
- Dipl. Betriebsökonom HWV.
- 1995–1999 Georg Fischer AG, most recently as head of Finance and Controlling, Division Piping Systems; 1999–2003 Chief Financial Officer of Mövenpick Holding; with Rieter since April 2003 as head of Group Controlling and member of the Group Executive Committee, in his present function since January 2004.
- No other activities and functions.

Management contracts

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

5 Remuneration, equity participation and loans

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.

Remuneration of the Board of Directors consists of a payment in cash, participation in the share purchase plan and an allocation of options. The discount and the terms for purchasing Rieter shares conform to the regulations governing the share purchase plan for senior management personnel.

Senior management personnel in the group are remunerated according to the principle of flexible, performance-related compensation. Their remuneration consists of a basic salary, a performance-related component in the context of the bonus plan and the opportunity to participate in the share purchase plan. The members of the Group Executive Committee also participate in an option plan. The performance-related component is based on the operating earnings achieved by the respective unit (EBIT), consolidated net profit and the return on net average assets (Rona), as well as organic growth. There is also an option plan for members of the Group Executive Committee.

Share purchase plan
Rieter seeks to encourage its top management to make a substantial investment in the group's share capital. The company therefore promotes the purchase of its shares through a share purchase plan. 122 employees were entitled to participate in the share purchase plan in 2006. 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. In the context of this program the members of the Group Executive Committee can purchase Rieter shares up to the amount of their bonus at a variable discount. The discount granted is subject to the achievement of previously defined earnings targets by the group (net profit, return on net average assets [Rona] and organic growth).

Option plan
The participants in the option plan receive an option to purchase one Rieter registered share at the relevant exercise price for each share purchased under the share purchase plan and subject to the three-year restriction on sale.

Details of the option plan can be found on page 54.

Remuneration of directors
The members of the Board of Directors receive a fixed annual remuneration. The cash remuneration of the members of the Board of Directors in the 2006 financial year totaled 845 000 CHF. They also received 1 231 Rieter registered shares in the 2006 financial year in the context of the share purchase plan (1 462 shares in the previous year). The shares allotted to directors in the context of the share purchase plan cannot be sold for three years.

Remuneration of former directors
No remuneration was disbursed to former directors and officers.

Remuneration of the Group Executive Committee
Remuneration totaling 3 777 000 CHF was disbursed to the members of the Group Executive Committee for the 2006 financial year. This sum comprises the basic salary (including employer's contributions to the pension fund, excluding employer's contribution to state social security funds), the deferred bonus for 2006 and the discount on Rieter shares purchased in 2006.

Shareholdings
The directors held 14 027 Rieter shares on December 31, 2006. The members of the Group Executive Committee held 18 162 shares. These figures include the shareholdings of the respective individuals, their spouses and minor children. 13 844 of these shares cannot be sold for three years.

Options

The members of the Board of Directors and the Group Executive Committee were allotted a total of 3 379 options in the context of the option plan in the 2006 financial year. In 2006 a total of 11 683 options were exercised.

Summary of option holdings:

Board of Directors

Issue date	Number of options	Exercise price in CHF	Blocked until	Expiry date
2006	1 231	501.00	2008	2011
Total options	**1 231**			

Group Executive Committee

Issue date	Number of options	Exercise price in CHF	Blocked until	Expiry date
2003	482	244.00	2005	2008
2005	3 513	381.85	2007	2010
2006	2 148	501.00	2008	2011
Total options	**6 143**			

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 2006, nor were severance payments disbursed to any member of the Board of Directors or the Group Executive Committee in 2006.

Loans to directors and officers

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

Highest total remuneration

The highest cash remuneration paid to a member of the Board of Directors in the 2006 financial year was 346 000 CHF. The company also allotted to this member of the Board 285 shares in the context of the share purchase plan.

6 Shareholders' participatory rights

Voting restrictions

Rieter imposes no voting restrictions.

Statutory quorum

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

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

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

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

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

Entries in the shareholders' register

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

7 Change of control and defensive measures

Obligation to submit an offer

The legal provisions in terms of Art. 22 BEHG (Bundesgesetz über die Börsen und den Effektenhandel – Swiss Exchanges and Securities Trading Act) are applicable. This states that a shareholder or a group of shareholders acting in concert who hold more than 33⅓ percent of all shares must submit a takeover offer to the other shareholders.

Change of control clauses

There are no change of control clauses in contracts of employment and office. In the event of a change of control all outstanding options can be exercised immediately and all shares blocked in the context of the share purchase plan are released.

8 Statutory and group auditors

Duration of mandate and term of office of the lead auditor

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

Audit fees and additional fees

PwC, KPMG and other auditors charged the Rieter Group approximately 3.7 million CHF for services in connection with auditing the annual financial statements of the group companies and Rieter's consolidated accounts in the 2006 financial year. PwC, KPMG and other auditors invoiced some 1.3 million CHF for additional services. 0.2 million of this total were for services closely related to the audit, 0.8 million CHF for tax consulting and 0.3 million CHF for other services. PwC also charged 1.7 million CHF for services rendered in connection with the sale of the manmade fiber business in 2006.

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

9 Information policy

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

Important dates:

- Annual General Meeting 2007 May 10, 2007
- Disbursement of dividends to the shareholders May 18, 2007
- Semi-annual report 2007 August 15, 2007
- Publication of sales 2007 January 31, 2008
- Deadline for proposals regarding the agenda of the Annual General Meeting 2008 March 6, 2008
- Results press conference March 26, 2008
- Annual General Meeting 2008 May 8, 2008

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Financial report

Comments on the 2006 financial report

Sales and corporate output

Rieter's sales of 3 579.9 million CHF in the year under review (+15% compared with 2005) were the highest in the company's history. Corporate output improved by 14% to 3 447.5 million CHF. The growth of 457.9 million CHF in consolidated sales was fueled mainly by the Textile Systems Division, which reported an increase of 315.3 million CHF or 29%; the increase at the Automotive Systems Division amounted to 147.8 million CHF or 7%. Currency translation effects on consolidated sales amounted to +2%, with the appreciation of the Euro, the Canadian Dollar and the Brazilian Real versus the Swiss franc having a positive impact on reported sales.

The acquisition of Graf (consolidated as of October 2005) and the remaining share capital of Unikeller India, together with the new joint venture in Northern China, contributed 97.1 million CHF to sales by the Rieter Group (22.7 million CHF in 2005). The manmade fiber activities divested in the 4th quarter of the financial year accounted for 78.5 million CHF of sales. The main sales markets for Textile Systems in 2006 were again in Asia; they accounted for 67% of the division's sales (65% in 2005). Growth at Automotive Systems was almost entirely organic. The Division achieved growth in Western Europe although the overall trend in vehicle output there was negative. Sales in North America declined mainly due to lower output by the US manufacturers.

Operating result

In the year under review the operating result before special charges, interest and taxes increased by 31% to 256.3 million CHF. The operating margin as a proportion of corporate output rose to 7.4% (6.4% in 2005). After special charges (book losses on divestments at Textile Systems and restructuring costs mainly at Automotive Systems) totaling 75.7 million CHF (12.7 million CHF in 2005), consolidated EBIT amounted to 180.6 million CHF (183.0 million CHF in 2005) and the EBIT margin was 5.2% (6.0% in 2005).

Mainly due to the strong sales growth, the operating result before special charges, interest and taxes at Textile Systems improved by 67.5 million CHF to 148.2 million CHF, which corresponds to an operating margin of 11.1% (7.7% in 2005). The operating result for the textile machinery operations was depressed by special charges (book losses on divestments, restructuring costs) of 55.5 million CHF, resulting in EBIT of 92.7 million CHF (74.7 million CHF in 2005), or an EBIT margin of 7.0% (7.1% in 2005). At Automotive Systems the operating result before special charges, interest and taxes was 3.2 million CHF lower at 114.9 million CHF, equivalent to a margin of 5.4% (5.9% in 2005). Operational improvements and increased volumes did not offset the impact of higher prices for energy and raw materials and the pressure exerted on prices by the automobile manufacturers. Restructuring costs of 20.2 million CHF (6.7 million CHF in 2005) reduced EBIT at the Automotive Systems Division to 94.7 million CHF (111.4 million CHF in 2005), equivalent to a margin of 4.4% (5.6% in 2005).

Financial result

Rieter reported a positive net financial result of 44.5 million CHF in the year under review (22.6 million CHF in 2005). Income of 55.5 million CHF (37.2 million CHF in 2005) from marketable securities and other financial income in particular contributed to this increase. Rieter took full advantage of the opportunities offered by a positive market environment. At the end of 2006 Rieter held securities totaling 175.9 million CHF (232.0 million CHF in 2005). Valuation reserves included in shareholders' equity for marketable securities available for sale and investments amounted to 23.5 million CHF at the end of 2006 (15.8 million CHF in 2005).

Taxes

Despite the higher net profit before taxes, the tax charge increased by only 0.2 million CHF to 67.7 million CHF. The corporate tax rate declined to 30.1% (32.8% in 2005). The good net financial result included in pre-tax profit, together with optimization of the financing and tax structure, contributed to this outcome.

Net profit and earnings per share

Rieter's net profit increased by 14% to 157.4 million CHF (138.1 Mio. CHF in 2005) with a higher net financial result, a lower tax rate and a slight reduction in EBIT due to special charges. The net profit margin amounted to 4.6% (4.5% in 2005). Excluding special charges, the profit margin amounted to 6.8% (5.0% in 2005). Earnings per share of 35.53 CHF represented an improvement of 15% compared with the previous year's figure of 30.80 CHF.

Cash flow and net liquidity

The higher operating profit before special charges resulted in a substantial increase of 72.7 million CHF in cash flow to 329.6 million CHF. Despite the increase of 82.6 million CHF in net working capital (17.9 million CHF in 2005), free cash flow rose to 100.6 million CHF (–1.4 million CHF in 2005). This increase was also due to the utilization of funds for acquisitions in 2005. Net liquidity increased by 50.6 million CHF to 147.3 million CHF.

Balance sheet

Total assets grew by 6% to 2 884.6 million CHF. The increased volume of business resulted in higher inventories and receivables. The 4% bonds are due for repayment in 2007 and were therefore reclassified from non-current to current liabilities in the year under review. Shareholders' equity of 1 375.4 million CHF at the end of 2006 (1 262.2 million CHF in 2005) resulted in an equity ratio of 47.7% (46.5% in 2005). Goodwill at the end of 2006 amounted to 118.9 million CHF (151.0 million CHF in 2005). The decline was due to the divestment of the manmade fiber activities. In compliance with IFRS 3, goodwill was no longer amortized in 2005 and 2006.

Proposed dividend

Rieter Holding Ltd. reported a net profit of 63.4 million CHF for the 2006 financial year (49.3 million CHF in 2005). Together with retained earnings brought forward from the previous year, a total of 92.7 million CHF is at the disposal of the Annual General Meeting. In light of the sound balance sheet and the confident outlook for the 2007 financial year, the Board of Directors will propose to the Annual General Meeting of Rieter Holding Ltd. on May 10, 2007, that it approve a 50% increase in the dividend for 2006 to 15.00 CHF per share (10.00 CHF in 2005). This corresponds to a total distribution of 62.8 million CHF (41.5 million CHF in 2005). Based on the year-end share price of 638 CHF, this results in a dividend yield of 2.4% on Rieter shares.

Share price

The price of Rieter shares rose by 64% to 638 CHF at the end of 2006 (390 CHF at the end of 2005). In 2005 the share price rose from 330 CHF to 390 CHF, resulting in a total price rise of 93% for the years 2005 and 2006 (cf. page 105).

Consolidated income statement

CHF million	Notes	2006	%*	2005	%*
Sales[1]	(3)	**3 579.9**		**3 122.0**	
Sales deductions		–145.2		–112.3	
Change in semi-finished and finished goods		8.3		22.3	
Own work capitalized		4.5		3.6	
Corporate output[1]		**3 447.5**	**100.0**	**3 035.6**	**100.0**
Material costs		–1 606.1	–46.6	–1 372.3	–45.2
Employee costs	(4)	–1 011.7	–29.4	–942.5	–31.0
Other operating expenses		–479.8	–13.9	–432.7	–14.3
Other operating income		51.4	1.5	38.0	1.2
Depreciation and amortization	(5)	–145.0	–4.2	–130.4	–4.3
Operating result before special charges, interest and taxes		**256.3**	**7.4**	**195.7**	**6.4**
Special charges	(6)	–75.7	–2.2	–12.7	–0.4
Operating result before interest and taxes (EBIT)		**180.6**	**5.2**	**183.0**	**6.0**
Financial income	(7)	65.0		43.8	
Financial expenses	(8)	–20.5		–21.2	
Profit before taxes		**225.1**	**6.5**	**205.6**	**6.8**
Income taxes	(9)	–67.7		–67.5	
Net profit		**157.4**	**4.6**	**138.1**	**4.5**
Attributable to:					
Shareholders of Rieter Holding Ltd.		147.4		126.9	
Minority interests		10.0		11.2	
Earnings per share • average number of registered shares outstanding: 4 149 946 (4 120 304 in 2005)	CHF	35.53		30.80	
Diluted earnings per share • average number of shares to calculate diluted earnings per share[2]: 4 150 198 (4 121 735 in 2005)	CHF	35.52		30.79	

* in % of corporate output
1. Excluding other operating income (2005 presentation adjusted).
2. Including dilution impact in connection with option plan.

The notes on pages 64 to 91 are an integral part of the consolidated financial statements.

Consolidated balance sheet

CHF million	Notes	December 31, 2006	December 31, 2005
Assets			
Tangible fixed assets	(11)	867.6	835.8
Intangible assets	(12)	161.0	198.2
Financial assets	(13)	111.9	115.0
Deferred tax assets	(9)	11.5	10.6
Non-current assets		**1 152.0**	**1 159.6**
Inventories	(14)	483.0	426.0
Trade receivables	(15)	654.9	573.2
Other receivables	(16)	120.4	125.4
Marketable securities	(17)	175.9	232.0
Cash and cash equivalents	(18)	298.4	198.5
Current assets		**1 732.6**	**1 555.1**
Assets		**2 884.6**	**2 714.7**
Shareholders' equity and liabilities			
Share capital		22.3	22.3
Share premium account (capital reserve)		27.5	27.5
Group reserves		1 270.7	1 142.4
Equity attributable to shareholders of Rieter Holding Ltd.		**1 320.5**	**1 192.2**
Equity attributable to minority interests	(19)	54.9	70.0
Total shareholders' equity		**1 375.4**	**1 262.2**
in % of total shareholders' equity and liabilities		47.7%	46.5%
Bonds	(20)	0.0	200.0
Other long-term financial debt	(20)	66.8	64.8
Deferred tax liabilities	(9)	71.5	69.9
Provisions	(21)	174.8	175.3
Other non-current liabilities		5.0	5.0
Non-current liabilities		**318.1**	**515.0**
Trade payables		399.9	431.8
Advance payments by customers		160.6	125.9
Bonds	(20)	200.0	0.0
Other short-term financial debt	(20)	60.2	69.0
Current tax liabilities		37.9	23.8
Other current liabilities	(22)	332.5	287.0
Current liabilities		**1 191.1**	**937.5**
Liabilities		**1 509.2**	**1 452.5**
Shareholders' equity and liabilities		**2 884.6**	**2 714.7**

The notes on pages 64 to 91 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

CHF million	Notes	2006	2005
Net profit		157.4	138.1
Depreciation and amortization of tangible and intangible fixed assets		145.0	130.4
Loss on divestments		48.5	0.0
Other non-cash income and expenses		–21.3	–11.6
Change in inventories		–74.9	–19.5
Change in trade receivables		–95.1	–9.9
Change in other receivables		1.4	2.9
Change in provisions		5.6	3.8
Change in trade payables		–23.0	31.4
Change in advance payments by customers and other liabilities		109.0	–22.8
Cash provided by operations		**252.6**	**242.8**
Capital expenditure on tangible and intangible assets		–186.2	–182.3
Proceeds from disposals of tangible and intangible assets		32.7	20.9
Investments in financial assets		–6.6	–10.2
Proceeds from disposals of financial assets		14.3	4.1
Change in holdings of marketable securities		67.1	–78.6
Acquisitions	(23)	–3.9	–76.7
Divestments	(24)	–2.3	0.0
Cash used for investing activities		**–84.9**	**–322.8**
Dividend paid to shareholders of Rieter Holding Ltd.		–41.5	–41.5
Change in holding of own shares		3.5	8.5
Dividends paid to minority interests		–7.4	–3.8
Buyout of minority interests		–14.9	–60.2
Change in short-term financial debt		–8.8	12.9
Change in long-term financial debt		1.6	–38.9
Cash used for financing activities		**–67.5**	**–123.0**
Currency effect		–0.3	–4.1
Change in cash and cash equivalents		**99.9**	**–207.1**
Cash and cash equivalents at beginning of the year		**198.5**	**405.6**
Cash and cash equivalents at end of the year		**298.4**	**198.5**
Interest paid		20.8	18.3
Taxes paid		55.8	53.9
Interest received		6.7	5.3
Dividends received		1.4	1.3

The notes on pages 64 to 91 are an integral part of the consolidated financial statements.

Changes in consolidated equity

CHF million	Share capital	Own shares	Share premium account	Valuation reserves	Retained earnings	Total attributable to Rieter share-holders	Attribut-able to minority interests	Total
At December 31, 2004	22.3	–0.1	27.5	231.9	788.2	1 069.8	77.8	1 147.6
Currency effect	0.0	0.0	0.0	49.1	0.0	49.1	6.6	55.7
Change in marketable securities available for sale	0.0	0.0	0.0	7.7	0.0	7.7	0.0	7.7
Net result recognized directly in equity	**0.0**	**0.0**	**0.0**	**56.8**	**0.0**	**56.8**	**6.6**	**63.4**
Net profit	0.0	0.0	0.0	0.0	126.9	126.9	11.2	138.1
Total recognized results	**0.0**	**0.0**	**0.0**	**56.8**	**126.9**	**183.7**	**17.8**	**201.5**
Dividend of Rieter Holding Ltd.	0.0	0.0	0.0	0.0	–41.5	–41.5[1]	0.0	–41.5
Dividends to minority interests	0.0	0.0	0.0	0.0	0.0	0.0	–3.8	–3.8
Buyout of minority interests	0.0	0.0	0.0	0.0	–38.4	–38.4	–21.8	–60.2
Change in holding of own shares	0.0	0.0	0.0	0.0	18.6	18.6	0.0	18.6
At December 31, 2005	**22.3**	**–0.1**	**27.5**	**288.7**	**853.8**	**1 192.2**	**70.0**	**1 262.2**
Currency effect	0.0	0.0	0.0	9.5	0.0	9.5	–4.2	5.3
Change in marketable securities available for sale	0.0	0.0	0.0	7.7	0.0	7.7	0.0	7.7
Net result recognized directly in equity	**0.0**	**0.0**	**0.0**	**17.2**	**0.0**	**17.2**	**–4.2**	**13.0**
Net profit	0.0	0.0	0.0	0.0	147.4	147.4	10.0	157.4
Total recognized results	**0.0**	**0.0**	**0.0**	**17.2**	**147.4**	**164.6**	**5.8**	**170.4**
Dividend of Rieter Holding Ltd.	0.0	0.0	0.0	0.0	–41.5	–41.5[1]	0.0	–41.5
Dividends to minority interests	0.0	0.0	0.0	0.0	0.0	0.0	–7.4	–7.4
Buyout of minority interests	0.0	0.0	0.0	0.0	1.6	1.6	–16.5	–14.9
Other changes in minority interests	0.0	0.0	0.0	0.0	0.0	0.0	3.0	3.0
Change in holding of own shares	0.0	0.0	0.0	0.0	3.6	3.6	0.0	3.6
At December 31, 2006	**22.3**	**–0.1**	**27.5**	**305.9**	**964.9**	**1 320.5**	**54.9**	**1 375.4**

1. CHF 10.00 per registered share.

Valuation reserves include valuation gains of 23.5 million CHF (15.8 million CHF in 2005) on marketable securities available for sale and investments.

The notes on pages 64 to 91 are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

1 Principles of consolidation and accounting principles

Principles of consolidation

The basis for the consolidated financial statements are the financial statements of the individual group companies at December 31, 2006. These are formed using uniform accounting policies. The consolidated financial statements of the Rieter Group prepared in accordance with the consolidation and accounting principles set out below are based on fair value for the financial instruments and historical costs for other assets and liabilities, and they conform to International Financial Reporting Standards (IFRS).

For the Annual Report 2006 Rieter has applied the same principles of consolidation and accounting principles as in the previous year. The International Accounting Standards Board (IASB) revised IAS 19 (Employee Benefits) and IAS 39 (Financial Instruments: Recognition and Measurement). These amendments have no material influence on consolidated shareholders' equity and net profit. IAS 19 (revised) resulted in the disclosure of further information in the explanatory notes. The option to recognize all actuarial gains and losses directly in retained earnings will not be exercised at present.

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.

Scope 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. Joint ventures 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 joint venture 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 assumed. 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 92 and 93.

Change in the scope of consolidation
The acquisition of Tianjin Rieter Nittoku Automotive Sound-Proof Co. Ltd. and Rieter Automotive India Pvt. Ltd. as well as the sale of Rieter Textile Machinery France SAS changed the scope of consolidation in the year under review. The impact of these transactions on the consolidated financial statements is shown in Note 23 and 24 (pages 82 to 85).

Currency translation
The financial statements of the foreign group companies are drawn up in local currency and translated into Swiss francs for purposes of consolidation. Year-end exchange rates are used for the balance sheet, average exchange rates for the income statement.

Currency differences arising from translation are posted directly to equity with no impact on income. In the event of the disposal or liquidation of foreign group companies, the accumulated currency differences are offset against sale or liquidation proceeds.

Tangible fixed assets
Tangible fixed assets, including non-operational property, are included in the balance sheet at acquisition cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over each asset's estimated useful life. Land is written down only in the event of ongoing impairment of value.

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

factory buildings/non-operational property	20–50 years
machinery/plant and equipment	5–15 years
tools/data processing equipment/ furniture	3–10 years

Investment grants and similar subsidies are released to income in the period corresponding to the related depreciation.

The various categories of assets also include assets financed by long-term contracts (finance leases). The related liabilities are included in the balance sheet under long-term financial debt. The costs of assets held under operating leases are charged to income in the period in which they are incurred.

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. Under IFRS 3 it is assumed as of January 1, 2005, that goodwill has an indefinite useful life. Goodwill is therefore no longer regularly amortized, but subjected to an impairment test at least once a year. Until December 31, 2004, goodwill was amortized against income on a straight-line basis over its estimated useful life, not exceeding 20 years.

Cash and cash equivalents
Cash and cash equivalents include bank accounts and short-term time deposits.

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

Trade receivables
Receivables are stated at original invoice value less allowances to reduce them to net realizable value. Valuation adjustments on trade receivables are included if there is reliable evidence to suggest that the amount originally invoiced will not be paid, or not in full. The valuation adjustment represents the difference between the payment expected and the invoiced amount.

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

Provisions
If legal or constructive obligations are incurred as a consequence of past events, provisions are made to cover the expected outflow of funds. Provisions are classified as pension provisions, guarantee and warranty provisions, environment provisions and other provisions.

Pension provisions arise from unfunded pension commitments or deficits on funded plans.

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.

Income taxes
The expected tax charge is calculated and accrued on the basis of the results in the year under review which are relevant for taxation purposes.

Deferred 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 recorded under tax expenses.

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

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

Pension funds

Employee pension plans are operated by certain subsidiaries, depending upon the level of coverage provided by the government pension facilities in the various countries in which they operate. Some of these are provided by independent pension funds. As a rule, pensions are funded by employees' and employer's contributions. Pension plans exist on the basis of both defined contributions and defined benefits. Pension liabilities arising from defined-benefit plans are calculated according to the "projected unit credit method" and are usually appraised annually by independent actuaries. If the actual assets and pension liabilities differ by more than 10% from the projected values, these actuarial gains or losses are posted to income on a straight-line basis over the remaining service life of the employees covered. In the case of defined-contribution pension plans, the contributions are recorded as expenses in the period in which they are incurred.

Revenue recognition

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

Financing costs

Financing costs are recognized in the income statement.

Standards that have been published but not yet applied

As of January 1, 2007, the International Accounting Standards Board (IASB) has put into force IFRS 7 (Financial Instruments: Disclosures), Amendment to IAS 1 (Presentation of Financial Statements: Capital Disclosures) and IFRS 8 (Operating Segments). In addition, the International Financial Reporting Interpretations Committee (IFRIC) has published numerous new interpretations, which will become effective after January 1, 2007. Rieter has not adopted early any of these new provisions, and on the basis of an initial 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 necessitate additional disclosure in the notes to the consolidated financial statements.

Financial risk management

Business activities are exposed to market risks such as fluctuations in exchange rates and interest rates, as well as volatile stock market prices. These risks are monitored on the basis of risk reporting procedures.

Exchange rate risks
Risks arising from exchange rate fluctuations due to the group's global operations have an impact on the group's financial position and cash flows presented in Swiss francs. Internal forward foreign exchange contracts are concluded when the relevant underlying business transactions are entered into in order to cover transaction risks arising from operational activities. Hedging transactions are entered into with external counterparties with investment-grade international credit ratings and are posted to income at fair value.

Credit risks
Collection risks at the Textile Systems Division are usually hedged by insurance, advance payments, letters of credit or other instruments. The business relationships of the Automotive Systems Division are mostly with well-known manufacturers.

Banking relationships depend on the credit rating and range of services of the relevant institutions.

Market and interest rate risks
Balance sheet items and financial assets or liabilities are hedged against market and interest rate risks centrally at group headquarters. Forwards, options or swaps are used for this purpose.

2 Segment information by division

The group comprises two divisions: Textile Systems develops and produces machinery and integrated systems for converting natural and manmade fibers and their blends into yarns, as well as nonwovens and pelletizing machinery. Automotive Systems develops and produces components, modules and integrated systems in partnership with automotive manufacturers, in order to provide acoustic and thermal comfort in motor vehicles.

Sales[1]

CHF million	2006	2005
Textile Systems	1 400.7	1 085.4
Automotive Systems	2 179.2	2 031.4
Other units	0.0	5.2
Total	**3 579.9**	**3 122.0**

1. Excluding other operating income (2005 adjusted).

There were no material inter-divisional sales.

Operating result before special charges, interest and taxes

CHF million	2006	2005
Textile Systems	148.2	80.7
Automotive Systems	114.9	118.1
Other units, including group costs	–6.8	–3.1
Total	**256.3**	**195.7**

Special charges

CHF million	2006	2005
Textile Systems	55.5	6.0
Automotive Systems	20.2	6.7
Total	**75.7**	**12.7**

Operating result before interest and taxes (EBIT)

CHF million	2006	2005
Textile Systems	92.7	74.7
Automotive Systems	94.7	111.4
Other units, including group costs	–6.8	–3.1
Total	**180.6**	**183.0**

Assets

CHF million	2006	2005
Textile Systems[1]	848.1	834.1
Automotive Systems[1]	1 407.3	1 299.6
Other units and assets not allocated to the divisions	629.2	581.0
Total	**2 884.6**	**2 714.7**

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

Liabilities

CHF million	2006	2005
Textile Systems[1]	429.0	396.2
Automotive Systems[1]	620.1	602.4
Other units and liabilities not allocated to the divisions	460.1	453.9
Total	**1 509.2**	**1 452.5**

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

Capital expenditure on tangible and intangible assets

CHF million	2006	2005
Textile Systems	58.7	26.7
Automotive Systems	121.3	155.1
Other units	6.2	0.5
Total	**186.2**	**182.3**

Depreciation and amortization of tangible and intangible assets

CHF million	2006	2005
Textile Systems	43.4	34.0
Automotive Systems	101.1	95.7
Other units	0.5	0.7
Total	**145.0**	**130.4**

Number of employees at year-end

	2006	2005
Textile Systems	5 219	5 422
Automotive Systems	9 485	9 098
Other units	122	132
Total	**14 826**	**14 652**

Segment information by geographical region

Sales[1]

CHF million	2006	2005
Europe	1 598.0	1 438.5
Asia including Turkey	1 002.9	775.3
North America	726.0	722.1
Latin America	171.5	156.2
Africa	81.5	29.9
Total	**3 579.9**	**3 122.0**

1. Excluding other operating income (2005 adjusted).

Assets

CHF million	2006	2005
Europe	1 825.7	1 631.8
Asia including Turkey	162.2	125.2
North America	833.6	899.0
Latin America	50.8	45.5
Africa	12.3	13.2
Total	**2 884.6**	**2 714.7**

Capital expenditure on tangible and intangible assets

CHF million	2006	2005
Europe	126.6	110.3
Asia including Turkey	18.9	18.1
North America	35.7	47.0
Latin America	4.4	1.8
Africa	0.6	5.1
Total	**186.2**	**182.3**

Number of employees at year-end

	2006	2005
Europe	9 275	9 561
Asia including Turkey	1 816	1 322
North America	2 696	2 853
Latin America	943	802
Africa	96	114
Total	**14 826**	**14 652**

3 Sales

Change in sales

CHF million	2006	2005
Change in sales due to volume and price, Textile Systems	236.7	–158.6
Change in sales due to volume and price, Automotive Systems	98.9	25.8
Change in sales due to volume and price, other activities	–5.2	–0.5
Impact of acquisitions	73.2	82.9
Currency effects	54.3	35.8
Total change in sales	**457.9**	**–14.6**

4 Employee costs

CHF million	2006	2005
Wages and salaries	831.8	767.1
Social security and other personnel expenses	179.9	175.4
Total	**1 011.7**	**942.5**

5 Depreciation and amortization

CHF million	2006	2005
Tangible fixed assets	137.8	125.8
Intangible assets	7.2	4.6
Total	**145.0**	**130.4**

6 Special charges

CHF million	2006	2005
Restructuring costs	27.2	12.7
Loss on divestments	48.5	0.0
Total	**75.7**	**12.7**

The restructuring costs include cost reduction measures and transfers of production facilities from Western to Eastern Europe and relate to the Textile Systems segment with 7.0 million CHF (6.0 million CHF in 2005) and the Automotive Systems segment with 20.2 million CHF (6.7 million CHF in 2005). The loss on divestments refers exclusively to the Textile Systems segment and resulted from the divestment of the manmade fiber business (see note 24).

7 Financial income

CHF million	2006	2005
Income from marketable securities and other financial income	55.5	37.2
Interest income	6.7	5.3
Income from non-consolidated investments	1.4	1.3
Foreign exchange differences, net	1.4	0.0
Total	**65.0**	**43.8**

8 Financial expenses

CHF million	2006	2005
Interest cost	20.5	19.9
Other financial expenses and foreign exchange differences, net	0.0	1.3
Total	**20.5**	**21.2**

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

9 Income taxes

CHF million	2006	2005
Current income tax expenses	68.2	63.0
Deferred income tax expenses	–0.5	4.5
Total	**67.7**	**67.5**

Despite higher pre-tax profits in the year under review, the income tax charge was only 0.2 million CHF higher than in the previous year, resulting in a corporate tax rate of 30.1% (32.8% in 2005). The reduction in the corporate tax rate was due mainly to the improvement in the financial result.

Reconciliation of expected and actual tax expenses:

CHF million	2006	2005
Expected tax expenses on pre-tax profits of 225.1 million CHF (205.6 million CHF in 2005) at an average rate of 20.7% (21.3% in 2005)	46.7	43.8
Impact of non tax-deductible income/expenses	–11.3	–30.1
Impact of losses and loss carry-forwards	28.3	39.3
Impact of changes in tax rates and tax legislation	–0.9	–2.3
Other effects	4.9	16.8
Total	**67.7**	**67.5**

Deferred income taxes

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

CHF million	Deferred tax assets 2006	Deferred tax liabilities 2006	Deferred tax assets 2005	Deferred tax liabilities 2005
Tangible fixed assets	8.8	–41.9	2.1	–38.3
Inventories	4.4	–8.7	6.3	–9.6
Other assets	16.2	–34.8	7.1	–28.1
Provisions	8.5	–9.7	8.3	–1.2
Other liabilities	17.2	–3.9	14.6	–12.3
Valuation adjustments on deferred tax assets	–28.3		–24.8	
Tax loss carry-forwards and tax credits	12.2		16.6	
Total	39.0	–99.0	30.2	–89.5
Offsetting	–27.5	27.5	–19.6	19.6
Deferred tax assets/liabilities	**11.5**	**–71.5**	**10.6**	**–69.9**

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

CHF million	Capitalized 2006	Non Capitalized 2006	Total 2006	Total 2005
Expiry in 1–3 years	0.3	2.2	2.5	3.3
3–7 years	0.3	3.1	3.4	9.1
7 and more years	11.6	114.1	125.7	109.6
Total	**12.2**	**119.4**	**131.6**	**122.0**

10 Research and development

144.8 million CHF was spent on research and development (144.7 million CHF in 2005).

Textile Systems focused on the further development of spinning preparation and final spinning machines and components for short-staple spinning mills as well as the development of new final spinning machines. The developments are focused on improved yarn quality, increased productivity and lower consumption of electricity. In the carding, ring spinning and rotor spinning sectors, market-specific generations of machines for India and China were launched. In the nonwovens sector the spunjet process was added to the already established spunbond, spunlace and meltblown processes. The spunjet process combines the spunbond and the spunlace process and enables the commercialization of upgraded products.

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

As in the previous year, no development costs were capitalized in 2006, since the respective IFRS requirements were not met.

11 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, 2004	222.8	366.0	12.9	15.2	34.4	651.3
Reclassification	0.0	15.2	0.2	0.0	–15.4	0.0
Additions by acquisitions	51.1	41.1	1.0	2.7	0.5	96.4
Other additions	38.1	87.0	5.5	5.2	45.5	181.3
Disposals	–2.4	–3.4	–0.4	–1.0	0.0	–7.2
Depreciation	–15.4	–96.6	–7.1	–6.7	0.0	–125.8
Currency effects	11.7	25.3	0.5	0.7	1.6	39.8
Net book value at December 31, 2005	**305.9**	**434.6**	**12.6**	**16.1**	**66.6**	**835.8**
Accumulated depreciation at December 31, 2005	311.1	1 144.9	58.1	88.6	0.0	1 602.7
Cost at December 31, 2005	617.0	1 579.5	70.7	104.7	66.6	2 438.5
Reclassification	–0.5	11.5	0.1	0.1	–11.2	0.0
Additions by acquisitions	2.8	3.3	0.0	0.2	0.1	6.4
Other additions	34.2	124.4	5.0	7.9	12.0	183.5
Disposals by divestments	0.0	–2.3	0.0	–0.6	0.0	–2.9
Other disposals	–13.1	–3.1	0.0	–0.2	–1.3	–17.7
Depreciation	–15.8	–109.7	–6.1	–6.2	0.0	–137.8
Currency effects	3.3	–1.7	0.0	0.1	–1.4	0.3
Net book value at December 31, 2006	**316.8**	**457.0**	**11.6**	**17.4**	**64.8**	**867.6**
Accumulated depreciation at December 31, 2006	296.2	1 178.6	59.2	84.0	0.6	1 618.6
Cost at December 31, 2006	613.0	1 635.6	70.8	101.4	65.4	2 486.2

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

Land and buildings

CHF million	2006	2005
Land in operational use	62.3	52.4
Buildings in operational use	243.1	236.2
Non-operational property	11.4	17.3
Total	**316.8**	**305.9**

Buildings in operational use were insured at the replacement value of 1 302.2 million CHF at balance sheet date (1 265.5 million CHF in 2005) and non-operational property at the replacement value of 26.1 million CHF (32.6 million CHF in 2005).

Non-operational property

CHF million	2006	2005
Net book value at January 1	17.3	19.6
Disposals	–5.8	–2.2
Depreciation	–0.1	–0.1
Net book value at December 31	**11.4**	**17.3**
Market value at December 31	18.8	25.8

A net income value with an anticipated average gross yield of 6.4% (6.8% in 2005), less prospective taxes in the event of sale, was established as the market value of the non-operational property on the basis of estimates of future rental income calculated by the company.

12 Intangible assets

CHF million	Goodwill	Patents/ trademarks	Other intangible assets	Total intangible assets
Net book value at December 31, 2004	**140.4**	**3.8**	**1.5**	**145.7**
Additions by acquisitions	4.3	45.3	0.0	49.6
Other additions/disposals	0.0	0.1	0.9	1.0
Amortization	0.0	–4.2	–0.4	–4.6
Currency effects	6.3	0.1	0.1	6.5
Net book value at December 31, 2005	**151.0**	**45.1**	**2.1**	**198.2**
Accumulated amortization at December 31, 2005	–[1]	12.2	3.2	15.4
Cost at December 31, 2005	151.0	57.3	5.3	213.6
Disposals by divestments	–33.4	0.0	0.0	–33.4
Other additions/disposals	0.0	2.6	–1.0	1.6
Amortization	0.0	–6.7	–0.5	–7.2
Currency effects	1.3	0.5	0.0	1.8
Net book value at December 31, 2006	**118.9**	**41.5**	**0.6**	**161.0**
Accumulated amortization at December 31, 2006	–[1]	20.0	1.7	21.7
Cost at December 31, 2006	118.9	61.5	2.3	182.7

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

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

CHF million	2006	2005
Textile Systems Division	68.0[1]	99.6
Automotive Systems Division, Business Group Europe	28.9	28.0
Automotive Systems Division, Business Group Americas	22.0	23.4
Total	**118.9**	**151.0**

1. After sale of the manmade fiber activities.

The impairment test on goodwill was performed in the second half of the financial year. The recoverable amount of each cash-generating unit was determined by a value-in-use calculation. This calculation was based on mid-term financial plans approved by the Board of Directors covering a three-year period. The calculation of the residual value was based on the expected long-term growth. These growth expectations correspond to today's best estimate by the management in charge. For the value-in-use calculation future cash flows were discounted with the weighted average cost of capital of 8%. Based on the impairment tests, there was no need for recognition of any impairment in the 2006 financial year.

13 Financial assets

CHF million	2006	2005
Investments in non-consolidated companies	14.8	18.9
Long-term interest-bearing receivables	22.6	23.9
Other long-term receivables	27.3	25.0
Pension funds	47.2	47.2
Total	**111.9**	**115.0**

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

14 Inventories

CHF million	2006	2005
Raw materials and consumables	77.2	66.3
Purchased parts and goods for resale	94.5	94.2
Semi-finished and finished goods	110.4	109.3
Work in progress	200.9	156.2
Total	**483.0**	**426.0**

15 Trade receivables

CHF million	2006	2005
Trade receivables	676.9	597.9
Allowance for doubtful receivables	–22.0	–24.7
Total	**654.9**	**573.2**

16 Other receivables

CHF million	2006	2005
Prepaid expenses and deferred charges	17.6	37.0
Advance payments to customers	20.1	17.6
Other short-term receivables	82.7	70.8
Total	**120.4**	**125.4**

17 Marketable securities

CHF million	2006	2005
Securities held for trading	6.4	122.5
Securities available for sale	169.5	109.5
Total	**175.9**	**232.0**

Securities are stated at fair value, of which 4.1 million CHF (8.1 million CHF in 2005) was invested in options. These were mainly call options. 58.4% of the equity portfolio (74.8% in 2005) 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.

18 Cash and cash equivalents

CHF million	2006	2005
Cash and banks	274.9	190.1
Time deposits	23.5	8.4
Total	**298.4**	**198.5**

The majority of cash and cash equivalents are managed centrally in Swiss francs in order to limit currency risk. A group netting system and group cash pools further reduce currency exposure. Most of the bank balances held by group companies were in their local currencies. The valuation risks of the investments in foreign currencies are reviewed periodically.

19 Minority interests

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

At the end of March 2006 Rieter acquired the remaining 50% interest in the Spanish automotive supplier Rieter Saifa S.A. Rieter had cooperated with what was then Saifa-Keller since 1975 and had held a minority interest until 2003. In 2003 Rieter increased its holding to 50% and consolidated the company for the first time. Rieter Saifa generated sales of around 70 million CHF in 2006 and employs a workforce of some 200. As Rieter Saifa had already been fully consolidated before the purchase of the remaining 50% interest, the difference between the purchase price and the minority interest stated before the acquisition was credited to shareholders' equity.

In January 2005 a purchase agreement was signed for the 50% minority interest in Magee Rieter. Rieter Magee has been wholly owned by Rieter since January 12, 2005.

20 Financial debt

CHF million	less than 1 year	1 to 5 years	Maturity over 5 years	Total 2006	Total 2005
4% bonds 2001/2007	200.0	0.0	0.0	200.0	200.0
Bank debt	49.9	50.8	6.1	106.8	110.2
Finance leasing obligations	1.5	6.0	2.5	10.0	10.9
Other financial debt	8.8	0.7	0.7	10.2	12.7
Total	**260.2**	**57.5**	**9.3**	**327.0**	**333.8**

The 200.0 million CHF of 4% bonds are due for repayment on June 21, 2007. 125.0 million CHF of these bonds were issued in 2001 and 75.0 million CHF were added in 2002.

By currency, financial debt is divided up as follows:

CHF million	2006	2005
CHF	208.0	209.9
EUR	51.6	66.7
USD	33.1	29.7
Other	34.3	27.5
Total	**327.0**	**333.8**

21 Provisions

CHF million	Pension provisions	Guarantee and warranty provisions	Environment provisions	Other provisions	Total provisions
Provisions at December 31, 2005	**89.2**	**33.3**	**12.4**	**40.4**	**175.3**
Disposals by divestment	–0.8	–3.8	0.0	0.0	–4.6
Utilization	–5.6	–14.6	0.0	–5.8	–26.0
Release	–0.6	–0.2	0.0	–2.5	–3.3
Additions	10.1	13.3	0.3	7.4	31.1
Currency effects	2.3	0.2	0.0	–0.2	2.3
Provisions at December 31, 2006	**94.6**	**28.2**	**12.7**	**39.3**	**174.8**

22 Other current liabilities

CHF million	2006	2005
Accrued expenses	183.2	144.0
Sales commissions	23.7	22.9
Other short-term liabilities	125.6	120.1
Total	**332.5**	**287.0**

23 Acquisitions

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

Rieter acquired a 51% interest in the Chinese automotive supplier Tianjin Rieter Nittoku Automotive Sound-Proof Co., Ltd. as of January 1, 2006. The plant, which is operated jointly with Japanese partner Nittoku, has some 120 employees and generated sales of around 5 million CHF in 2006.

At the end of April 2006, Rieter raised its holding in the Indian automotive supplier Rieter Automotive India Pvt. Ltd. (formerly Unikeller India Pvt. Ltd.) to 100%. Previously, Rieter had held 35% in this Indian supplier of damping products. Rieter Automotive India has some 80 employees and generated sales of around 2 million CHF in 2006.

Both companies are fully consolidated as from the date of acquisition.

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

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

1. Book values were not adjusted substantially.

Initial accounting was determined provisionally. In accordance with IFRS 3, adjustments to the fair values assigned to the identifiable assets acquired and liabilities assumed can be made within 12 months of the acquisition date.

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

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

In 2005 Rieter reinforced and expanded the components business of the Textile Systems Division with two acquisitions:

Rieter acquired the remaining shares of Spindelfabrik Suessen GmbH in Germany and its subsidiary Suessen Asia Private Ltd. in India as of January 1, 2005. Rieter thus increased its equity holding from 19% to 100% and consolidated Suessen for the first time as of January 1, 2005. Suessen develops and manufactures primarily technology components for ring and rotor spinning machines and supplies these to all major machinery manufacturers as well as directly to spinning mills.

Rieter acquired the entire share capital of the Graf Group as of October 3, 2005. The Graf Group develops, manufactures and distributes card clothing, combs and clothing for combers as well as service machines for various spinning processes in the staple fiber sector. Its two largest manufacturing locations are in Switzerland and the Netherlands.

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

CHF million	Fair Value 2005	Adjustments 2005	Book value before adjustments 2005
Tangible fixed assets	96.4	13.3	83.1
Patents and trademarks	45.3	45.2	0.1
Financial assets	4.2	1.0	3.2
Inventories	43.0	2.5	40.5
Receivables	21.4		21.4
Cash and cash equivalents	6.3		6.3
Long and short-term financial debt	–29.4		–29.4
Deferred tax liabilities	–21.6	–16.7	–4.9
Provisions and other non-current liabilities	–36.2		–36.2
Other current liabilities	–30.4		–30.4
Net identifiable assets	**99.0**	**45.3**	**53.7**
Acquired cash and cash equivalents	–6.3		
Goodwill	4.3[1]		
Minority interest before assuming control	–10.3		
Purchase price settled by shares of Rieter Holding Ltd.	–10.0[2]		
Cash used for acquisitions	**76.7**		

1. The goodwill arising from the acquisitions reflects the value of expected synergies.
2. 26 148 shares of CHF 382.44.

No adjustments to these amounts determined provisionally in 2005 were necessary in 2006.

Professional fees and related costs for the acquisitions amounted to 0.1 million CHF in the year 2005.

In 2005, the acquired activities contributed 84.6 million CHF to sales and 5.6 million CHF to operating profit before interest and taxes since the acquisition date. If both acquisitions had occurred on January 1, 2005, group sales 2005 would have been some 60 million CHF higher.

24 Divestments

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

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

The assets and liabilities arising from the divestments are as follows:

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

There were no disposals of business activities in 2005.

25 Pension plan

The expense for pension plans is included in employee costs.

Defined-contribution plans

The expense for defined-contribution plans amounted to 9.5 million CHF (8.6 million CHF in 2005).

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 states of defined-benefit plans

CHF million	2006	2005
Actuarial present value of defined-benefit obligation • unfunded plans	–74.3	–71.4
• funded plans	–1 110.5	–1 016.7
Defined-benefit obligation at December 31	**–1 184.8**	**–1 088.1**
Fair value of plan assets	1 443.7	1 240.9
Surplus	**258.9**	**152.8**
Unrecognized actuarial gains and losses	17.2	26.3
Unrecognizable assets of pension plans (due to limit of IAS 19.58)	–297.0	–196.6
Net asset/(liability) at December 31	**–20.9**	**–17.5**
Recognized in the balance sheet • as assets	60.4	61.3
• as pension provisions	–81.3	–78.8

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

CHF million	2006	2005
Defined-benefit obligation at January 1	**1 088.1**	**934.6**
Current service cost, net	19.1	11.7
Interest cost	32.9	32.4
Employee contributions	8.9	6.1
Actuarial gains/losses	82.4	45.7
Past service cost	0.1	1.0
Benefits paid	–44.6	–42.2
Liabilities acquired in a business combination	0.0	89.5
Currency effects	–2.1	9.3
Defined-benefit obligation at December 31	**1 184.8**	**1 088.1**

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

CHF million	2006	2005
Fair value of plan assets at January 1	**1 240.9**	**1 010.7**
Expected return on plan assets	46.3	36.8
Actuarial gains/losses	174.5	132.0
Employer contributions	21.4	20.2
Employee contributions	8.9	6.1
Benefits paid	–44.6	–42.2
Assets acquired in a business combination	0.0	69.9
Currency effects	–3.7	7.4
Fair value of plan assets at December 31	**1 443.7**	**1 240.9**

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

in %	2006	2005
Equity	54	57
Debt	17	13
Real estate	20	25
Other	9	5

Pension plan assets included 71 000 Rieter shares with a market value of 45.3 million CHF (86 092 shares with a market value of 33.6 million CHF in 2005) and loans to group companies of 0.3 million CHF (0.3 million CHF in 2005).

Pension costs of defined-benefit plans

CHF million	2006	2005
Current service cost, net	19.1	11.7
Interest cost	32.9	32.4
Expected return on plan assets	–46.3	–36.8
Recognized actuarial gains/losses	–84.0	–96.3
Impact of limit of IAS 19.58	86.2	98.6
Pension costs of defined-benefit plans	**7.9**	**9.6**

The group expects to contribute 20 million CHF to its defined-benefit pension plans in 2007. The actual return on plan assets was 220.8 million CHF (168.8 million CHF in 2005).

Actuarial assumptions

Weighted average in %	2006	2005
Discount rate	3.0	3.5
Expected return on plan assets	3.8	4.2
Future wage growth	2.1	1.6
Future pension growth	1.7	1.0

Additional disclosure

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

26 Share-based payments

Rieter has established a share purchase plan for its managers. Between May 8 and June 30, 2006, 73 participants purchased 10709 shares at a price of 351.00 CHF per share (15 053 shares at 267.00 CHF in 2005). The average market value of shares granted was 474.88 CHF (349.90 CHF in 2005). 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 (BoD) and the Group Executive Committee (GEC) could subscribe to one additional free option for each share which was purchased and subject to restrictions on sale under the above plan. Each option entitles the holder to purchase a share after two years at a price of 501.00 CHF (381.85 CHF in 2005). There are no vesting conditions.

The estimated fair value of each share option granted to the members of the Group Executive Committee in 2006 is 47.43 CHF. That for the share option granted to the members of the Board of Directors is 97.40 CHF. These values were calculated by applying an adapted model of the Black-Scholes option pricing model. The following parameters have been used:

		Share options to the GEC	**Share options to the BoD**
Share price on the date granted	CHF	474.75	580.00
Exercise price	CHF	501.00	501.00
Expected volatility (based on historical data)	%	21.50	21.50
Option life	Years	5	5
Risk-free interest rate	%	2.40	2.30
Dividend yield	%	2.40	2.00

Change in options granted

	Number of options 2006	**Weighted average exercise price in CHF 2006**	**Number of options 2005**	**Weighted average exercise price in CHF 2005**
Outstanding at January 1	**15 678**	**338.57**	**18 311**	**350.87**
Granted	3 379	501.00	3 513	381.85
Expired	0	0.00	–2 824	471.50
Exercised	–11 683	329.45	–3 322	339.16
Outstanding at December 31	**7 374**	**427.44**	**15 678**	**338.57**
Exercisable at December 31	**482**	**244.00**	**8 309**	**329.74**

The share options outstanding at December 31, 2006, had an exercise price between 244.00 CHF and 501.00 CHF and a weighted average contractual life of 3.92 years.

In 2006 the costs resulting from the share purchase plan amounted to 1.3 million CHF (1.2 million CHF in 2005). The costs resulting from the share option plan amounted to 0.2 million CHF (0.1 million CHF in 2005).

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

27 Related parties

The members of the Board of Directors receive a fixed annual remuneration. The directors received 1 231 Rieter registered shares and options in the 2006 financial year in the context of the share purchase plan (1 462 shares in 2005). None of the shares allotted to the directors in the context of the share purchase plan can be resold for three years. The cash remuneration of the Board of Directors in the 2006 financial year totalled 0.8 million CHF (0.8 million CHF in 2005).

Remuneration totaling 3.8 million CHF was disbursed to the members of the Group Executive Committee for the 2006 financial year (3.6 million CHF in 2005). This sum comprises the basic salary (including employer's contributions to the pension fund, excluding employer's contributions to state social security funds), the deferred bonus for 2006 and the discount on Rieter shares purchased in 2006. In the context of the share purchase plan (see note 26) 2 148 Rieter shares and options were allotted (3 513 shares and options in 2005).

28 Other commitments

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

CHF million	**2006**	**2005**
up to 1 year	9.8	8.7
1–5 years	18.3	16.3
5 and more years	3.1	2.9
Total	**31.2**	**27.9**

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

29 Cash flow

CHF million	2006	2005
Net profit	157.4	138.1
Depreciation and amortization of tangible and intangible assets	145.0	130.4
Loss on divestments	48.5	0.0
Other non-cash income and expenses	–21.3	–11.6
Cash flow	**329.6**	**256.9**
Change in provisions	5.6	3.8
Net cash flow	**335.2**	**260.7**
Change in net working capital	–82.6	–17.9
Capital expenditure on tangible and intangible assets, net	–153.5	–161.4
Change in financial assets, net	7.7	–6.1
Acquisitions	–3.9	–76.7
Divestments	–2.3	0.0
Free cash flow	**100.6**	**–1.4**

30 Net liquidity

CHF million	2006	2005
Cash and cash equivalents	298.4	198.5
Marketable securities	175.9	232.0
Bonds issued	–200.0	–200.0
Other short-term financial debt	–60.2	–69.0
Other long-term financial debt	–66.8	–64.8
Net liquidity	**147.3**	**96.7**

31 Exchange rates for currency translation

in CHF		Average annual rates 2006	Average annual rates 2005	Year-end rates 2006	Year-end rates 2005
Argentina	1 ARS	0.41	0.43	0.40	0.44
Brazil	1 BRL	0.58	0.52	0.57	0.57
Canada	1 CAD	1.10	1.03	1.05	1.13
China	100 CNY	15.71	15.21	15.62	16.34
Czech Republic	100 CZK	5.55	5.20	5.84	5.37
Euro countries	1 EUR	1.57	1.55	1.61	1.56
Great Britain	1 GBP	2.31	2.26	2.39	2.27
Hong Kong	100 HKD	16.13	16.02	15.65	17.00
India	100 INR	2.77	2.83	2.76	2.93
Poland	100 PLN	40.40	38.52	42.00	40.35
Taiwan	100 TWD	3.85	3.87	3.74	4.00
USA	1 USD	1.25	1.25	1.22	1.32

32 Approval for publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Board of Directors on March 20, 2007. They are also subject to approval by the Annual General Meeting of shareholders. No events have occurred up to March 20, 2007, 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, 2006

			Paid-in capital	Group interest	Research & development	Sales/trading	Production	Services/financing
Argentina	Rieter Automotive Argentina S.A., Córdoba	ARS	7 070 000	95%		•	•	
Belgium	Rieter Automotive Belgium N.V., Genk	EUR	1 797 228	100%		•	•	
Brazil	Rieter Automotive Brazil-Artefatos de Fibras Texteis Ltda., São Bernardo d.C.	BRL	35 107 344	100%	•	•	•	
	Rieter South America Ltda., São Paulo	BRL	2 172 653	100%		•		
	Graf Maquinas Ltda., São Paulo	BRL	10 220 000	100%		•	•	•
Canada	Rieter Automotive Mastico Ltd., Tillsonburg	CAD	381 000	100%	•	•	•	
	Rieter Magee Automotive Systems Canada, London		[2]	100%		•	•	
China	Rieter Changzhou Textile Instruments Co. Ltd., Changzhou	EUR	10 000 000	100%			•	
	Rieter Nittoku (Guangzhou) Automotive Sound-Proof Co. Ltd., Guangzhou City	USD	9 250 000	51%		•	•	
	Rieter Textile Systems (Shanghai) Co. Ltd., Schanghai	USD	200 000	100%		•		
	Rieter Asia (Hong Kong) Ltd., Hongkong	HKD	1 000	100%		•		
	Tianjin Rieter Nittoku Automotive Sound-Proof Co. Ltd.	USD	5 700 000	51%		•	•	
France	Rieter Automotive France SAS, Aubergenville	EUR	8 000 000	100%	•	•	•	
	Rieter Perfojet SAS, Grenoble	EUR	1 033 600	100%	•	•	•	•
	Rieter France SAS, Lyon	EUR	39 852 500	100%				•
	Graf France Sàrl, Illzach	EUR	150 000	100%		•		•
Germany	Rieter Ingolstadt Spinnereimaschinenbau AG, Ingolstadt	EUR	12 273 600	100%	•	•	•	•
	Rieter Automotive Germany GmbH, Rossdorf	EUR	11 248 421	100%	•	•	•	
	Rieter Automatik GmbH, Grossostheim	EUR	7 158 086	100%	•	•	•	•
	Rieter Vertriebs GmbH, Ingolstadt	EUR	15 338 756	100%		•		•
	Rieter Deutschland GmbH & Co. OHG, Ingolstadt	EUR	15 645 531	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%		•		•
Great Britain	Rieter Automotive Great Britain, Ltd., Heckmondwike	GBP	15 818 461	100%	•	•	•	
India	Lakshmi Machine Works Ltd., Coimbatore[1]	INR	123 692 500	13%	•	•	•	•
	Rieter-LMW Machinery Ltd., Perianaickenpalayam	INR	250 000 000	50%			•	
	Suessen Asia Private Ltd., Wing	INR	409 900 000	100%		•	•	
	Rieter India Pvt. Ltd., New Delhi	INR	10 000 000	100%		•		
	Rieter Automotive India Pvt. Ltd., Gurgaon	INR	18 441 670	100%		•	•	
Italy	Rieter Automotive Fimit S.p.A., Mailand	EUR	8 400 000	100%	•	•	•	
	Rieter Italiana S.r.l., Mailand	EUR	46 800	100%		•		
	Idea Institute S.p.A., Turin	EUR	3 500 000	100%	•			•
	Graf Italia S.r.l., Bergamo	EUR	500 000	100%		•	•	•

			Paid-in capital	Group interest	Research & development	Sales/trading	Production	Services/financing
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%	•	•	•	
Netherlands	Rieter Automotive Nederland B.V., Weert	EUR	2 042 010	100%		•	•	
	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%				•
	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%	•	•	•	•
	Rieter Automotive Heatshields AG, Sevelen	CHF	250 000	100%	•	•	•	
	Rieter Automotive Management AG, Winterthur	CHF	1 300 000	100%	•			•
	Rieter Automotive (International) AG, Winterthur	CHF	1 300 000	100%				•
	Tefina Holding AG, Zug	CHF	5 000 000	100%				•
	Sofima AG, Winterthur	CHF	1 000 000	100%				•
	Bräcker AG, Pfäffikon	CHF	1 000 000	100%	•	•	•	•
	Rieter Immobilien AG, Winterthur	CHF	2 000 000	100%				•
	Rieter Services AG, Winterthur	CHF	3 000 000	100%				•
Spain	Rieter Saifa S.A., Barcelona	EUR	847 410	100%	•	•	•	
	Graf España S.A., Santa Perpètua de Mogoda	EUR	601 012	100%		•	•	•
Taiwan	Rieter Asia (Taiwan) Ltd., Taipeh	TWD	5 000 000	100%		•		
Turkey	Rieter Textile Machinery Trading & Services Ltd., Levent	TRY	25 000	69%				•
	Rieter Erkurt Otomotive Yan Sanayi ve Ticaret AS, Bursa	TRY	700 000	51%	•	•	•	
USA	Rieter Automotive North America, Inc., Farmington Hills	USD	1 000	100%	•	•	•	
	Rieter Corporation, Spartanburg	USD	1 249	100%		•		
	Graf Metallic America Inc., Spartanburg	USD	50 000	100%		•		•
	UGN, Inc., Chicago	USD	1 000 000	50%	•	•	•	
	Magee Rieter Automotive Systems, Bloomsburg	USD	[2]	100%	•	•	•	
	Rieter America Corporation, Farmington Hills	USD	1	100%				•

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

Report of the group auditors

PricewaterhouseCoopers

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

As auditors of the group, we have audited the consolidated financial statements (income statement, balance sheet, statement of cash flows, changes in equity and notes on pages 60 to 93) of Rieter Holding Ltd. for the year ended December 31, 2006.

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

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

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

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

PricewaterhouseCoopers AG

Christian Kessler	Nicolas Mayer
Auditor in charge	

Zurich, March 21, 2007

Income statement of Rieter Holding Ltd.

for the financial year from January 1 to December 31

CHF million	Notes	2006	2005
Income			
Income from investments	(1)	72.9	92.3
Income from marketable securities and interest income	(2)	54.5	46.0
Other income	(3)	10.9	8.9
Total income		**138.3**	**147.2**
Expenses			
Financial expenses	(4)	14.1	11.8
Administration expenses		4.6	4.1
Value adjustments, provisions	(5)	56.2	82.0
Total expenses		**74.9**	**97.9**
Net profit		**63.4**	**49.3**

Balance sheet of Rieter Holding Ltd.

at December 31, before appropriation of profit

CHF million	Notes	2006	2005
Assets			
Investments in and loans to subsidiaries	(6)	648.7	586.2
Non-current assets		**648.7**	**586.2**
Accrued income and prepayments	(7)	1.6	2.6
Receivables from third parties	(8)	2.7	2.7
Receivables from subsidiaries	(9)	100.2	43.2
Receivables		**104.5**	**48.5**
Liquid funds	(10)	216.7	198.1
Current assets		**321.2**	**246.6**
Total assets		**969.9**	**832.8**
Shareholders' equity and liabilities			
Share capital		22.3	22.3
Legal reserves			
• General reserve	(11)	27.5	27.5
• Reserve for own shares	(12)	8.6	0.2
Other reserves	(13)	270.9	272.8
Retained earnings	(14)		
• Balance brought forward		29.3	21.5
• Net profit for the year		63.4	49.3
Shareholders' equity		**422.0**	**393.6**
Bonds	(15)	0.0	200.0
Provisions	(16)	11.3	11.3
Non-current liabilities		**11.3**	**211.3**
Short-term liabilities	(17)	329.0	223.0
Bonds	(15)	200.0	0.0
Accrued liabilities	(18)	7.6	4.9
Current liabilities		**536.6**	**227.9**
Liabilities		**547.9**	**439.2**
Total shareholders' equity and liabilities		**969.9**	**832.8**

Notes to the financial statements of Rieter Holding Ltd.

1 Income from investments

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

2 Income from marketable securities and interest income

This position showed an increase as a result of higher income from marketable securities.

3 Other income

The contractually agreed compensation payments by group companies increased due to higher sales.

4 Financial expenses

The cost of interest payable to the cash pool increased, while interest on bond issues remained unchanged.

5 Value adjustments, provisions

The value adjustment for general business risks was increased by 56.2 million CHF and deducted from investments in and loans to subsidiaries.

6 Investments in and loans to subsidiaries

The main subsidiaries and associated companies are listed on pages 92 and 93. These investments are held directly or indirectly by Rieter Holding Ltd. The increase in investments was mainly due to the acquisition of the remaining 50% interest in the Spanish automotive supplier Rieter Saifa S.A. In the year under review some loans to subsidiaries were also converted into equity capital.

CHF million	2006	2005
Investments in subsidiaries	221.0	205.3
Loans to subsidiaries	427.7	380.9
Total	**648.7**	**586.2**

7 Accrued income and prepayments

Accrued income and prepayments include accrued interest income on bond holdings and loans granted, as well as prepaid financing costs.

8 Receivables from third parties

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

9 Receivables from subsidiaries

Current account credits or advances on market terms and conditions are granted in the context of central cash management.

10 Liquid funds

CHF million	2006	2005
Cash and cash equivalents	124.1	52.9
Marketable securities	92.6	145.2
Total	**216.7**	**198.1**

11 General reserve

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

12 Reserve for own shares

Shares held by all group companies

	Number
Registered shares held at January 1, 2006	10 582
Purchases January–December 2006 (average price CHF 507.33)	144 528
Sales January–December 2006 (average price CHF 526.55)	139 596
Registered shares held at December 31, 2006	15 514

A reserve for own shares has been made at an acquisition cost of 8.6 million CHF. This amount was deducted from other reserves.

13 Other reserves

CHF million	2006	2005
Opening balance	272.8	253.0
Transfer to reserve for own shares	–8.4	1.5
Premium received on shares issued	6.5	18.3
Total	**270.9**	**272.8**

In connection with share-based payments to managers in the year under review, 15 000 share were taken from the holding at the disposal of the Board of Directors.

14 Retained earnings

Including the balance brought forward, the Annual General Meeting has a total of 92.7 million CHF at its disposal (70.8 million CHF in 2005).

15 Bonds

CHF million	2006	2005
4% bonds maturing 2007	200.0	200.0
Total	**200.0**	**200.0**

The 200 million CHF of 4% bonds are due for repayment on June 21, 2007 (securities code No. 1236261; Reuters: CH 1236261 = S). In 2006 they were therefore transferred from non-current liabilities to current liabilities.

16 Provisions

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

17 Short-term liabilities

CHF million	2006	2005
Liabilities to group companies	328.2	222.3
Liabilities to third parties	0.8	0.7
Total	**329.0**	**223.0**

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

18 Accrued liabilities

These consist mainly of accrued interest on the bond issue and accruals for forward foreign exchange contracts.

19 Guarantees to third parties

CHF million	2006	2005
Guarantees	2.9	1.2

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

20 Shareholders

At December 31, 2006, there were no major groups of shareholders with holdings exceeding 5% of all voting rights (pursuant to Art. 663c of the Swiss Code of Obligations).

Rieter Holding Ltd. held 15 514 of its own shares directly or indirectly at December 31, 2006 (10 582 shares in 2005).

Proposal of the Board of Directors

for the appropriation of profit (2006 financial year)

CHF	2006	2005
Net profit for the year	63 433 667	49 267 303
Retained earnings brought forward from previous year	29 259 638	21 517 755
Retained earnings at the disposal of the Annual General Meeting	**92 693 305**	**70 785 058**
Proposal		
Dividend on registered shares[1]	62 847 840	41 525 420
Retained earnings	29 845 465	29 259 638
Retained earnings at the disposal of the Annual General Meeting	**92 693 305**	**70 785 058**

1. The total dividend amount in 2006 covers all shares eligible for dividend. As there is no dividend payment for shares held in treasury, the actual total dividend payment may differ by the dividend amount for treasury shares, as in the previous year.

Upon approval of this proposal by the Annual General Meeting, a dividend for the 2006 financial year of 15.00 CHF will be paid on each registered share of 5.00 CHF p.v. on May 18, 2007. The dividend, less Swiss withholding tax, amounts to 9.75 CHF and will be paid into the bank or postal account specified by the holder of the shares.

Report of the statutory auditors

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

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes on pages 95 to 102 and pages 92 and 93) of Rieter Holding Ltd. for the year ended December 31, 2006.

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

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

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

Christian Kessler
Auditor in charge

Nicolas Mayer

Zurich, March 21, 2007

Review 2002 to 2006

Consolidated income statement

		2006	2005	2004	2003	2002
Sales[1]	CHF million	3 579.9	3 122.0	3 136.6	3 086.2	2 945.1
• Europe	CHF million	1 598	1 439	1 448	1 443	1 304
• Asia (incl. Turkey)	CHF million	1 003	775	875	792	684
• North America	CHF million	726	722	674	695	793
• Latin America	CHF million	172	156	97	95	120
• Africa	CHF million	81	30	43	61	44
Corporate output[1]	CHF million	3 447.5	3 035.6	3 018.0	2 959.2	2 841.1
Operating result before interest, taxes, depreciation and amortization (EBITDA)	CHF million	325.6	313.4	343.1	332.7	322.5
• in % of corporate output		9.4	10.3	11.4	11.2	11.4
Operating result before interest and taxes (EBIT)	CHF million	180.6	183.0	210.5	202.4	200.9
• in % of corporate output		5.2	6.0	7.0	6.8	7.1
Net profit[2]	CHF million	157.4	138.1	137.8	116.0	83.8
• in % of corporate output		4.6	4.5	4.6	3.9	2.9

Consolidated balance sheet

		2006	2005	2004	2003	2002
Non-current assets	CHF million	1 152.0	1 159.6	944.5	982.4	990.1
Current assets	CHF million	1 732.6	1 555.1	1 545.5	1 344.5	1 233.5
Shareholders' equity before appropriation of profit	CHF million	1 320.5	1 192.2	1 069.8	918.0	873.3
Minority interests	CHF million	54.9	70.0	77.8	79.6	66.6
Non-current liabilities	CHF million	318.1	515.0	498.9	515.3	494.7
Current liabilities	CHF million	1 191.1	937.5	843.5	814.0	789.0
Total assets	CHF million	2 884.6	2 714.7	2 490.0	2 326.9	2 223.6
Shareholders' equity (%)		47.7	46.5	46.1	42.9	42.3

Consolidated statement of cash flows[3]

		2006	2005	2004	2003	2002
Cash provided by operations	CHF million	252.6	242.8	338.1	197.5	240.4
Cash used for investing activities	CHF million	–84.9	–322.8	–120.2	–129.5	–80.5
Cash used for financing activities	CHF million	–67.5	–123.0	20.3	–75.6	–135.2
Net cash flow	CHF million	335.2	260.7	268.4	245.5	172.9
Free cash flow	CHF million	100.6	–1.4	215.2	86.2	100.2
Number of employees at year-end		**14 826**	**14 652**	**13 557**	**13 316**	**12 983**

1. Excluding other operating income (previous years adjusted).
2. Net profit before deduction of minority interests.
3. See pages 62 and 90.

Information for investors

		2006	2005	2004	2003	2002
Share capital	CHF million	22.3	22.3	22.3	22.8	22.8
Net profit of Rieter Holding Ltd.	CHF million	63.4	49.3	43.7	36.6	31.1
Gross distribution	CHF million	62.8[1]	41.5	41.2	34.0	35.8
Payout ratio (as a % of net profit)[2]	in %	43	33	33	33	52
Market capitalization (December 31)	CHF million	2 661	1 624	1 361	1 214	1 180
Market capitalization as a % of						
• sales	in %	74	52	43	39	40
• equity attributable to Rieter shareholders	in %	202	136	127	132	135

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

Data per share (RIEN)

			2006	2005	2004	2003	2002
Share prices on the SWX Swiss Exchange, registered shares	high	CHF	641	393	350	290	404
	low	CHF	387	328	293	237	275
Price/earnings ratio	high		18.0	12.8	11.3	11.3	23.8
	low		10.9	10.6	9.4	9.2	16.2
Shareholders' equity (group) per registered share		CHF	316.34	286.29	260.37	230.42	214.50
Tax value per registered share		CHF	637.50	390.00	330.00	286.00	278.00
Gross distribution per registered share		CHF	15.00[1]	10.00	10.00	8.60	8.60
Gross yield on registered shares	high	in %	2.3[1]	2.5	2.9	3.0	2.1
	low	in %	3.9[1]	3.0	3.4	3.6	3.1
Earnings per share		CHF	35.53	30.80	31.04	25.68	16.95

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

Additional information for shareholders

Capital structure

At the end of 2006 6 429 shareholders were entered in the shareholders' register of Rieter Holding Ltd. (6 757 in the previous year). The analysis of shareholders is as follows:

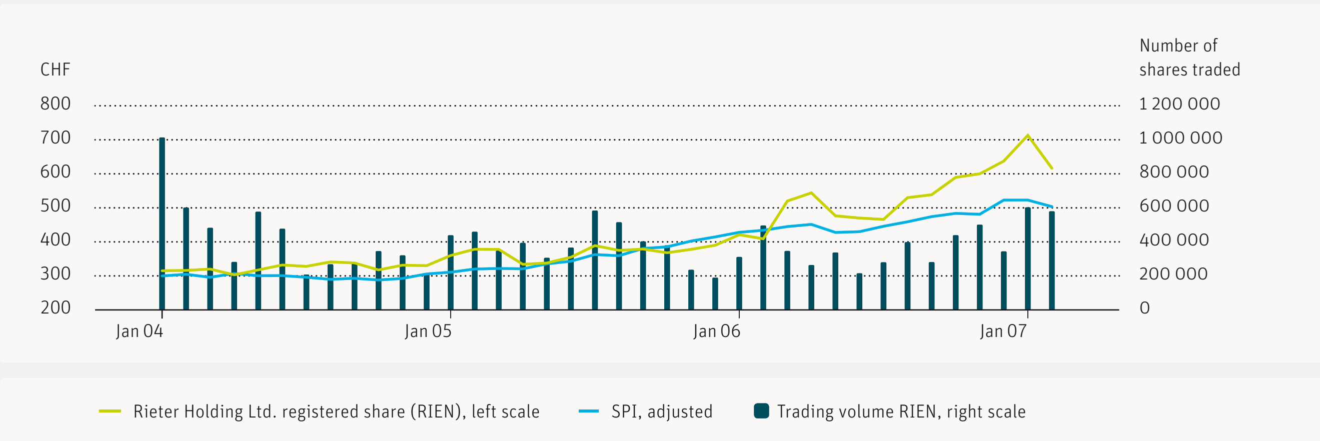
Registered shareholders

	2006 shares in %	2006 holders in %	2005 shares in %	2005 holders in %
Total:				
• Individuals	12.3	90.7	15.4	90.8
• Legal entities	54.6	9.3	53.5	9.2
• Floating shares	33.1	–	31.1	–
Foreign investors:				
• Individuals	0.8	5.9	1.0	6.0
• Legal entities	25.9	1.6	23.3	1.0

Rieter registered shares at December 31, 2006 (listed on the Swiss Stock Exchange SWX)

	Number	
Securities code 367144 (Investdata: RIEN; Reuters: RITZN)		
Share capital	4 450 856	registered shares of 5.00 CHF p.v.
Share capital eligible for dividend	4 189 856	• including 15 436 shares held by Rieter Holding Ltd. • including 78 shares held by group companies
Conditional share capital	396 312	registered shares

Share price development 2004–2007



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

March 2007

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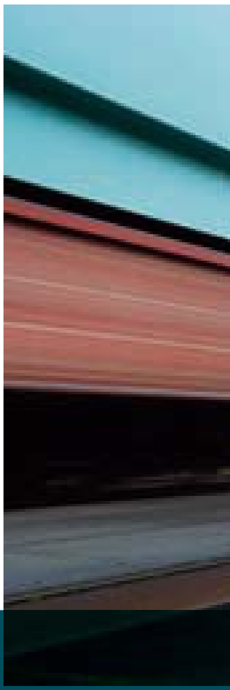

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