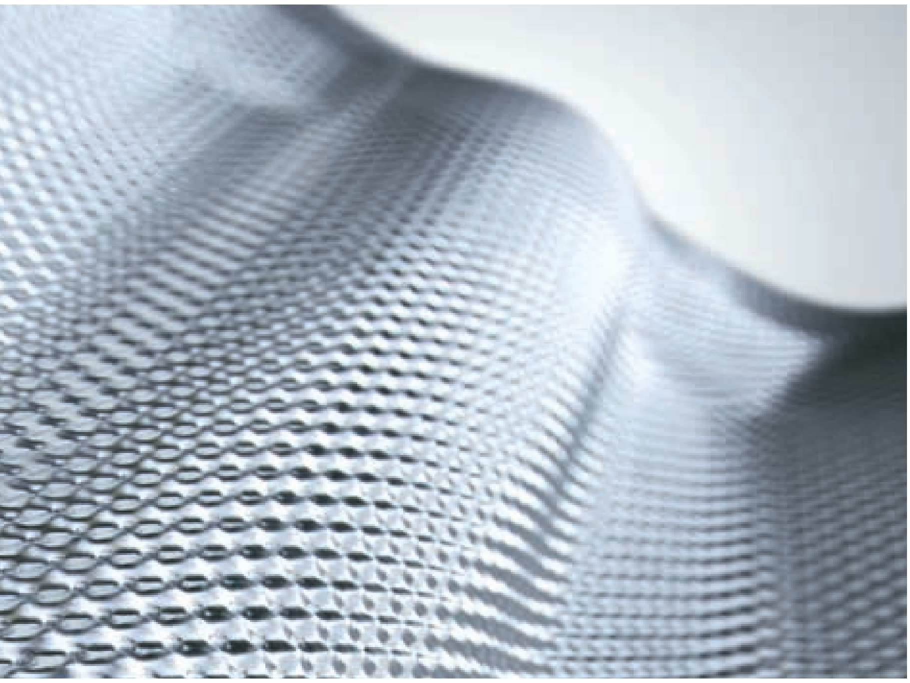
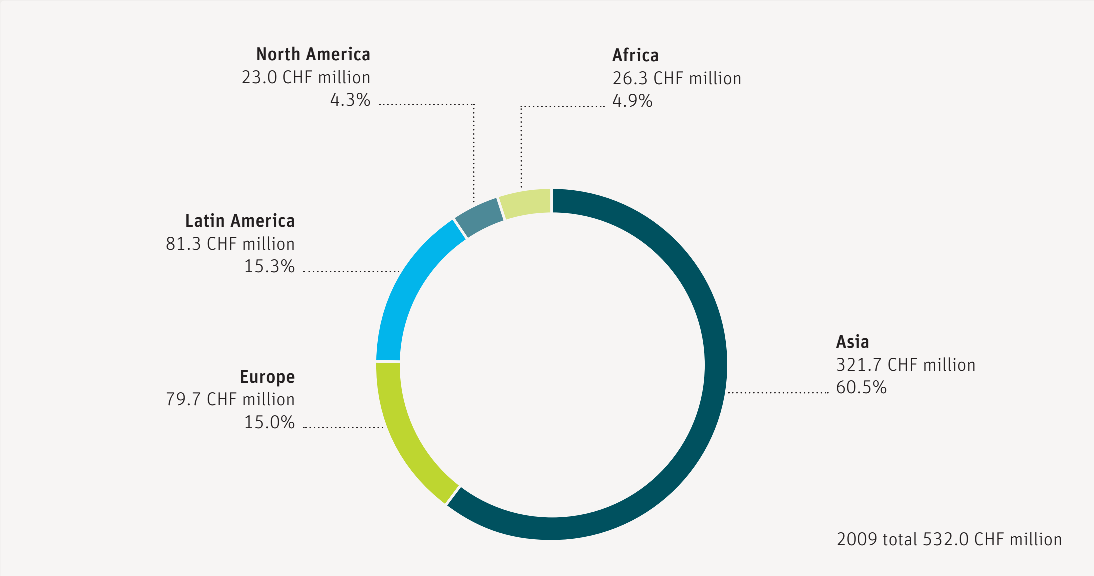


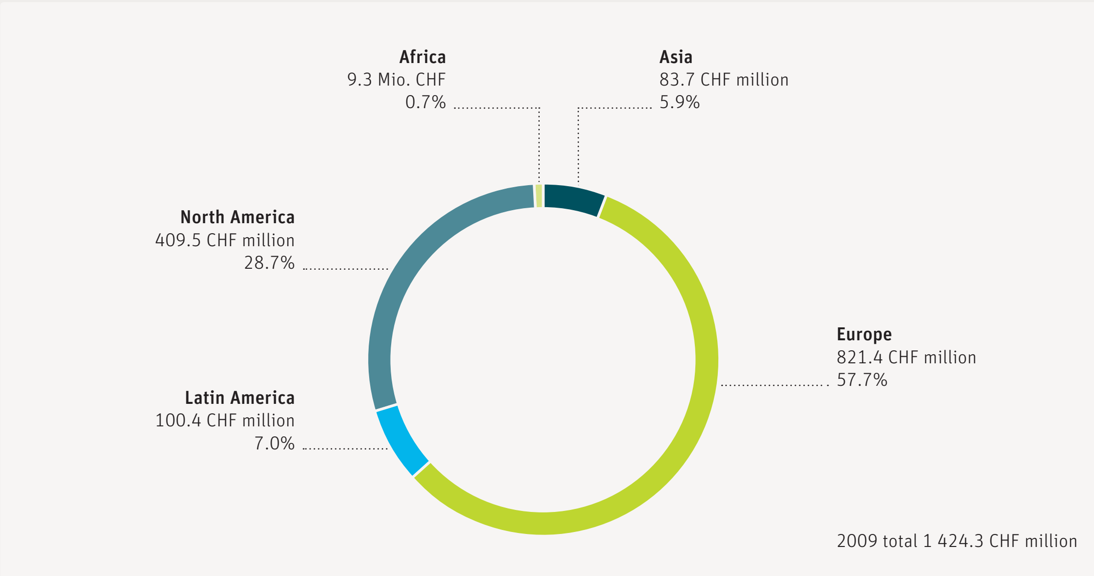
Annual Report 2009

Sales by geographical region 2009

Rieter Textile Systems



Rieter Automotive Systems



Group report

Financial report

The Rieter Group

Rieter is an industrial group based in Winterthur, Switzerland, and operating on a global scale. Formed in 1795, the company is a leading supplier to the textile and automotive industries. Since it was established, Rieter's innovative momentum has been a powerful driving force for industrial progress. Products and solutions are ideally tailored to its customers' needs and are increasingly also produced in customers' markets. Rieter has a presence in some 20 countries with nearly 70 manufacturing facilities and has a total worldwide workforce of 12 700 employees, some 13% of whom are based in Switzerland.

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

The company comprises two divisions: Textile Systems and Automotive Systems.

Rieter Textile Systems

Rieter Textile Systems develops and produces machinery, systems and components for manufacturing yarns from natural and man-made fibers and their blends. Rieter is a leading supplier of integrated installations for short staple spinning mills, from the spinning preparation stage to the final spinning process as well as of the technology components and service offerings. Therefore, Rieter can develop optimal solutions for customers not least a comprehensive consulting service from planning to operation of spinning mills. A global presence in the large emerging markets such as China and India is an essential success factor. In 2009 the Textile Systems Division posted sales of 532.0 million CHF, equivalent to 27% of total group sales, with 4 086 employees.

Rieter Automotive Systems

Rieter Automotive Systems is the leading global manufacturer of systems for acoustic comfort and thermal management in motor vehicles. The Division develops and manufactures components, modules and total systems for the passenger, trunk and engine compartments, as well as heat protection and aerodynamic underbody solutions. The Automotive Systems' customers include all the world's major automotive manufacturers. Rieter Automotive Systems produces at locations in Europe, North and South America, South Africa, Turkey, China and India. The Division operates a global network of Development and Acoustic Centers close to its customers as well as a central research center in Winterthur, Switzerland. In 2009 the Automotive Systems Division posted sales of 1 424.3 million CHF, equivalent to 73% of total group sales, with 8 600 employees.

Financial highlights

CHF million		2007	2008	2009	2009/2008 Change in %
Rieter Group					
Orders received		4 066.4	2 561.6	1 935.1	– 24
Sales		3 930.1	3 142.5	1 956.3	– 38
Corporate output[1]		3 822.8	2 971.7	1 846.5	– 38
Operating result before special charges, interest and taxes		286.8	22.4	– 186.6	
• in % of corporate output		7.5	0.8	– 10.1	
Operating result before interest and taxes (EBIT)		278.7	– 312.1	– 186.6	
• in % of corporate output		7.3	– 10.5	– 10.1	
Net result		211.5	– 396.7	– 217.5	
• in % of corporate output		5.5	– 13.3	– 11.8	
Cash flow[2]		360.2	– 102.4	– 93.0	
• in % of corporate output		9.4	– 3.4	– 5.0	
Investments in tangible fixed assets and intangible assets		203.5	140.9	61.7	– 56
Total assets		2 847.4	2 088.9	1 814.1	– 13
Shareholders' equity before appropriation of profit		1 369.5	746.2	655.8	– 12
Number of employees at year-end[3]		15 506	14 183	12 761	– 10
Divisions					
Sales Textile Systems		1 566.8	1 120.4	532.0	– 53
Operating result before interest and taxes (EBIT) Textile		200.7	– 49.5	– 73.6	
• in % of corporate output Textile Systems		13.1	– 4.9	– 15.8	
Sales Automotive Systems		2 363.3	2 022.1	1 424.3	– 30
Operating result before interest and taxes (EBIT) Automotive		91.6	– 251.0	– 105.1	
• in % of corporate output Automotive Systems		4.0	– 12.8	– 7.6	
Rieter Holding Ltd.					
Share capital		22.3	21.4	23.4	
Net profit		67.4	2.9	1.0	
Gross distribution		57.1	0.0	0.0[4]	
Number of registered shares, paid-in		4 450 856	4 283 056	4 672 363	
Average number of registered shares outstanding		4 092 265	3 822 929	4 392 808	15
Price per share (high/low)	CHF	717/478[5]	505/151[5]	270/95[5]	
Number of registered shareholders on December 31		7 091	8 519	8 400	– 1
Market capitalization on December 31		1 965.7	650.9	1 084.5	67
Data per registered share					
Earnings per share	CHF	48.19	– 106.18	– 50.96	
Equity (group)[6]	CHF	332.86	181.25	126.42	– 30
Gross distribution (Rieter Holding Ltd.)	CHF	15.00	0.00	0.00[4]	

1. Sales, adjustments for sales deductions and own work capitalized and changes in inventories of products manufactured by the company (see page 30).
2. Net result plus depreciation and amortization (see page 62).
3. Excluding apprentices and temporary employees.
4. Proposed by the Board of Directors (see page 77).
5. Source: Bloomberg.
6. Shareholders' equity attributable to shareholders of Rieter Holding Ltd. per share outstanding at December 31.

Severe test faced successfully in the 2009 financial year

Erwin Stoller
Chairman of the Board of Directors

This E. Schneider
Vice-Chairman of the Board of Directors

Dear shareholder

The impact of the economic and financial crisis was a dominant feature of the 2009 financial year for the Rieter Group. The unfavorable market conditions had an adverse influence on the trend of business at both divisions, and resulted in a substantial net loss. Despite a drastic slump in sales in the past two financial years totaling 1 973.8 million CHF – equivalent to some 50% – Rieter successfully defended its strong market position in the textile machinery and automotive component supply businesses. The difficult overall conditions subjected the group as a whole to a severe test. Rieter faced it successfully thanks to the strenuous efforts of management and personnel as well as thanks to the confidence of the shareholders. By focusing at an early stage on bolstering equity capital and managing liquidity, Rieter had a strong balance sheet with a sound equity ratio and positive net liquidity at year-end.

New orders received and sales by the group fell steeply in the year under review, but a slight recovery in the markets became apparent in the second half of the year. Rieter believes that activity in both sectors in which the group operates bottomed out before mid-2009. In the year under review Rieter made progress with the sustained improvement of its cost structure through restructuring and also took advantage of numerous opportunities for short-term cost economies. These measures in conjunction with improved capacity utilization due to higher volumes enabled the Rieter Group in the second semester to significantly reduce losses at operating and group level in the second half of 2009 compared to the first six months.

Investments in innovations and market development were reviewed against the backdrop of customers' restraint and prioritized to enable the projects of greatest strategic importance to be implemented nevertheless. With a strong market position and attractive products Rieter is thus well placed to benefit from the next upswing.

Decline in order intake and sales

Due to the unfavorable market environment, which affected the first half in particular, orders received by the Rieter Group in the 2009 financial year as a whole were 24% lower at 1 935.1 million CHF. Order intake in the second six months was 9% higher than in the same period of the previous year and 30% higher than in the first half of 2009. This positive trend was attributable to a significant increase in orders received by both divisions. Over the year as a whole group sales fell more steeply than orders received. They were 38% lower (35% lower in local currencies) at 1 956.3 million CHF. In the second half of 2009 this figure was 21% lower than in the same period of the previous year and 17% higher than in the first half of 2009.

Significantly reduced losses in the second half of 2009

Rieter had already initiated extensive programs to cut costs and realign structures and processes in both divisions in summer 2008. Rieter continued these efforts with top priority in the year under review. Employee costs and operating expenses in particular were reduced substantially, thus the first successes in lowering the break-even point have become apparent. Initial positive effects of these programs in conjunction with strict cost discipline became apparent in the second half of 2009: after an operating result before special charges amounting to – 136.5 million CHF was posted in the first half of 2009, this figure improved in the second half to – 50.1 million CHF. For the year as a whole the operating result before interest and taxes (EBIT) amounted to – 186.6 million CHF (+ 22.4 million CHF before special charges in 2008). The progress made at both divisions in stemming losses and improving the cost structure in the second half of the year proves the effectiveness of the restructuring efforts. The operating losses at Textile Systems and Automotive Systems were more than halved in the second half of the year compared to the first.

In particular, the cost-cutting and restructuring programs also included various measures in the personnel sector. In order to adjust capacities to the lower order volumes Rieter utilized flexible working-time models, introduced short-time working at numerous facilities in Europe and reduced personnel capacity. A large number of managers and employees worldwide also deserve thanks for voluntarily waiving wage and salary entitlements in various forms. At the end of 2009 the Rieter Group's worldwide workforce totaled 12 761 employees, a reduction of some 1 400 employees compared with a year earlier. In order to adjust capacity to the steep decline in demand Rieter has reduced the number of positions for permanent employees by a total of 2 700 and for temporary employees by some 1 000 since the end of 2007. The transfer of manufacturing operations to lower-cost countries has continued. Rieter thus aims to exploit the cost advantages of these locations and also to get closer to customers operating in those markets, primarily in China and India. The buildup of permanent employee numbers in the second half of 2009 took place in the growth markets or – due to firmer sales – at Rieter Automotive in North America, where our subsidiaries adjusted very flexibly to the changes in market conditions.

The progress made at both divisions in stemming losses and improving the cost structure in the second half of the year bears witness to the effectiveness of the restructuring measures.

In the period between 2007 and 2009 the compensation of the Board of Directors and the Group Executive Committee was reduced by some 50%, corresponding to total savings of 3 million CHF.

Net result

The net result amounted to – 217.5 million CHF (– 396.7 million CHF in 2008). Compared to the first half of 2009 the net loss halved in the second six months. This was mainly attributable to the reduced operating loss.

No dividend payment

At the 2009 Annual General Meeting shareholders approved the proposal by the Board of Directors that no dividend should be paid for the 2008 financial year in the interests of preserving the capital of the Rieter Group. Instead of a dividend payment, options were allocated to shareholders on May 5, 2008, enabling them to purchase Rieter shares on attractive terms. The issue of shareholder's options reinforced Rieter's capital base with an inflow of 46.7 million CHF. Since the group is reporting a loss for the year under review, the Board of Directors will propose to the Annual General Meeting on April 28, 2010, that no dividend should be paid for 2009.

Rieter Textile Systems: market revival in the second half of the year

The world market for textile machinery featured a steep downturn from spring 2008 until mid-2009. Demand declined because government stimulus programs to expand spinning capacity in large textile-producing countries expired and at the same time consumption of textiles in major sales markets such as the US and Europe contracted for economic reasons. Signs of a slight revival of the markets have become apparent since summer 2009. This is especially the case in India and China. In 2009 as a whole, orders received by Rieter Textile Systems totaled 510.8 million CHF, equivalent to a decline of 5% compared with the previous year (539.5 million CHF). The trend of business diverged in the two halves of 2009. While order intake in the first six months continued to fall compared with the same – already weak – period in the previous year, it was some 69% higher in the second half of 2009 than in the first half. Rieter already recorded a significant revival in demand for wearing and spare parts in the second quarter of 2009. Due mainly to the very low level of orders received in the second half of 2008 and at the beginning of 2009, sales in the year under review as a whole were again sharply lower. They amounted to 532.0 million CHF, equivalent to a 53% reduction compared with the previous year. As a result of the increase in orders received as of summer 2009, sales in the second half of the year were already some 13% higher than in the first six months.

As a result of the increase in orders received as of summer 2009, sales in the second half of the year of Textile Systems were already some 13% higher than in the first six months.

The steep fall in volumes resulted in unsatisfactory utilization of capacity. Despite the adjustments initiated in 2008, which continued to be implemented systematically in the year under review, the operating result before interest and taxes (EBIT) was – 73.6 million CHF (+ 41.3 million CHF before special charges in 2008). However, the effect of the restructuring and cost-cutting programs and the slight increase in volumes was a striking reduction in the loss in the second half of the year compared to the first six months – from 58.2 million CHF to 15.4 million CHF.

Rieter has decided to focus even more closely on its core competencies as a systems supplier in the field of spinning machinery for short staple fibers as well as the appropriate technology components and service offerings. In December 2009 Rieter signed a contract to sell Rieter Perfojet in France to the Austrian Andritz Group. The company manufactures machinery and systems to produce nonwovens. The transaction was closed on March 9, 2010.

Rieter Automotive Systems: higher sales in the second half of the year

Rieter's automotive component supply business suffered a severe slump in demand as a result of the economic and financial crisis in 2008 and 2009. This affected both of Rieter Automotive Systems' main markets, North America and Europe. Following a decline in the second half of 2008, vehicle output was again sharply lower in the first half of 2009. The trend in vehicle production was considerably better in Asia – with the exception of Japan – and in South America. Due largely to government stimulus programs to support economic activity, automobile manufacturers in Europe and North America reduced their excess inventories in the first six months and started to increase output slightly again in summer.

In this environment sales by Rieter Automotive Systems were 30% lower (26% lower in local currencies) in the 2009 financial year, totaling 1 424.3 million CHF (2 022.1 million CHF in 2008). With its broad customer base and global structure, Automotive Systems was able to take full advantage of the somewhat more favorable market environment in the second half of the year to improve its position with customers. The division's sales during this period were 19% higher than in the first six months, despite seasonally lower demand in this period.

Rieter Automotive Systems is also expanding its presence in Asia step by step. The populous countries of India and China offer great growth potential for the automotive industry.

In order to adjust capacity to the considerably lower production volumes and align structures with the global changes in the industry, Rieter Automotive Systems has implemented extensive restructuring programs since 2008. In the context of these programs the closure of four plants had already been completed and corresponding negotiations at four other manufacturing sites are well advanced at the end of 2009. At the same time manufacturing operations were being transferred to low-cost countries. These moves had a very positive impact on the earnings situation in the 2009 financial year. The operating result before interest and taxes (EBIT) improved in the second half of 2009 to – 27.1 million CHF, compared to – 78.0 million CHF in the first six months. For the year as a whole the operating result before interest and taxes (EBIT) amounted to – 105.1 million CHF, compared with – 7.3 million CHF before special charges in 2008. The division continued to press ahead with its restructuring efforts in Europe in the year under review, and these will therefore have an even greater impact on earnings in 2010. The programs in the US are largely complete.

Sound balance sheet

Despite the severe impact of the economic and financial crisis on business at both divisions, Rieter still had a sound balance sheet at the end of the year under review: the equity ratio was 36% as in the previous year, cash and cash equivalents at the end of the year amounted to 218 million CHF (283 million CHF in 2008) and net liquidity was 10 million CHF (net debt of 37 million CHF in 2008). The group focused on reinforcing equity capital and liquidity at an early stage. At the operating level this included systematic management of working capital and restraint in capital spending. The sale of Rieter shares to PCS Holding AG in February 2009, thus boosting liquidity and equity capital to the tune of 57 million CHF, and the successful issue of shareholder's options in May 2009, resulting in a further inflow of 47 million CHF, also made a substantial contribution to strengthening the balance sheet and improving the liquidity situation. The group's finances remain on a firm foundation thanks to the available funds and the long-term credit facility concluded with banks in March 2009.

Developing future markets; innovations for business development

Rieter took important steps toward implementing its strategy in the 2009 financial year, although numerous projects were re-prioritized after careful review owing to economy measures. It is of crucial importance for both divisions to have a presence in the major growth regions and be able to supply customers there with products and services specific to their markets. In 2009 Rieter Textile Systems continued to expand its presence in China and India as well as developing products with a price/performance ratio appropriate to these large textile-producing countries. The airjet spinning process developed by Rieter and released for sale in selected markets by Textile Systems in 2009 is of interest to customers worldwide. It enables high-quality yarns with specific properties to be produced much more inexpensively than with existing spinning processes. Rieter Automotive Systems is also expanding its presence in Asia step by step. The populous countries of India and China offer great growth potential for the automotive industry. For example, China overtook the US as the largest automobile market in 2009. Automotive manufacturers are therefore establishing further capacity in these markets. Automotive Systems already has a presence in China and India with manufacturing plants and intends to align its network of production facilities even more closely with the global structural changes in the industry. The division is also pressing ahead with innovations to enable customers to overcome the major technical challenges posed by government environmental requirements for more economical automobiles with lower emissions as well as for the entire life cycle of the vehicles. Rieter Ultra Silent (RUS), the novel fiber technology launched in the previous year, which helps to reduce vehicle weight and fuel consumption, offers great potential.

Annual General Meeting and shareholders

At the Annual General Meeting held on April 29, 2009, shareholders elected Michael Pieper, This E. Schneider, Hans-Peter Schwald and Peter Spuhler to the Board for a three-year term of office. Dr. Jakob Baer was re-elected for a further three-year term of office. Dr. Ulrich Dätwyler and Dr. Peter Wirth did not stand for re-election to the board at the end of their term of office. Dr. Rainer Hahn decided to resign from the Board of Directors on the date of the 2009 Annual General Meeting.

In 2009 Rieter Textile Systems continued to expand its presence in China and India as well developing products with a price/performance ratio appropriate to these large textile-producing countries.

Organizational and personnel changes

The Board of Directors of Rieter Holding Ltd. elected their Chairman, Erwin Stoller, as Executive Chairman at the beginning of August 2009. With this move the Board of Directors assumed greater responsibility and shortened decision-making lines in a very difficult business environment. With this reassignment of responsibilities the board is seeking to establish an optimal organizational structure to implement the extensive restructuring measures and ensure the further development of the group. Since then the members of the Group Executive Committee report directly to Erwin Stoller. In order to conform to principles of good corporate governance, This E. Schneider, Vice-Chairman of the Board, has been appointed Lead Director.

Hartmut Reuter, CEO, has left the group with the appointement of Erwin Stoller as Executive Chairman. Hartmut Reuter had been a member of the Group Executive Committee since 1997 and Group CEO since 2002. The Board of Directors conveys its thanks to him for his good work and wishes him all the best for the future.

Outlook
By virtue of the leading positions occupied by both divisions, Rieter has been participating in the recovery of the textile machinery and automotive markets since mid-2009. In the initial months of the current year Textile Systems has recorded a further distinct revival in new orders received compared with the second half of 2009. Sales by Automotive Systems in the initial months of the current year are higher than the average level in the second half of 2009. Although these volumes are well below the levels achieved in the record years of 2005 – 2007, they are nevertheless encouraging. The further development of the markets of relevance for Rieter depends mainly on consumer sentiment in Europe and North America, and on economic growth in the major Asian markets. If the market trend in recent months is confirmed, on a current view Rieter expects significant sales growth at group level in 2010 compared to 2009, primarily due to the very low level of sales in the first half of 2009.

Despite the severe impact of the economics and financial crisis on business at both divisions, Rieter still had a sound balance sheet at the end of the year under review.

Due to the restructuring measures it has initiated, Rieter will continue to lower the breakeven point in both divisions in the course of 2010 and is confident of achieving the turnaround in 2010, as already announced in the summer of 2009.

Thanks
The severe impact of the global economic and financial crisis and the steep decline in demand at both divisions faced the group, its employees and management with exceptional challenges in the 2009 financial year. The Rieter workforce and employee representatives therefore deserve special thanks and also appreciation for all their efforts. The Board of Directors wishes also to thank customers, suppliers and business partners, who have demonstrated in a difficult business environment that this severe test could be overcome through close partnership and committed effort. The Board's thanks go also to the shareholders for the confidence they have shown in Rieter during this challenging year.

Winterthur, March 17, 2010

Erwin Stoller	This E. Schneider
Chairman of the Board of Directors	Vice-Chairman of the Board of Directors

Rieter Textile Systems: Market revival in the second half of the year

Divisional chief executive
Peter Gnägi

Orders received
510.8 (539.5)
million CHF

Sales
532.0 (1 120.4)
million CHF

Operating result before interest and taxes
– 73.6 (– 49.5)
million CHF

Number of employees at year-end
4 086 (4 741)

Capital expenditure of tangible fixed assets
5.5 (53.2)
million CHF

Products
Components, machines and systems for producing yarns from natural and man-made fibers and their blends.

(Previous year's figures are in brackets.)

Following the steep downturn that had already been the dominant feature of the global market for textile machinery in the previous year, demand continued to weaken further in 2009. The level of new orders received by Rieter Textile Systems declined by 5% (3% in local currencies) in the year under review as a whole, increased however in the second half of the year by almost 70%. The slight recovery starting in the second quarter of 2009 continued until year-end. Sales revenues were significantly lower due to the slump in order intake in the previous year and at the beginning of 2009; the decline in the year under review amounted to 53%. Implementation of the program initiated in 2008 to adjust structures to market trends and capacities to sales volume continued in 2009 at a faster pace. The Textile Division thus succeeded in substantially reducing losses in the second half of the year. In 2009 Rieter Textile Systems focused on expanding its presence in the large Asian markets and on innovations mainly designed to meet the specific needs of this region. In December 2009 Rieter signed a contract to sell Rieter Perfojet in France to the Austrian Andritz Group. Rieter Textile Systems will thus now concentrate its efforts on the promising core business with staple fiber machinery and the related technology components and service offerings.

Adjustments to the prevailing market environment

The world market for textile machinery, which had already been weakening since the fourth quarter of 2007, suffered a massive slump as of March 2008, and this bottomed out in the first quarter of 2009. There were structural and cyclical reasons for this downturn. On the one hand it marked the end of an investment boom to expand spinning capacity that had been fueled additionally in many markets by government stimulus programs. At the same time the consequences of the economic and financial crisis further reinforced the downswing. These resulted in a decline in textile consumption in the US and Europe and high yarn inventories in spinning mills worldwide. The rather better performance of the domestic markets in the major textile countries of China and India was insufficient to offset this trend.

> In 2009 Rieter Textile Systems focused consistently on expanding its presence in the large Asian markets and on innovations designed to meet the specific needs of this region.

Rieter Textile Systems had initiated a program of realignment to the new market conditions at an early stage in 2008. This continued to be implemented in the year under review and was stepped up. In order to minimize the impact of the cyclical decline in volume on profit performance, Textile Systems worked intensively on action to cut costs and enhance productivity. Personnel-related measures, such as the utilization of flexible working-time models, short-time working and reductions in workforce numbers were prepared and implemented in close cooperation with employee representatives. The restructuring programs were on track at the end of 2009 and the cost savings budgeted for that point in time had been achieved. Alongside this, Textile Systems realigned its organization with the structural changes in the industry. The division combined the structures and functions of sites in order to lower the breakeven point substantially. Textile Systems is aiming for better customer proximity, greater cost efficiency and shorter decision-making lines with a new, leaner organization. These efforts have resulted in a further reduction in the workforce affecting all levels.

Innovations for long-term development of the business

Rieter Textile Systems worked purposefully on the further development of its product range in 2009 in order to maintain its good market position and be well-placed to benefit from the next upswing although projects were reviewed and prioritized in light of the adverse market conditions. Rieter aims to help customers gain a competitive edge with novel types of yarn and also through higher productivity of their installations, optimum utilization of raw material and energy efficiency.

Rieter Textile Systems attached particular importance to innovations that take the needs of the large Asian markets into account. Rieter has had success in this respect with the G 312 ring spinning machine, which is manufactured in India for the local market and was launched in the year under review (see illustration on page 13).

In 2009 Rieter released a machine manufactured in China for sale on the local market – the A 11 blowroom machine. The localization process completed within a relatively short time can serve as a model for further localizations of machines for China.

Rieter aims to help customers gain a competitive edge with novel types of yarn and also trough higher productivity of their installations.

The innovative J 10 airjet spinning machine was released for sale in selected markets in 2009. The main advantage of J 10 technology is apparent in the structure of the yarn for downstream processing and the textile end product. Airjet spinning is the most productive of all known spinning processes, and this is coupled with comparatively low energy consumption. With the introduction of the airjet spinning machine Rieter now offers four spinning technologies from a single source: ring spinning, compact spinning, rotor spinning and airjet spinning. Rieter can therefore take a neutral standpoint in recommending and delivering the spinning system that is best suited to the customer's needs. Customers also benefit from the fact that Rieter, as a supplier of products and services for the entire spinning process, is also very familiar with the requirements of upstream and downstream processes and machines.

In 2009 Rieter also worked on localization solutions for Asia and specific innovations for these markets in the technology components business. For example, the market-leading Elite compact spinning system has been adapted for use on the Indian D 312 ring spinning machine. Since existing ring spinning machines can also be upgraded to compact spinning machines with Elite, Rieter has optimized the Elite system for use with local cotton varieties in China and India.

Global presence expanded further

In the year under review Rieter Textile Systems expanded step by step both manufacturing facilities and engineering services in India and China with a view to meeting the needs of customers in Asia although numerous projects could not yet be implemented in full due to the economic situation. In China in particular, Rieter also made good progress in the procurement process with local suppliers aimed at ensuring that the high quality synonymous with the Rieter brand is maintained at fair market prices. Rieter is also working intensively toward achieving this in India and thus being able to profit from local demand.

Rieter Textile Systems seeks to attain its strategic goal of being the leading supplier of products and services for the spinning process as a whole through the ongoing development of market-conform machinery and components as well as local manufacturing for Asia. Further effort is necessary to achieve this, but Rieter is well positioned as an innovation driver that will soon also be capable of assuming the leading position as a supplier of integrated systems in the growth markets.

«With the innovative Rieter Ultra Silent underbody panels we support our customers in achieving their goals in regard to acoustics, weight and CO_2 reduction.»

Martin Hintermann, Manager Product Line Exterior (European Development Center), Sevelen, Switzerland

«The close cooperation with Rieter during the market launch and testing phase of the new locally produced ringspinning machine creates confidence, trust and the potential for future-oriented solutions.»

Dhairyasheel Pawar, Managing Director of Maruti Cotex Ltd, India

Rieter Automotive Systems: Higher sales in the second half of the year

Divisional chief executive
Wolfgang Drees

Sales
1 424.3 (2 022.1) million CHF

Operating result before interest an taxes
– 105.1 (– 251.0) million CHF

Number of employees at year-end
8 600 (9 878)

Capital expenditure of tangible fixed assets
56.2 (85.3) million CHF

Products
- Systems and components for vehicle acoustics and thermal management (including carpet and trunk systems, engine bay and underbody systems)
- Services in the fields of acoustics and thermal management

(Previous year's figures are in brackets)

The automotive industry in Rieter Automotive Systems' main markets, Europe and North America, has been experiencing a severe slump in vehicle output since autumn 2008. This trend continued to define the division's business performance in the year under review. Sales revenues were 30% lower than in 2008 (26% lower in local currencies). The decline was especially pronounced in the first half of 2009; slightly improved market conditions had a positive impact on the trend of business at Rieter in the second six months. The actions that were initiated in 2008 and continued to be implemented in 2009 to adjust structures to the changes in the market environment and the additional cost cutting enabled Automotive Systems in the second half of the year to significantly reduce losses at the operating level. In 2009 the division secured important orders from vehicle manufacturers, primarily for underbody modules and acoustic systems for the passenger compartment. Automotive Systems is therefore well placed to maintain and selectively expand its strong market position in future.

Market developments and the trend of business

Automobile production worldwide was 13% lower in 2009, declining from 67.4 to 58.6 million vehicles. Production shrank drastically again in 2009 as a whole, primarily in the traditional main markets. An absolute low point was registered in North America in the first half of the year, but output increased substantially in the second six months. This was due on the one hand to the scrappage premiums introduced to stimulate vehicle sales, and on the other to manufacturers reducing excess inventories in the first six months of the year. Automobile output in North America was 32% lower in 2009 as a whole, after already suffering a decline of 16% in the previous year. Government economic stimulus programs in Europe also had a positive impact on some markets, mainly in the small car segment. Overall automobile output in Europe was 20% lower, following a 10% decline in the previous year. The downturn was even more dramatic in the commercial vehicle sector, where output plunged by more than 50%. The trend in vehicle output in large emerging economies was significantly better. China's automobile production grew by some 50% and India's by some 17%. Output in Brazil was maintained at almost the high level of previous years.

In 2009 the division secured important orders from vehicle manufacturers, primarily for underbody modules and acoustic systems for the passenger compartment.

Automotive Systems succeeded in maintaining its strong position and expanding it in major markets in this difficult business environment. The division achieved this with a product range that ideally met customers' demands for enhanced comfort, lower weight and reduced CO_2 emissions through innovative thermo-acoustic systems. Automotive Systems was also able systematically to exploit the weakness of some competitors and secure additional orders.

In 2008 Automotive Systems had launched a program aimed at the sustainable improvement of its product cost and the division continued to implement this in the year under review. This includes improved utilization of material, strict purchasing management and enhanced productivity. Rieter is also reducing manufacturing capacity and the number of plants operated in Western Europe and North America in a multi-year restructuring program, and transferring production to countries where costs are lower. This will enable Rieter to achieve an overall increase in its cost position, and also follow its customers in establishing new markets. This program is largely complete in the USA and had the positive impact expected in 2009.

Innovations for the long-term development of the business

Within the confines of its financial resources Rieter Automotive Systems focused very closely on product and process innovations under the heading of "cost down – value up". With its combination of know-how in acoustics and thermal management, Rieter Automotive Systems has unique expertise for the automotive industry at its disposal. Rieter can therefore make a major contribution toward overcoming the challenges facing its customers today. For example, vehicle manufacturers are being forced by EU directives to produce lighter vehicles in order to achieve significant reductions in the CO_2 emissions of their fleets. With the Rieter Ultra Silent fiber technology launched in the previous year Rieter can supply products featuring low weight, high rigidity and very good acoustic effectiveness, and as a mono material these are totally recyclable. Rieter achieved the breakthrough with this innovative solution in 2009 by securing orders for first-time applications in the underbody segment. The qualities of Rieter Ultra Silent convinced not only customers, but also the jury of the automotive industry's renowned PACE Awards (Premier Automotive Suppliers Contribution to Excellence), which has nominated this innovation as a finalist for the PACE Award 2010. All automotive manufacturers are investing in the development of new drive concepts to reduce fuel consumption and CO_2 emissions. Innovative solutions in acoustic and thermal management – Rieter Automotive's two core competencies – are especially in demand in this context.

The jury of the renowned PACE Awards (Premier Automotive Suppliers Contribution to Excellence) has nominated this innovation as a finalist for the year 2010.

Expanding activities in growth markets
In the year under review Rieter Automotive Systems re-examined and prioritized its expansion moves in the growth regions against the backdrop of a difficult economic environment. Rieter nevertheless succeeded in completing the most important projects. Rieter is following major customers in pursuing new projects, especially in emerging markets in the Asia region. In China the division already has three manufacturing facilities and a development center with an acoustic laboratory. In India a second plant was built in 2009, and together with our long-term partner Nittoku this will supply Asian manufacturers in the country. It is located in the Chennai region and will commence volume production in spring 2010. The first components for customer projects have been delivered in volume on schedule from the new plant in Daegu (Korea). Rieter Automotive has also reinforced manufacturing operations in Eastern Europe, especially at its locations in the Czech Republic and Poland.

Sustainability

Rieter is convinced that acting sustainably is a crucial factor for long-term business success. In this context environmentally compatible products and processes as well as the safety of employees and the local population are priority concerns. Both divisions also strive to ensure that the environmental impact of their products throughout their life cycle is as small as possible. The choice of base materials, the optimization of material and energy consumption and the integration of safety and environmental aspects in research and development activities play a major role in this.

All ecologically relevant data are collected and analyzed in the SEED (Social, Economic and Environmental Data) electronic database in both divisions. The results are published on the www.rieter.com website under the heading of "Environmental Report".

The environment

Rieter products already make a major contribution toward sustainable development. Here are some representative examples specific to the divisions:

Rieter Automotive Systems
Automobile manufacturers impose high ecological standards on their component suppliers and verify compliance with them. Rieter responds with continuous innovation.

Requirement: lower fuel consumption and CO_2 emissions
Response: reduced vehicle weight

Rieter Ultra Silent (RUS) is a fiber-based technology for lightweight underbody modules and engine undershields. A weight saving of 2.7 kg (45%) per vehicle can be achieved for an underbody module. The PACE (Premier Automotive Suppliers Contribution to Excellence) Award jury nominated RUS as a finalist for this acclaimed international innovation award for 2010.

Rieter Ultra Light (RUL) is a technology for manufacturing lightweight acoustic products. Acoustic packages 14 kg lighter result in a 0.5% reduction in fuel consumption and lower CO_2 emissions. Since its market launch RUL has prevented 6.6 million tonnes of CO_2 emissions.

Requirement: manufacture of resource-conserving products
Response: use of recyclable material

Rieter Ultra Silent consists of glass-free PET and is 100% recyclable.

Rieter Ultra Light consists to 80% raw materials without mineral oil and is also readily recyclable.

Requirement: keep the environmental impact of products low throughout their life cycle
Response: Life Cycle Assessment

"Life Cycle Assessments" (LCAs) enable Rieter to analyze the different stages of a product's life and develop improvements. Raw material, production and service during the product's lifetime and its disposal are analyzed. LCAs were conducted on biomaterials and recyclable materials and on RUS in the year under review. The analysis of biomaterials was concerned with their use for automobile carpets, for example. The eco-balance was favorable in the case of RUS: in comparison with the predecessor material it enables 35% weight savings and up to 14% higher energy efficiency to be achieved. CO_2 emissions can also be reduced by 25% and NOx emissions by 15%.

Rieter Textile Systems
Rieter reduces the energy consumption of textile machinery and existing in-house production lines by optimizing products and processes. The energy-efficient drive systems of Rieter products enable customers to achieve higher production performance with the same energy input.

Requirement: reduced energy consumption
Response: more energy-efficient spinning machinery

In 2009 Rieter added the RSB-D 22 double-head autoleveler drawframe to its machinery offering. This machine features two completely independent drafting and autoleveling systems. However, many components are utilized jointly in the interests of energy and cost optimization. For example, energy consumption can be reduced by some 10% per kg of sliver by using a common extraction system.

Requirement: reduced waste/hazardous waste; recycling
Response: reduced environmental impact when manufacturing technology components; recycling of processing waste.

Rieter has invested in a new, environmentally friendly surface treatment process which no longer produces hazardous waste during the manufacture of technology components in Winterthur.

Slurry produced during the grinding process at the Winterthur site, which previously had to be disposed of as hazardous waste, is delivered to Swiss foundries as recyclable material. Rieter delivered some 20 tonnes of grinding swarf in 2009.

Social aspects

Industrial safety
Rieter attaches great importance to a safe and healthy working environment. In 2009 Automotive Systems launched a new campaign to call attention to 14 important rules of conduct in the fields of environment, safety and health. Management has undertaken to bring up these rules of conduct at meetings and conduct training for personnel.

Rieter expanded its existing audit system in the year under review. In addition to fire safety, the risk of damage caused by natural hazards and business interruptions, the topics of the environment and industrial safety were analyzed in greater depth. The department responsible regularly conducts the relevant audits in both divisions together with an external partner and initiates any necessary action.

Jobs and personnel
Rieter had to continue adjusting capacity in the year under review due to the weak market environment and the steep decline in sales since 2008. Various measures were pursued further in cooperation with local personnel representatives and the European Works Council in order to alleviate the consequences of the inevitable reduction in the workforce. The emphasis in 2009 was again on utilizing personnel turnover, transfers and early retirement so that Rieter could keep the number of redundancies on operational grounds as low as possible.

Training
Rieter has continued to invest in personnel training and development despite the difficult business situation. The facilities offered to personnel included in-house training and development courses.

This year a group of Winterthur trainees again honed their entrepreneurial skills in their final year by managing their own company. In the “Creative Solutions” apprenticeship project, trainees in different occupations can independently design, produce and market metal household and garden products. In this way Rieter encourages young employees to act responsibly and think creatively.

Rieter offers Indian apprentices a third and fourth year of training in the context of the VET (Vocational Education and Training) initiative launched two years ago by the Swiss-Indian Chamber of Commerce. A kind of twin-track system of vocational training already exists in India. This is now being developed further with appropriate elements taken from Swiss everyday work routines.

Corporate Governance

Transparent reporting creates the basis for trust. As a corporate group with an international scope which is committed to creating long-term values, the Rieter Group maintains high standards of corporate governance and pursues 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. The structure of this report conforms to the corporate governance guidelines issued by the SIX Swiss Exchange and the pertinent commentaries. Unless otherwise stated, the data refer to December 31, 2009. All information will be updated regularly on www.rieter.com/investors. Some data refer to the financial section of this Annual Report. The compensation report can be found from page 73 of the financial report.

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 Executive Chairman. Detailed segmental reporting can be found on pages 43 and 44.

The Corporate Center comprises the central group specialist units. The Corporate Center supports the Board of Directors, the Executive Chairman and the Group Executive Committee in their management and supervisory functions. The CFO is Head of the Corporate Center and reports to the Executive Chairman. Some 90 companies worldwide belonged to the Rieter Group as of December 31, 2009. A list of the main companies can be found on pages 64 and 65. 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, 2009, Rieter was aware of the following shareholders with more than 3% of all voting rights in the company:

- PCS Holding, Weiningen, Switzerland
- Artemis Beteiligungen IV AG, Hergiswil, Switzerland, and Forbo International SA, Baar, Switzerland
- First Eagle Investment Management LLC, Wilmington, USA, formerly called Arnhold and S. Bleichroeder Advisers LLC, New York, USA

Refer to page 72 for details.

There are no cross-holdings in which the interests exceed 3% of its own shares.

2 Capital structure

Share capital

On December 31, 2009, the share capital of Rieter Holding Ltd. totaled 23 361 815 CHF. This is divided into 4 672 363 fully paid registered shares with a par value of 5.00 CHF each. The shares are listed on the Swiss Exchange (SIX), securities code 367144; ISIN CH0003671440; Investdata RIEN. Rieter's market capitalization on December 31, 2009, was 1 085 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.

Rieter Holding Ltd. had neither authorized nor contingent share capital outstanding on December 31, 2009.

Changes in share capital

The Annual General Meeting held on May 8, 2008, adopted a resolution to reduce the share capital by 839 000 CHF to 21 415 280 CHF through the cancellation of 167 800 registered shares. These shares had been acquired in the context of the share buyback program approved by the Board of Directors on September 7, 2007.

On May 5, 2009, Rieter allotted to shareholders one shareholder's option for each registered share held. 11 shareholder's options entitled the holder to purchase one new Rieter registered share at a price of 120 CHF during the exercise period. 389 307 new Rieter registered shares had been purchased up to the end of the exercise period at 12.00 CET on May 29, 2009. This corresponds to 99.98% of the total. This transaction has further reinforced the capital base of Rieter Holding Ltd. with an inflow of 46.7 million CHF.

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 Group Executive Committee, please refer to note 33 (page 61) in the notes to the consolidated financial statements.

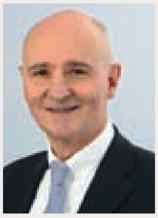
3 Board of Directors

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 2009 financial year (since August 4, 2009), one member of the Board (Chairman) performed executive duties.

Name	Nationality	Position	Year of birth	On the Board since	Elected until	Executive/ non-executive
Erwin Stoller	CH	Executive Chairman	1947	2008	2011	executive (since August 4, 2009)
This E. Schneider	CH	Lead Director	1952	2009	2012	non-executive
Dr. Dieter Spälti*	CH	Member	1961	2001	2010	non-executive
Dr. Jakob Baer*	CH	Member	1944	2006	2012	non-executive
Michael Pieper	CH	Member	1946	2009	2012	non-executive
Hans-Peter Schwald*	CH	Member	1959	2009	2012	non-executive
Peter Spuhler	CH	Member	1959	2009	2012	non-executive

* Members of the audit committee (Chairman: Dr. Jakob Baer).
All seven members of the Board are members of the personnel committee (Chairman: Erwin Stoller).



Erwin Stoller (1947)

- Chairman, Board member and Chairman since May 8, 2008, Chairman and Delegate of the Board of Directors (Executive Chairmain) since August 4, 2009, term of office expires in 2011, Chairman of the personnel committee.
- Swiss national.
- Dipl. Masch. Ing. ETH Zurich; with Rieter since 1978, member of the Group Executive Committee from 1992 to 2007, Head of Textile Systems Division from 1992 to 2002, Head of Automotive Systems Division from 2002 to 2007, withdrawal from operating management as of December 31, 2007.

This E. Schneider (1952)

- Vice Chairman, Board member and Vice Chairman since 2009, Vice Chairman and Lead Director since August 4, 2009, term of office expires in 2012, member of the personnel committee.
- Swiss national.
- Lic. oec. HSG; Chairman and CEO of the listed company SAFAA, Paris, from 1991 to 1993; Member of the Executive Board, Valora Group, as Managing Director of the canteen and catering division, from 1994 to 1997; Delegate of the Board of Directors and Vice President, Selecta Group, from 1997 to 2002; Delegate of the Board of Directors and Chief Executive Officer, Forbo Group since 2004.
- Board member, Galenica SA, Berne; Chairman of the Board, Selecta AG, Muntelier.

Dr. Dieter Spälti (1961)
- Board member since 2001, term of office expires in 2010, member of the audit committee, 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.

Dr. Jakob Baer (1944)
- Board member since 2006, term of office expires in 2012, Chairman of the audit committee, member of the personnel committee.
- Swiss national.
- Dr. iur. University of Bern; CEO of KPMG Switzerland until 2004; independent consultant since October 1, 2004.
- Board member, Adecco S.A., Chéserex; Swiss Re, Zurich; Allreal Holding AG, Baar; Chairmain of the Board, Stäubli Holding AG, Pfäffikon, Schwyz; Board member of two not publicly listed companies.

Michael Pieper (1946)
- Board member since 2009, term of office expires in 2012, member of the personnel committee.
- Swiss national.
- Lic.oec. HSG; owner and Chief Executive Officer of the Franke Group.
- Chairman of the Board, Artemis Holding AG, Hergiswil and its subsidiaries and of the subsidiaries of Franke worldwide; Board member, Berenberg Bank (Schweiz) AG, Zurich; Hero AG, Lenzburg; Forbo Holding AG, Baar; Aval Tech Holding AG, Niederwangen.

Hans-Peter Schwald (1959)
- Board member since 2009, term of office expires in 2012, member of the audit committee, member of the personnel committee.
- Swiss national.
- Lic.iur. HSG; Lawyer; Chairman and managing partner in the legal practice, Staiger, Schwald & Partner AG, Zurich, Berne and Basel.
- Chairman of the Board, AVIA Association of Independent Importers of Petroleum Products, Zurich; Board member PCS Holding AG, Weiningen; Vice President of the Board of Directors, Stadler Rail AG, Bussnang; Board Member, Ruag Holding AG, Berne; Board member of other Swiss private stock companies.

Peter Spuhler (1959)
- Board member since 2009, term of office expires in 2012, member of the personnel committee.
- Swiss national.
- Owner of Stadler Rail AG, Bussnang.
- Chairman of the Board, Stadler Rail AG, Bussnang; Stadler Bussnang AG, Bussnang; Aebi-Schmidt Holding AG, Burgdorf, and of several other companies of Stadler Rail Group. Board member, Walo Bertschinger Central AG, Zurich.
- Member of the National Council of the Swiss Parliament since 1999.

Cross-involvement

There are no reciprocal appointments to the Board 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 Annual General Meeting held on April 29, 2009, elected Dr. Jakob Baer to the Board of Directors for a further term of office. Michael Pieper, This E. Schneider, Hans-Peter Schwald and Peter Spuhler were elected as new members of the Board of Directors. Dr. Ulrich Dätwyler and Dr. Peter Wirth did not stand for re-election to the Board at the end of their term of office.

Dr. Rainer Hahn decided to resign from the Board of Directors on the date of the 2009 Annual General Meeting.

The term of office of Dr. Dieter Spälti expires at the Annual General Meeting to be held on April 28, 2010. He is standing for re-election.

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
- election of the Executive Chairman
- appointment and dismissal of the members of the Group Executive Committee
- definition of authority and duties of the Chairman and the committees of the Board of Directors as well as the 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
- 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 Board of Directors has also appointed its Chairman as Delegate of the Board of Directors (Executive Chairman). The Vice Chairman also acts as Lead Director. The Lead Director chairs the Board of Directors in assessing the performance of the Executive Chairman, deciding on his remuneration and other matters requiring separate discussion or decision-making. 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.

Rieter's Board of Directors has considerably increased the frequency of its meetings in response to the especially difficult business environment. The Board of Directors met for 11 regular meetings in the 2009 financial year. In addition a telephone conference of the whole Board was also held. The agendas for the Board meetings are drawn up by the Chairman. 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. The members of the Group Executive Committee also usually attend the meetings of the Board of Directors. They present the strategy as well as the results of their operating units and the projects requiring the approval of the Board of Directors.

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

The **audit committee** currently consists of three members of the Board. Its Chairman is Dr. Jakob Baer, the other members are Dr. Dieter Spälti and Hans-Peter Schwald.

In the 2009 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 Executive Chairman and the CFO and other members of the Group Executive Committee and management as appropriate, also attend the meetings.

The main duties of the audit committee are:
- elaborating principles for external and internal audits for submission to the Board of Directors and providing information on their implementation
- assessing the work of the external and internal auditors as well as their mutual cooperation and reporting to the Board of Directors
- assessing the reports submitted by the statutory auditors as well as the invoiced costs
- 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 2009. The meetings lasted 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.

Internal audit has been headed by Martin Strub, Certified Auditor, since 2008.

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. Erwin Stoller held this position in 2009. 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 is also informed about plans for Board of Directors and senior management succession and the relevant development plans.

The personnel committee met for one regular meeting in 2009. The meeting lasted half a day. All committee members attended all the meeting. The Lead Director chairs the personnel committee/nomination committee on issues regarding the Executive Chairman.

Allocation of authority

The Board of Directors delegates operational management of the business to the Executive Chairman of the Rieter Group. The members of the Group Executive Committee report to the Executive Chairman. The allocation of authority and cooperation between the Board of Directors, the Executive Chairman, the divisions and the Corporate Center are stipulated in the group management regulations. The Executive Chairman draws up the strategic and financial planning statements and the budget with the Group Executive Committee, and submits them to the Board of Directors for 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.

The members of the audit committee, the Executive Chairman, the CFO and appointed members of the management, receive the internal audit reports. Internal audit conducted 28 audits in 2009. The results were discussed in detail with the companies and divisions concerned, and appropriate measures have been initiated accordingly. The statutory auditors have access to the minutes of the meetings of the Board of Directors.

Code of Conduct

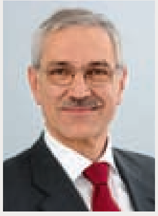
The Code of Conduct is an integral part of every employee’s contract of employment. The Code of Conduct is explained to employees in the individual units and is verified regularly in the context of internal audits and by additional audits. This code can be accessed on the Internet at www.rieter.com/about-rieter-group.

4 Group Executive Committee

The Group Executive Committee had three members on December 31, 2009: the heads of the two divisions and the CFO, who is head of the Corporate Center.

Name	Nationality	Position	Year of birth	With Rieter since	Member of the Executive Committee	Current function since
Peter Gnägi	CH	Head of the Division Textile Systems	1954	1990	2002	2002
Urs Leinhäuser	CH	Chief Financial Officer and Head Corporate Center	1959	2003	2003	2004
Wolfgang Drees	DE	Head of the Division Automotive Systems	1953	2007	2008	2008

Since the election of the Chairman Erwin Stoller as Executive Chairman on August 4, 2009, the members of the Group Executive Committee have been reporting directly to Erwin Stoller. In order to safeguard the principles of good corporate governance, This E. Schneider, Vice Chairman of the Board, has been elected Lead Director. Hartmut Reuter, CEO since 2002, has left the company.



Peter Gnägi (1954)
- Head of the Textile Systems Division.
- Swiss national.
- Dipl. Masch. Ing. ETH Zurich.
- From 1979 to 1982 Alusuisse AG, Zurich; from 1982 to 1990 Mettler Instrumente AG, Stäfa; most recently as Head Business Group Betriebsmittel; with Rieter since 1990, Head of the Spun Yarn Systems Business Group from 1998 to 2002, member of the Executive Committee of Rieter 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.
- From 1995 to 1999 Georg Fischer AG, most recently as Head of Finance and Controlling, Division Piping Systems; from 1999 to 2003 Chief Financial Officer of Mövenpick Holding; with Rieter since April 2003 as Head of Group Controlling and member of the Group Executive Committee, in his present function since January 2004.
- Member of the Board, Burckhardt Compression Holding AG, Winterthur.

Wolfgang Drees (1953)
- Head of the Automotive Systems Division.
- German national.
- Master's Degree in Mechanical Engineering, Technical University of Hanover.
- From 1977 to 2005 Bosch Group in Germany, Switzerland and USA; since 2002 member of the Executive Committee of Robert Bosch GmbH, in charge of chassis systems, electrical tools, thermal engineering and metals technology; with Rieter since January 2007 as Head of Business Group Europe of Rieter Automotive Systems and deputy head of the division, in his present function since January 1, 2008.
- Member of the Board, Huber Packaging Group, Öhringen, Germany; Member of the Advisory Board, MSC-Gleichmann Unternehmensgruppe, Stutensee, Germany.

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

5 Remuneration report

Content and process for specifying remuneration and equity participation programs
Information on the remuneration of the Board of Directors and the Group Executive Committee can be found in the remuneration report from page 73.

6 Shareholders' participatory rights

Voting restrictions
Rieter imposes no voting restrictions.

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

Calling general meetings of shareholders, drawing up the agenda, voting proxies
General meetings of shareholders are called in writing by the Board of Directors at least 20 days prior to the event, with details of the agenda, pursuant to § 8 of the articles of association, and are published in the company's official publication medium (Swiss Official Commercial Gazette).
Pursuant to § 9 of the articles of association, shareholders representing shares with a par value of at least 500 000 CHF can request the inclusion on the agenda of an item for discussion, with details of the relevant motions, by a closing date published by the company. Shareholders who do not attend general meetings personally can arrange to be represented by another shareholder, by the company or by the independent voting proxy.

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

7 Change of control and defensive measures

Obligation to submit an offer
The legal provisions in terms of Art. 22 BEHG (Bundesgesetz über die Börsen und den Effektenhandel – Swiss Exchanges and Securities Trading Act) are applicable. This states that a shareholder or a group of shareholders acting in concert who hold more than 33 ⅓% 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 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. and the Rieter Group since 1984. Most of the companies in the Rieter Automotive Systems Division are audited by KPMG. Urs Honegger has officiated as lead auditor for the Rieter mandate at PwC since 2009.

Audit fees and additional fees
PwC, KPMG and other auditors charged the Rieter Group approximately 2.0 million CHF (2.9 million CHF in 2008) for services in connection with auditing the annual financial statements of the group companies and Rieter's consolidated accounts in the 2009 financial year. PwC, KPMG and other auditors invoiced some 0.8 million CHF (1.3 million CHF in 2008) for additional services. 0.3 million CHF

(0.3 million CHF in 2008) of this total were for audit related services, and 0.5 million CHF (0.6 million CHF in 2008) for tax consulting.

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 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 (SIX). 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, share price and contact details are also available on this website.

Interested parties may add their names to a mailing list available at www.rieter.com/en/subscription. Press conferences and meetings with financial analysts are held at least once a year. Rieter also cultivates dialogue with investors and the media at special events.

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 2010 — April 28, 2010
- Semi-Annual Report 2010 — August 11, 2010
- Publication of sales 2010 — January 28, 2011
- Deadline for proposals regarding the agenda of the Annual General Meeting — February 22, 2011
- Results press conference 2011 — March 22, 2011
- Annual General Meeting 2011 — April 13, 2011

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Financial report

Consolidated income statement

CHF million	Notes	2009	%*	2008	%*
Sales	(4)	**1 956.3**		**3 142.5**	
Sales deductions		– 73.6		– 130.6	
Net sales		**1 882.7**		**3 011.9**	
Change in semi-finished and finished goods		– 41.1		– 43.2	
Own work capitalized		4.9		3.0	
Corporate output		**1 846.5**	**100.0**	**2 971.7**	**100.0**
Material costs		– 885.1	– 48.0	– 1 440.8	– 48.5
Employee costs	(5)	– 693.0	– 37.5	– 938.2	– 31.5
Other operating expenses	(6)	– 349.3	– 18.9	– 466.9	– 15.7
Other operating income		35.2	1.9	50.3	1.7
Depreciation and amortization	(7)	– 140.9	– 7.6	– 153.7	– 5.2
Operating result before special charges, interest and taxes		**– 186.6**	**– 10.1**	**22.4**	**0.8**
Special charges	(8)	0.0	0.0	– 334.5	– 11.3
Operating result before interest and taxes (EBIT)		**– 186.6**	**– 10.1**	**– 312.1**	**– 10.5**
Financial income	(9)	4.7		10.0	
Financial expenses	(10)	– 29.6		– 74.7	
Result before taxes		**– 211.5**	**– 11.5**	**– 376.8**	**– 12.7**
Income taxes	(11)	– 6.0		– 19.9	
Net result		**– 217.5**	**– 11.8**	**– 396.7**	**– 13.3**
Attributable to shareholders of Rieter Holding Ltd.		– 223.9		– 405.9	
Attributable to minority interests		6.4		9.2	
Earnings per share • average number of registered shares outstanding: 4 392 808 (3 822 929 in 2008)	CHF	– 50.96		– 106.18	
Diluted earnings per share • average number of shares to calculate diluted earnings per share: 4 392 808 (3 822 929 in 2008)	CHF	– 50.96		– 106.18	

* In % of corporate output.

Consolidated statement of comprehensive income

CHF million	2009	2008
Net result	**– 217.5**	**– 396.7**
Currency effects	5.9	– 102.6
Financial instruments available for sale:		
Change in fair value	54.1	– 50.8
Realized results through income statement	0.3	42.6
Income taxes	– 19.9	0.4
Total other comprehensive income	**40.4**	**– 110.4**
Total comprehensive income	**– 177.1**	**– 507.1**
Attributable to shareholders of Rieter Holding Ltd.	– 182.5	– 510.6
Attributable to minority interests	5.4	3.5

The notes on pages 34 to 65 are an integral part of the consolidated financial statements.

Consolidated balance sheet

CHF million	Notes	December 31, 2009	December 31, 2008
Assets			
Tangible fixed assets	(13)	696.0	786.3
Intangible assets	(14)	23.0	30.2
Other non-current assets	(15)	164.0	107.9
Deferred tax assets	(11)	3.5	4.9
Non-current assets		**886.5**	**929.3**
Inventories	(16)	266.0	361.3
Trade receivables	(17)	331.5	382.1
Other receivables	(18)	92.4	125.9
Assets of disposal groups	(29)	7.0	0.0
Marketable securities and time deposits	(19)	13.0	7.7
Cash and cash equivalents	(20)	217.7	282.6
Current assets		**927.6**	**1 159.6**
Assets		**1 814.1**	**2 088.9**
Shareholders' equity and liabilities			
Share capital	(21)	23.4	21.4
Share premium account (capital reserve)		27.5	27.5
Group reserves		536.3	641.0
Equity attributable to shareholders of Rieter Holding Ltd.		**587.2**	**689.9**
Equity attributable to minority interests	(22)	68.6	56.3
Total shareholders' equity		**655.8**	**746.2**
Long-term financial debt	(23)	140.7	128.8
Deferred tax liabilities	(11)	75.0	62.4
Provisions	(24)	182.2	226.8
Other non-current liabilities		1.4	0.9
Non-current liabilities		**399.3**	**418.9**
Trade payables		226.8	268.5
Advance payments by customers		63.3	74.3
Short-term financial debt	(23)	81.7	198.3
Current tax liabilities		22.2	29.7
Provisions	(24)	174.3	153.7
Other current liabilities	(25)	177.3	199.3
Liabilities of disposal groups	(29)	13.4	0.0
Current liabilities		**759.0**	**923.8**
Liabilities		**1 158.3**	**1 342.7**
Shareholders' equity and liabilities		**1 814.1**	**2 088.9**

The notes on pages 34 to 65 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

CHF million	Notes	2009	2008
Net result		– 217.5	– 396.7
Interest income	(9)	– 4.0	– 9.5
Interest expenses	(10)	27.6	21.1
Income taxes		6.0	19.9
Depreciation and amortization of tangible and intangible fixed assets		140.9	259.5
Profit/loss on divestments, net	(30)	– 4.5	2.6
Other non-cash income and expenses		– 5.7	31.7
Change in inventories		96.0	100.0
Change in receivables		82.0	206.9
Change in non-current provisions		– 50.3	32.5
Change in trade payables		– 43.4	– 149.8
Change in advance payments by customers and other liabilities		7.1	– 3.9
Dividends received		0.8	0.5
Interest received		4.0	9.5
Interest paid		– 23.2	– 19.7
Taxes paid		– 17.4	– 47.4
Net cash from operating activities		**– 1.6**	**57.2**
Capital expenditure on tangible and intangible assets	(13/14)	– 61.7	– 140.9
Proceeds from disposals of tangible and intangible assets		16.3	22.2
Investments in financial assets		– 10.3	– 14.6
Proceeds from disposals of other tangible assets		6.0	5.4
Purchase/sale of marketable securities and time deposits		– 5.6	58.9
Divestments of businesses	(30)	22.1	41.7
Acquisitions of businesses	(31)	0.0	– 8.5
Net cash used for investing activities		**– 33.2**	**– 35.8**
Shareholders' options program		46.7	0.0
Dividend paid to shareholders of Rieter Holding Ltd.		0.0	– 57.1
Sale/purchase of own shares		56.0	– 51.8
Capital increases by minority interests		16.2	0.0
Dividends to minority interests		– 9.3	– 7.3
Repayments/proceeds of/from short-term financial debt		– 134.9	37.7
Proceeds from long-term financial debt		104.9	100.0
Repayments of long-term financial debt		– 107.4	– 12.7
Net cash from financing activities		**– 27.8**	**8.8**
Currency effects		– 2.3	– 5.1
Change in cash and cash equivalents		**– 64.9**	**25.1**
Cash and cash equivalents at beginning of the year		**282.6**	**257.5**
Cash and cash equivalents at end of the year		**217.7**	**282.6**

The notes on pages 34 to 65 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 con-solidated equity
At January 1, 2008	**22.3**	**– 1.3**	**27.5**	**299.9**	**961.0**	**1 309.4**	**60.1**	**1 369.5**
Net result	0.0	0.0	0.0	0.0	– 405.9	– 405.9	9.2	– 396.7
Total other comprehensive income	0.0	0.0	0.0	– 104.7	0.0	– 104.7	– 5.7	– 110.4
Total comprehensive income	**0.0**	**0.0**	**0.0**	**– 104.7**	**– 405.9**	**– 510.6**	**3.5**	**– 507.1**
Dividend of Rieter Holding Ltd.	0.0	0.0	0.0	0.0	– 57.1	–57.1[1]	0.0	– 57.1
Dividends to minority interests	0.0	0.0	0.0	0.0	0.0	0.0	– 7.3	– 7.3
Share-based compensation	0.0	0.0	0.0	0.0	2.0	2.0	0.0	2.0
Change in holding of own shares	– 0.9	0.2	0.0	0.0	– 53.1	– 53.8	0.0	– 53.8
At December 31, 2008	**21.4**	**– 1.1**	**27.5**	**195.2**	**446.9**	**689.9**	**56.3**	**746.2**
Net result	0.0	0.0	0.0	0.0	– 223.9	– 223.9	6.4	– 217.5
Total other comprehensive income	0.0	0.0	0.0	41.4	0.0	41.4	– 1.0	40.4
Total comprehensive income	**0.0**	**0.0**	**0.0**	**41.4**	**– 223.9**	**– 182.5**	**5.4**	**– 177.1**
Shareholder option program	2.0	0.0	0.0	0.0	44.7	46.7	0.0	46.7
Capital increase by minority interests	0.0	0.0	0.0	0.0	– 22.9	– 22.9	16.2	– 6.7
Dividends to minority interests	0.0	0.0	0.0	0.0	0.0	0.0	– 9.3	– 9.3
Share-based compensation	0.0	0.0	0.0	0.0	1.8	1.8	0.0	1.8
Change in holding of own shares	0.0	1.0	0.0	0.0	53.2	54.2	0.0	54.2
At December 31, 2009	**23.4**	**– 0.1**	**27.5**	**236.6**	**299.8**	**587.2**	**68.6**	**655.8**

1. 15.00 CHF per registered share.

Valuation reserves include cumulative translation effects and after-tax valuation gains of 36.2 million CHF (1.7 million CHF in 2008) on financial instruments available for sale.

The notes on pages 34 to 65 are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

1 Summary of significant accounting policies

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

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

As of January 1, 2009, Rieter adopted IFRS 8 "Operating Segments" for the first time. The adoption resulted in certain changes in the presentation of segment information but had no impact on the definition of the reportable segments. The adoption of IAS 1 revised led to the additional disclosure of a statement of comprehensive income. The adoption of the amendments of IFRS 7 led to an expanded disclosure of fair value measurements of financial instruments. The adoption of IAS 23 revised "Borrowing Costs" and the other new regulations had no material impact on the consolidated financial statements.

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

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

Tangible and intangible assets are tested for impairment whenever there are indications that, due to changed circumstances, their carrying value may no longer be fully recoverable. If such a situation arises, recoverable amount is determined on the basis of expected future cash flows, corresponding to either the discounted value of expected future net cash flows or the expected net selling price. If the recoverable amount is below the carrying amount, a corresponding impairment loss is recognized in the income statement. The main assumptions on which these measurements are based include growth rates, margins and discount rates.

When assessing inventories, estimates for their recoverability that arise from the expected consumption of the corresponding item are necessary. The adjustments for the inventories are calculated for each item using a coverage analysis. The parameters are checked annually and modified if necessary. Changes in sales or other circumstances can lead to the book value having to be adjusted accordingly.

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

In the course of the ordinary operating activities of the Group, obligations from guarantee and warranty claims, restructuring and litigation can arise. Provisions for these obligations are measured on the basis of realistic estimates of the expected cash outflow. The outcome of these business transactions may result in claims against the Group that may be below or above the related provisions and that may be covered only in part or not at all by existing insurance coverage.

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

Scope and principles of consolidation

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

Holdings of 20 to 49% are included in the consolidated financial statements using the equity method. Holdings of less than 20% are included in the balance sheet at fair value. The significant subsidiaries and associated companies are listed on pages 64 and 65.

Changes in the scope of consolidation

The sale of the Rieter Real Estate Ltd. in Winterthur changed the scope of consolidation in the year under review. The impact of this transaction on the consolidated financial statements is shown in note 30 (page 57).

Foreign currency translation

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

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

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

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

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

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

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

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

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

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

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

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

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

Goodwill
Goodwill represents the difference between the purchase price of an acquired company and the estimated market value of its net assets. It is capitalized on the date that control of the acquired company is assumed and carried in the currency of the relevant acquisition. Goodwill is considered to have an indefinite useful life and is subject to annual impairment testing. For this purpose goodwill is allocated to cash-generating units. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. There was no goodwill in the balance sheet at December 31, 2009 and 2008.

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

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

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

Financial assets
Rieter classifies its financial assets in the following categories:

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

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

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which management intends to hold to maturity. Rieter did not hold any investments in this category during 2009.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financing costs
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualified asset are capitalized as a part of the acquisition costs of the qualified asset. All other financial costs are recognized in the income statement.

Standards that have been published but not yet applied

The following new and revised Standards and Interpretations have been published and do not have to be applied for annual periods beginning before July 1, 2009. Rieter has not adopted any of these new regulations early as they are not expected to have a material impact on consolidated shareholders' equity and net result when they come into force. IFRS 3 (revised), IAS 27 (revised), changes to IAS 39, IAS 24 (revised), IFRIC 17, IFRIC 18, changes to IFRS 2, changes to IAS 32, IFRIC 19, IAS 24 (revised), changes to IFRIC 14, IFRS 9.

2.1 Risk management process

Rieter maintains an Internal Control System (ICS) with the objective of ensuring effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The Internal Control System is a significant component of the risk management system.

The risk management process is regulated by the Group directive "Rieter Risk Management System", issued by the Board of Directors on August 31, 2001. The directive defines the main risk categories to be considered for risk management, the persons in charge of the various risks within the Group, and the workflows regarding identification, reporting and handling of risks. The directive further defines criteria for the qualitative and quantitative risk assessments, as well as thresholds for the reporting of identified exposures.

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

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

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

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

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

2.2 Financial risk management

Financial risk factors

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

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

Foreign exchange risk

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

The Rieter Group is primarily exposed to foreign exchange risks versus the euro and the US dollar. Assuming that the euro had been 5% stronger versus the Swiss franc at December 31, 2009, with all other variables held constant, the Group's after-tax result and retained earnings would have been 12.3 million CHF higher (5.6 million CHF higher in 2008). If the US dollar had been 5% stronger versus the Swiss franc at December 31, 2009, with all other variables held constant, the Group's after-tax result and retained earnings would have been 1.9 million CHF higher (1.8 million CHF higher in 2008). If the reverse had been the case, the Group's after-tax result and retained earnings would have been the same amount lower. This would mainly have been due to exchange gains/losses on trade accounts receivable and payable.

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

Interest rate risk

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

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

Cash flow sensitivity analysis: A one percentage-point increase in interest rates would have reduced net results and retained earnings by 1.8 million CHF (1.8 million CHF in 2008). Fair-value sensitivity analysis: Market value fluctuations of fixed interest financial debt are not recognized in the income statement and have no impact on net results.

Price risk
Holding shares and options exposes Rieter to a risk of price fluctuation. To reduce this risk, the Group reduced its portfolio significantly. Since the Group has no material securities at the end of 2009, no sensitivity analysis of fair-value risk is disclosed.

Credit risk
Credit risks arise from deposits and financial derivatives held with financial institutions and from trade accounts receivable. Relationships with financial institutions are only entered into with counterparties rated no lower than “A” by S&P. In the Textile Systems Division credit risks on trade receivables are usually hedged by means of insurance, advance payments, letters of credit or other instruments. The Automotive Systems Division maintains business relationships with all significant automotive manufacturers and, compared to the industry sector, has a geographically broad, diversified customer portfolio. No customer accounted for more than 11% (11% in 2008) of the division’s sales. In the course of the financial restructuring measures at the US automotive manufacturers, Rieter has also benefited in the first half of 2009 from a receivables guarantee program. A corresponding insurance premium was paid.

Liquidity risk
Rieter’s liquidity risk management includes holding adequate reserves of liquid funds and time deposits, the option of financing requirements via an appropriate level of credit lines, and basically the ability to place issues on the market. In light of the dynamic nature of the business environment in which the Group operates, its goal is to ensure its financial stability and retain the necessary flexibility in financing operations by generating free cash flow and maintaining adequate unutilized credit lines. Therefore in March 2009 Rieter and a group of banks concluded a loan agreement for medium- and longer-term financing. In addition to securing and expanding existing credit lines for the ongoing business, this agreement also established the financial preconditions for implementing the restructuring program.

The table below shows the contractual maturities of the Group's financial liabilities (including interests):

Financial liabilities December 31, 2009	**Carrying amount**	**Contractual cash flows**			
CHF million		**Within 1 year**	**In 1 to 5 years**	**In 5 or more years**	**Total cash-flow**
Bank debt	188.1	84.3	124.9	0.0	209.2
Finance leasing obligations	4.6	1.1	3.8	0.5	5.4
Other financial debt	29.7	1.3	39.3	1.6	42.2
Negative replacement values of derivative financial instruments	0.5	0.5	0.0	0.0	0.5
Trade payables	226.8	226.8	0.0	0.0	226.8

Financial liabilities December 31, 2008	**Carrying amount**	**Contractual cash flows**			
CHF million		**Within 1 year**	**In 1 to 5 years**	**In 5 or more years**	**Total cash-flow**
Bank debt	317.4	206.5	141.0	0.0	347.5
Finance leasing obligations	6.0	1.3	5.3	0.2	6.8
Other financial debt	3.7	2.3	1.8	0.0	4.1
Negative replacement values of derivative financial instruments	3.4	3.4	0.0	0.0	3.4
Trade payables	268.5	268.5	0.0	0.0	268.5

Capital management

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

On February 22, 2009, the sale of 420 000 Rieter treasury shares to PCS Holding AG in Weinigen (Switzerland) led to a cash inflow of 55.9 million CHF. On May 5, 2009, Rieter alloted to the shareholders one shareholders' option for each share held. Eleven shareholders' options entitled the holder to purchase one new Rieter share at a price of 120 CHF. Up to May 29, 2009 (the end of the purchase period) 389 307 new Rieter shares were purchased, which led to a cash inflow of 46.7 million CHF.

Since March 20, 2009, the Group is subject to externally imposed minimum requirements regarding equity and free cash flow. These minimum requirements have been complied with and compliance is monitored permanently.

3 Segment information by division

Segment information is based on the Group's organization and management structure and the internal financial reporting to the Chief Operating Decision Maker. The Chief Operating Decision Maker of Rieter is the Board of Directors of Rieter Holding AG. The Group consists of the two reportable segments Textile Systems and Automotive Systems. There is no aggregation of operating segments. Textile Systems develops, produces and sells machinery, components and systems for manufacturing yarns. Automotive Systems develops, produces and sells components, modules and integrated systems in order to provide acoustic and thermal comfort in motor vehicles. There were no material inter-divisional sales.

Segment information by division 2009

CHF million	Textile Systems	Automotive Systems	Reconciliation	Total Group
Sales	532.0	1 424.3	0.0	1 956.3
Net sales	496.1	1 386.6	0.0	1 882.7
Operating result before special charges, interest and taxes	– 73.6	– 105.1	–7.9[1]	– 186.6
Special charges	0.0	0.0	0.0	0.0
Operating result before interest and taxes (EBIT)	– 73.6	– 105.1	–7.9[1]	– 186.6
Assets	498.7	955.4	360.0[2]	1 814.1
Liabilities	285.4	526.2	346.7[3]	1 158.3
Net assets	213.3	429.2	13.3	655.8
Capital expenditures on tangible and intangible assets	5.5	56.2	0.0	61.7
Depr. and amort. of tangible and intangible assets	46.2	94.3	0.4[1]	140.9
Number of employees[4]	4 086	8 600	75[1]	12 761

Segment information by division 2008

CHF million	Textile Systems	Automotive Systems	Reconciliation	Total Group
Sales	1 120.4	2 022.1	0.0	3 142.5
Net sales	1 051.7	1 960.2	0.0	3 011.9
Operating result before special charges, interest and taxes	41.3	– 7.3	–11.6[1]	22.4
Special charges	– 90.8	– 243.7	0.0	– 334.5
Operating result before interest and taxes (EBIT)	– 49.5	– 251.0	–11.6[1]	– 312.1
Assets	669.3	1 032.2	387.4[2]	2 088.9
Liabilities	377.5	531.5	433.7[3]	1 342.7
Net assets	291.8	500.7	– 46.3	746.2
Capital expenditures on tangible and intangible assets	53.2	85.3	2.4[1]	140.9
Depr. and amort. of tangible and intangible assets	52.6	100.3	0.8[1]	153.7
Number of employees[4]	4 741	9 319	123[1]	14 183

1. Other units (Rieter Holding Ltd, Corporate Center).
2. Assets other units 51.5 Mio. CHF (71.9 Mio CHF in 2008), cash and cash equivalents 217.7 Mio. CHF (282.6 Mio CHF in 2008), marketable securities and time deposits 13.0 Mio. CHF (7.7 Mio. CHF in 2008), investments 70.1 Mio. CHF (16.0 Mio. CHF in 2008), interest bearing receivables 4.2 Mio. CHF (4.3 Mio. CHF in 2008), deferred tax assets 3.5 Mio. CHF (4.9 Mio. CHF in 2008).
3. Liabilities other units 27.1 Mio. CHF (14.5 Mio. CHF in 2008), financial debt 222.4 Mio. CHF (327.1 Mio. CHF in 2008), deferred tax liabilities 75.0 Mio. CHF (62.4 Mio. CHF in 2008), current tax liabilities 22.2 Mio. CHF (29.7 Mio. CHF in 2008).
4. At year-end (excluding apprentices and temporary employees).

Sales and non-current assets by geographic region and countries

CHF million	Sales 2009	Sales 2008	Non-current assets 2009[1]	Non-current assets 2008[1]
Europe	901.1	1 449.6	459.9	550.9
Asia[2]	405.3	791.3	99.8	97.2
North America	432.5	589.1	137.6	150.1
Latin America	181.7	256.8	19.0	15.9
Africa	35.7	55.7	2.7	2.4
Total Group	**1 956.3**	**3 142.5**	**719.0**	**816.5**
Switzerland (domicile of Rieter Holding Ltd.)	39.8	65.8	111.5	147.6
Foreign countries	1 916.5	3 076.7	607.5	668.9
Total Group	**1 956.3**	**3 142.5**	**719.0**	**816.5**
The following countries accounted for more than 10% of sales or non-current assets:				
USA	344.5	493.1	119.7	132.4
Switzerland (domicile of Rieter Holding Ltd.)	39.8	65.8	111.5	147.6
Czech Republic	19.1	22.0	87.4	100.1

1. Tangible fixed assets and intagible assets.
2. Including Turkey.

No individual customer accounted for more than 10% of consolidated sales in 2009 and 2008. Sales by product group are not available.

Capital expenditures and number of employees by geographical region

CHF million	Capital expenditures 2009	Capital expenditures 2008	Number of employees 2009[1]	Number of employees 2008[1]
Europe	30.8	85.4	7 295	8 445
Asia[2]	13.2	34.3	2 161	2 093
North America	15.7	16.9	2 084	2 287
Latin America	1.8	4.2	1 152	1 275
Africa	0.2	0.1	69	83
Total Group	**61.7**	**140.9**	**12 761**	**14 183**

1. At year-end (excl. apprentices and temporary employees).
2. Including Turkey.

4 Sales

Change in sales

CHF million	2009	2008
Change in sales due to volume and price, Textile Systems	– 560.9	– 378.0
Change in sales due to volume and price, Automotive Systems	– 525.3	– 227.9
Impact of divestments	– 18.3	– 57.2
Currency effects	– 81.7	– 124.5
Total change in sales	**– 1 186.2**	**– 787.6**

5 Employee costs

CHF million	2009	2008
Wages and salaries	570.3	769.4
Social security and other personnel expenses	122.7	168.8
Total	**693.0**	**938.2**

6 Other operating expenses

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

7 Depreciation and amortization

CHF million	2009	2008
Tangible fixed assets	133.7	145.3
Intangible assets	7.2	8.4
Total	**140.9**	**153.7**

8 Special charges

CHF million	2009	2008
Restructuring costs Textile Systems	0.0	42.7
Restructuring costs Automotive Systems	0.0	195.0
Goodwill impairment Textile Systems	0.0	48.1
Goodwill impairment Automotive Systems	0.0	48.7
Total	**0.0**	**334.5**

There were no special charges for restructuring and goodwill impairment in 2009. In 2008 the special charges included the cost of the comprehensive restructuring program that entails capacity adjustments and a more rapid shift from traditional to emerging regions. In addition to the costs of the personnel-related measures, restructuring costs in 2008 included some extraordinary write-offs of assets as well as loss on sales of the sheet metal parts manufacturing facility in Ingolstadt, Germany (see note 30).

9 Financial income

CHF million	2009	2008
Interest income	4.0	9.5
Income from non-consolidated investments	0.7	0.5
Total	**4.7**	**10.0**

10 Financial expenses

CHF million	2009	2008
Interest cost	27.6	21.1
Loss on marketable securities	0.2	42.6
Other financial expenses and foreign exchange differences, net	1.8	11.0
Total	**29.6**	**74.7**

11 Income taxes

CHF million	2009	2008
Current income tax expense	11.3	32.0
Deferred income tax expense	– 5.3	– 12.1
Total	**6.0**	**19.9**

Reconciliation of expected and actual tax expense:

CHF million	2009	2008
Expected tax expense on pre-tax result of – 211.5 million CHF (– 376.8 million CHF in 2008) at an average rate of 35.5% (21.1% in 2008)	– 75.0	– 79.5
Impact of non tax-deductible income/expenses	2.5	– 0.1
Impact of losses and loss carry-forwards	77.4	93.4
Impact of changes in tax rates and tax legislation	– 2.4	– 0.6
Other effects	3.5	6.7
Total	**6.0**	**19.9**

Deferred income taxes

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

CHF million	Deferred tax assets 2009	Deferred tax liabilities 2009	Deferred tax assets 2008	Deferred tax liabilities 2008
Tangible fixed assets	7.9	– 23.1	4.7	– 24.7
Inventories	7.2	– 5.0	9.2	– 7.4
Other assets	2.8	– 44.7	4.7	– 30.4
Provisions	9.8	– 4.7	5.5	– 3.4
Other liabilities	10.3	– 14.0	15.2	– 16.8
Valuation adjustments on deferred tax assets	– 20.8	0.0	– 15.1	0.0
Tax loss carry-forwards and tax credits	2.8	0.0	1.0	0.0
Total	20.0	– 91.5	25.2	– 82.7
Offsetting	– 16.5	16.5	– 20.3	20.3
Deferred tax assets/liabilities	**3.5**	**– 75.0**	**4.9**	**– 62.4**

In compliance with the exception clause of IAS 12.39, the Group does not recognize deferred taxes on investments in subsidiaries. The potential tax effect of profit distributions from subsidiaries to the parent company varies from country to country and can not be reliably determined.

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

CHF million	Capitalized 2009	Non capitalized 2009	Total 2009	Total 2008
Expiry in				
1 to 3 years	0.2	4.6	4.8	3.1
3 to 7 years	0.8	15.0	15.8	6.9
7 or more years	1.8	209.7	211.5	143.7
Total	**2.8**	**229.3**	**232.1**	**153.7**

The unused tax losses for which no deferred tax asset has been recognized originate primarily from countries with a tax rate between 28% and 40%.

12 Research and development

In 2009, 98.7 million CHF was spent on research and development (122.3 million CHF in 2008).

Research and development at Textile Systems continued to focus on the further development of spinning preparation and end spinning machinery, technology components for cotton spinning mills and the development of new end spinning machines. Developments are aimed at machinery and technology components for the Asian market and achieving improved yarn quality, a better price/performance ratio, higher productivity and lower power consumption.

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

As in the previous year, no development costs were capitalized in 2009, since the respective IFRS requirements were not met.

13 Tangible fixed assets

CHF million	Land and buildings	Machinery, equipment and tools	Data processing equipment	Vehicles and furniture	Machinery and tools under construction	Total tangible fixed assets
Net book value at January 1, 2008	**337.6**	**485.2**	**11.6**	**20.2**	**62.8**	**917.4**
Reclassification	2.3	26.9	0.5	1.6	– 31.3	0.0
Additions by acquisitions	0.0	0.3	0.0	0.0	0.0	0.3
Other additions	21.3	75.3	3.9	3.7	36.7	140.9
Disposals by divestments	– 14.9	– 4.9	– 0.2	– 0.8	– 1.6	– 22.4
Other disposals	– 5.5	– 3.9	0.0	– 0.3	– 2.2	– 11.9
Depreciation[1]	– 16.9	– 125.1	– 5.5	– 6.8	0.0	– 154.3
Currency effects	– 33.4	– 42.0	– 0.7	– 1.7	– 5.9	– 83.7
Net book value at December 31, 2008	**290.5**	**411.8**	**9.6**	**15.9**	**58.5**	**786.3**
Cost at December 31, 2008	566.4	1 547.3	66.4	91.3	59.1	2 330.5
Accumulated depreciation at December 31, 2008	– 275.9	– 1 135.5	– 56.8	– 75.4	– 0.6	– 1 544.2
Net book value at December 31, 2008	**290.5**	**411.8**	**9.6**	**15.9**	**58.5**	**786.3**
Reclassification	9.5	19.5	0.0	0.1	– 29.1	0.0
Additions	4.2	41.0	1.2	1.1	14.2	61.7
Disposals by divestments	– 19.5	0.0	0.0	0.0	0.0	– 19.5
Reclassification to disposal group	– 0.1	– 0.1	– 0.1	– 0.1	0.0	– 0.4
Other disposals	– 7.5	– 0.6	0.0	0.0	– 1.0	– 9.1
Depreciation	– 16.8	– 106.6	– 4.6	– 5.7	0.0	– 133.7
Currency effects	3.8	6.3	0.1	– 0.6	1.1	10.7
Net book value at December 31, 2009	**264.1**	**371.3**	**6.2**	**10.7**	**43.7**	**696.0**
Cost at December 31, 2009	543.7	1 579.9	62.9	87.7	43.7	2 317.9
Accumulated depreciation at December 31, 2009	– 279.6	– 1 208.6	– 56.7	– 77.0	0.0	– 1 621.9
Net book value at December 31, 2009	**264.1**	**371.3**	**6.2**	**10.7**	**43.7**	**696.0**

1. Includes 9.0 Mio. CHF write-offs in connection with the restructuring program.

The book value of tangible assets held under finance leases was 4.3 million CHF (6.4 million CHF in 2008). As of December 31, 2009 land and buildings with a net book value of 57.0 million CHF were pledged for financial debt.

Land and buildings

CHF million	2009	2008
Land in operational use	56.2	54.9
Buildings in operational use	207.9	217.2
Non-operational property	0.0	18.4
Total	**264.1**	**290.5**

Buildings were insured at the replacement value of 1 353.4 million CHF at balance sheet date (1 337.9 million CHF in 2008).

Non-operational property

CHF million	2009	2008
Net book value at January 1	18.4	18.9
Additions	0.0	2.0
Disposals	– 18.3	– 2.2
Depreciation	– 0.1	– 0.3
Net book value at December 31	**0.0**	**18.4**
Market value at December 31	**0.0**	**22.2**

In 2009 all non-operational property was sold.

14 Intangible assets

CHF million	Goodwill	Patents/ trademarks	Other intangible assets	Total intangible assets
Net book value at January 1, 2008	**120.4**	**35.9**	**0.3**	**156.6**
Additions by acquisitions	2.6	0.3	3.3	6.2
Disposals by divestments	– 21.6	0.0	0.0	– 21.6
Amortization	0.0	– 0.4	– 8.0	– 8.4
Impairment charges	– 96.8	0.0	0.0	– 96.8
Currency effects	– 4.6	– 8.5	7.3	– 5.8
Net book value at December 31, 2008	**0.0**	**27.3**	**2.9**	**30.2**
Cost at December 31, 2008		47.1	5.1	52.2
Accumulated amortization at December 31, 2008		– 19.8	– 2.2	– 22.0
Net book value at December 31, 2008		**27.3**	**2.9**	**30.2**
Amortization		– 6.7	– 0.5	– 7.2
Currency effects		0.0	0.0	0.0
Net book value at December 31, 2009		**20.6**	**2.4**	**23.0**
Cost at December 31, 2009		47.1	5.1	52.2
Accumulated amortization at December 31, 2009		– 26.5	– 2.7	– 29.2
Net book value at December 31, 2009		**20.6**	**2.4**	**23.0**

In 2008, goodwill allocated to the cash-generating units Division Textile Systems (48.1 million CHF) and Division Automotive Systems (48.7 million CHF) was fully written off based on the impairment tests.

In 2009 the impairment test on other assets 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 best estimate for a period of five years prepared by the management in charge and takes into account past experience over a long economic cycle, but no further growth. For the value-in-use calculation future cash flows were discounted with the weighted average cost of capital before taxes of 12.0% (12.5% in 2008) for Textile Systems and 12.7% (13.2% in 2008) for Automotive Systems. Based on the impairment tests, it was not necessary to recognize impairment charges in 2009.

15 Other non-current assets

CHF million	2009	2008
Investments in non-consolidated companies	70.1	16.0
Long-term interest-bearing receivables	4.2	4.3
Other long-term receivables and pension funds	89.7	87.6
Total	**164.0**	**107.9**

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

16 Inventories

CHF million	2009	2008
Raw materials and consumables	74.0	97.1
Purchased parts and goods for resale	57.3	71.9
Semi-finished and finished goods	91.4	109.0
Work in progress	99.8	130.0
Allowance	– 56.5	– 46.7
Total	**266.0**	**361.3**

The following summarizes the movement in the allowance for inventories:

CHF million	2009	2008
Allowance at January 1	– 46.7	– 52.0
Utilization	0.7	5.9
Additions, net	– 10.6	– 4.3
Currency effects	0.1	3.7
Allowance at December 31	**– 56.5**	**– 46.7**

17 Trade receivables

CHF million	2009	2008
Trade receivables	358.7	405.2
Allowance for doubtful receivables	– 27.2	– 23.1
Total	**331.5**	**382.1**

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

CHF million	2009	2008
Allowance for doubtful receivables at January 1	– 23.1	– 21.4
Increase charged to income statement	– 9.8	– 2.1
Utilization or reversal	5.6	2.3
Currency effects	0.1	– 1.9
Allowance for doubtful receivables at December 31	**– 27.2**	**– 23.1**

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

Trade receivables include amounts denominated in the following major currencies:

CHF million	2009	2008
CHF	33.5	47.0
EUR	213.8	269.1
USD	41.1	37.6
GBP	3.6	3.5
Other	39.5	24.9
Total	**331.5**	**382.1**

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

CHF million	2009	2008
Not due	273.2	313.7
Past due less than 3 months	48.8	56.9
Past due 3 to 6 months	3.4	6.6
Past due 6 months to 1 year	4.2	1.2
Past due 1 to 5 years	0.0	1.5
Past due 5 or more years	1.9	2.2
Total	**331.5**	**382.1**

18 Other receivables

CHF million	2009	2008
Prepaid expenses and deferred charges	18.8	22.4
Advance payments to suppliers	13.0	36.2
Positive replacement values of derivative financial instruments	2.3	1.0
Other short-term receivables	58.3	66.3
Total	**92.4**	**125.9**

19 Marketable securities and time depostits

CHF million	2009	2008
Securities available for sale	2.0	3.0
Securities held for trading	0.0	0.1
Time deposits with original maturities between 3 and 12 months	11.0	4.6
Total	**13.0**	**7.7**

20 Cash and cash equivalents

CHF million	2009	2008
Cash and banks	179.8	257.5
Time deposits with original maturities up to 3 months	37.9	25.1
Total	**217.7**	**282.6**

21 Share capital

		31.12.2009	31.12.2008
Shares issued	Number of shares	4 672 363	4 283 056
Treasury shares[1]	Number of shares	27 628	476 743
Shares outstanding	**Shares outstanding**	**4 644 735**	**3 806 313**
Nominal value per share	CHF	5.00	5.00
Share capital	**CHF**	**23 361 815**	**21 415 280**

1. As of December 31, 2008 including shares at the disposal of the Board of Directors.

22 Minority interests

The main minority interests held by third parties are in UGN Inc. (USA), Rieter India Pvt. (India), Rieter Nittoku (Guangzhou) Automotive Sound-Proof Co. Ltd. (China), Tianjin Rieter Nittoku Automotive Sound-Proof Co. Ltd. (China) and Rieter-LMW Machinery Ltd. (India).

For one minority interest there is a put and a call option. The minority shareholders are entitled to sell their share within five years at an agreed minimum price. The fair value of this put option has been recognized in retained earnings as a financial debt in accordance with IAS 32. Rieter is entitled to buy the shares at an agreed minimum price within seven years (call option).

23 Financial debt

CHF million	Bank debt	Finance leasing obligations	Other financial debt	Total 2009	Total 2008
Duration less than 1 year	79.5	1.0	1.2	81.7	198.3
Duration 1 to 5 years	108.6	3.3	27.3	139.2	128.6
Duration 5 or more years	0.0	0.3	1.2	1.5	0.2
Total	**188.1**	**4.6**	**29.7**	**222.4**	**327.1**

As of December 31, 2009 bank debt of 103.6 million CHF was secured by land and buildings.

By currency, financial debt is divided up as follows:

CHF million	2009	2008
CHF	119.9	191.1
EUR	50.8	58.8
USD	9.7	13.6
Other	42.0	63.6
Total	**222.4**	**327.1**

24 Provisions

CHF million	Restructuring provisions	Pension provisions	Guarantee and warranty provisions	Environment provisions	Other provisions	Total provisions
Provisions at December 31, 2008	**183.6**	**75.1**	**37.1**	**11.9**	**72.8**	**380.5**
Reclassification	–9.8	9.1	0.0	0.0	0.7	0.0
Disposals by divestments	0.0	0.0	0.0	0.0	–0.1	–0.1
Utilization	–41.4	–5.4	–15.0	0.0	–23.2	–85.0
Release	0.0	–0.5	–1.5	–0.9	–8.7	–11.6
Additions	0.0	2.3	22.6	0.0	47.4	72.3
Currency effects	0.1	0.1	0.0	0.0	0.2	0.4
Provisions at December 31, 2009	**132.5**	**80.7**	**43.2**	**11.0**	**89.1**	**356.5**
Thereof non-current	13.8	80.5	30.0	11.0	46.9	182.2
Thereof current	118.7	0.2	13.2	0.0	42.2	174.3

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

Pension provisions include the liabilities in connection with defined benefit plans (see note 32) and other long-term benefits to employees.

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

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

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

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

25 Other current liabilities

CHF million	2009	2008
Accrued holidays	18.9	20.9
Accrued sales commissions	15.3	23.8
Other accrued expenses	68.1	69.0
Negative replacement values of derivative financial instruments	0.5	3.4
Other short-term liabilities	74.5	82.2
Total	**177.3**	**199.3**

26 Related parties

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

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

CHF million	2009	2008
Compensation	2.4	3.0
Employee benefit contributions	0.1	0.1
Social security	0.0	0.0
Share-based compensation	0.6	1.1
Other long-term benefits	0.0	0.0
Total	**3.1**	**4.2**

The remuneration report and the compensation of the Board of Directors and the Group Executive Committee in compliance with Swiss law are disclosed in the financial statements of Rieter Holding Ltd. on pages 73 to 75.

Rieter Real Estate Ltd. (see note 30) was sold to related party institutional investors. Apart from compensation to the Board of Directors and the Executive Committee and the ordinary contributions to the various employee benefit plans, there have been no further material transactions with related parties.

27 Financial instruments

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

CHF million	2009	2008
Cash (excluding time deposits)	**179.8**	**257.5**
Securities held for trading[1]	0.0	0.1
Positive replacement values of derivative financial instruments[2]	2.3	1.0
Investments in non-consolidated companies[2]	1.8	4.2
Total financial assets at fair value through profit and loss	**4.1**	**5.3**
Time deposits with original maturities up to 3 months	37.9	25.1
Time deposits with original maturities between 3 and 12 months	11.0	4.6
Trade receivables	331.5	382.1
Other short-term receivables	58.3	66.3
Long-term interest-bearing receivables	4.2	4.3
Total loans and receivables	**442.9**	**482.4**
Securities available for sale[1]	2.0	3.0
Investments in non-consolidated companies[2]	68.3	11.8
Total available for sale financial assets	**70.3**	**14.8**
Total financial assets and derivatives	**697.1**	**760.0**

CHF million	2009	2008
Short-term financial debt	81.7	198.3
Long-term financial debt (without put option minorities)	116.2	128.8
Put option minority interests[3]	24.5	0.0
Negative replacement values of derivative financial instruments[2]	0.5	3.4
Total financial debt and derivatives	**222.9**	**330.5**

1. Measured at fair values which are based on quoted prices in active markets (level 1 according to IFRS 7.27).
2. Measured at fair values which are calculated based on observable market data (level 2 according to IFRS 7.27).
3 Measured at fair values which are not based on observable market data (level 3 according to IFRS 7.27).

Financial instruments measured at level 3 (according to IFRS 7.27) concern the following item:
In 2009 a group of non-controlling shareholders acquired a non-controlling interest in a subsidiary together with a put option on such non-controlling interest. The valuation of this put option is based on the expected future earnings development of the concerned subsidiary up to the earliest possible execution date. The value of the put option was discounted by 9.4% and recognized as a financial debt of 22.9 million CHF. In 2009 the financial debt was increased by 1.6 million CHF by debiting interest expenses. If the value of the put option had been discounted by 8.4% the recognized financial debt would have been 1.1 million CHF higher.

28 Other commitments

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

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

CHF million	2009	2008
Up to 1 year	12.4	12.5
1 to 5 years	25.0	24.0
5 or more years	3.9	5.8
Total	**41.3**	**42.3**

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

29 Assets and liabilities from disposal groups

On December 11, 2009, Rieter signed a contract for the sale of the non-wovens activities of Division Textile Systems. The contract was closed on March 9, 2010.

In accordance with IFRS 5 the concerned assets and liabilities were classified as a disposal group in the balance sheet and were as follows:

CHF million	2009
Non-current assets	0.4
Current assets (without cash and cash equivalents)	4.5
Cash and cash equivalents	2.1
Total assets of disposal group	**7.0**
Long-term liabilities	1.3
Short-term liabilities	12.1
Total liabilities of disposal group	**13.4**

30 Divestments

On March 31, 2009, Rieter sold Rieter Real Estate Ltd. in Winterthur. The resulting divestment gain of 4.5 million CHF was recognized in other operating income.

The assets and liabilities arising from divestments were as follows:

CHF million	2009
Non-current assets	19.5
Current assets (without cash and cash equivalents)	1.3
Liabilities	– 3.2
Net disposed assets and liabilities	**17.6**
Profit on divestments	4.5
Cash from divestments	**22.1**

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

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

In aggregate, the assets and liabilities arising from the divestment were as follows:

CHF million	**2008**
Non-current assets	44.0
Current assets (without cash and cash equivalents)	29.3
Liabilities	– 29.0
Net disposed assets and liabilities	**44.3**
Profit and loss on divestments	– 2.6
Cash from divestments	**41.7**

31 Acquisitions

There were no acquisitions in 2009.

As of January 1, 2008 Rieter completed the components business of the Textile Systems Division with the acquisition of textile component manufacturer Berkol.

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

CHF million	**Fair value**	**Adjustments**	**Book value before adjust- ments**
Tangible fixed assets	0.3	0.0	0.3
Intangible assets, excluding goodwill	3.6	3.6	0.0
Inventories	2.5	0.2	2.3
Short-term liabilities	– 0.5		– 0.5
Net identifiable assets	**5.9**	**3.8**	**2.1**
Goodwill	2.6[1]		
Cash used for acquisitions	**8.5**		

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

32 Pension plans

The expense for pension plans is included in employee costs.

Defined contribution plans

The expense for defined contribution plans amounted to 5.8 million CHF (9.2 million CHF in 2008).

Defined benefit plans

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

Funded status of defined benefit plans

CHF million	2009	2008
Actuarial present value of defined benefit obligation		
• unfunded plans	–43.9	–46.4
• funded plans	–1 048.3	–989.0
Defined benefit obligation at December 31	**–1 092.2**	**–1 035.4**
Fair value of plan assets	1 145.4	1 010.4
Surplus/Deficit at December 31	**53.2**	**–25.0**
Unrecognized actuarial gains and losses	15.1	58.2
Unrecognizable assets of pension plans (due to limit of IAS 19.58)	–54.2	–20.3
Net asset at December 31	**14.1**	**12.9**
Recognized in the balance sheet		
• as assets	70.7	71.6
• as pension provisions	–56.6	–58.7

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

CHF million	2009	2008
Defined benefit obligation at January 1	**1 035.4**	**1 294.1**
Reductions due to divestments	0.0	–11.0
Current service cost, net	12.8	13.6
Interest cost	37.3	46.2
Employee contributions	9.9	9.6
Actuarial gains/losses	78.5	–238.8
Past service cost	0.8	0.3
Benefits paid	–83.7	–61.3
Currency effects	1.2	–17.3
Defined benefit obligation at December 31	**1 092.2**	**1 035.4**

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

CHF million	2009	2008
Fair value of plan assets at January 1	**1 010.4**	**1 474.4**
Expected return on plan assets	41.6	60.2
Actuarial gains/losses	144.2	–482.4
Employer contributions	21.2	20.2
Employee contributions	9.9	9.6
Benefits paid	–83.7	–61.3
Currency effects	1.8	–10.3
Fair value of plan assets at December 31	**1 145.4**	**1 010.4**

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

in %	2009	2008
Equity	61	50
Debt	11	14
Real estate	24	29
Other	4	7

Pension plan assets included 22 614 Rieter shares with a market value of 5.3 million CHF (140 729 shares with a market value of 24.1 million CHF in 2008).

Pension costs of defined benefit plans

CHF million	2009	2008
Current service cost, net	12.8	13.6
Interest cost	37.3	46.2
Expected return on plan assets	– 41.6	– 60.2
Recognized actuarial gains/losses	– 22.4	189.0
Past service cost	0.8	0.3
Impact of limit of IAS 19.58	33.9	– 172.6
Pension costs of defined benefit plans	**20.8**	**16.3**

The Group expects to contribute 19 million CHF to its defined benefit pension plans in 2010. The actual return on plan assets was – 185.8 million CHF (– 422.2 million CHF in 2008).

Actuarial assumptions

Weighted average in %	2009	2008
Discount rate	3.5	3.7
Expected return on plan assets	4.1	4.1
Future wage growth	1.4	1.4
Future pension growth	0.9	0.9

Additional disclosure

CHF million	2009	2008	2007	2006	2005
Defined benefit obligation	– 1 092.2	– 1 035.4	– 1 294.1	– 1 184.8	– 1 088.1
Plan assets	1 145.4	1 010.4	1 474.4	1 443.7	1 240.9
Surplus/deficit	**53.2**	**– 25.0**	**180.3**	**258.9**	**152.8**
Experience adjustment on plan liabilities	34.3	– 17.3	117.6	34.5	– 8.8
Experience adjustment on plan assets	144.2	– 482.4	26.8	174.5	132.0

33 Share-based compensation

Rieter has established a share purchase plan for its senior management. Between March 25 and April 17, 2009, 59 participants purchased 33 524 shares at a price of 97.00 CHF per share (14 400 shares at 249.00 CHF in 2008). The average market value of shares granted was 144.39 CHF (365.31 CHF in 2008). 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 Group Executive Committee could subscribe to one additional free option for each share which was purchased, subject to restrictions on sale under the above plan. Each option entitles the holder to purchase a share after two years at a price of 136.90 CHF (359.00 CHF in 2008). There are no vesting conditions.

In 2009 the costs resulting from the share purchase plan amounted to 1.6 million CHF (1.8 million CHF in 2008). The costs resulting from the share option plan amounted to 0.2 million CHF (0.2 million CHF in 2008).

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

The estimated fair value of each share option granted to the members of the Group Executive Committee in 2009 is 32.45 CHF. These values were calculated by applying an adapted model of the Black-Scholes option pricing model. The following parameters have been used:

Share price on the date granted	CHF	139.00
Exercise price	CHF	136.90
Expected volatility (based on historical data)	%	37.30
Option life	Years	5
Risk-free interest rate	%	1.29
Dividend yield	%	1.61

Change in options granted

	Number of options 2009	Weighted average exercise price in CHF 2009	Number of options 2008	Weighted average exercise price in CHF 2008
Outstanding at January 1	**11 041**	**492.15**	**6 736**	**577.25**
Granted	7 128	136.90	4 305	359.00
Exercised	0	0.00	0	0.00
Outstanding at December 31	**18 169**	**352.78**	**11 041**	**492.15**
Exercisable at December 31	**6 736**	**577.25**	**3 379**	**501.00**

No options expired in 2009 and 2008.

The share options outstanding at December 31, 2009, had an exercise price between 136.90 CHF and 654.00 CHF and a weighted average contractual life of 3.26 years.

34 Cash flow

CHF million	2009	2008[1]
Net result	– 217.5	– 396.7
Depreciation and amortization of tangible and intangible assets	140.9	259.5
Profit/loss on divestments, net	– 4.5	2.6
Other non-cash income and expenses	– 11.9	32.2
Cash flow	**– 93.0**	**– 102.4**
Change in provisions	– 50.3	32.5
Net cash flow	**– 143.3**	**– 69.9**
Change in net working capital	141.7	127.1
Capital expenditure on tangible and intangible assets, net	– 45.4	– 118.7
Change in financial assets, net	– 4.3	– 9.2
Change in marketable securities	– 5.6	58.9
Divestments	22.1	41.7
Acquisitions	0.0	– 8.5
Free cash flow	**– 34.8**	**21.4**

1. Adjusted to the 2009 presentation.

35 Net liquidity

Net liquidity at December 31 was as follows:

CHF million	2009	2008
Cash and cash equivalents	217.7	282.6
Cash and cash equivalents disposal group	2.1	0.0
Marketable securities	13.0	7.7
Short-term financial debt	– 81.7	– 198.3
Long-term financial debt	– 140.7	– 128.8
Net liquidity	**10.4**	**– 36.8**

36 Exchange rates for currency translation

CHF million		Average annual rates 2009	Average annual rates 2008	Year-end rates 2009	Year-end rates 2008
Argentina	1 ARS	0.29	0.34	0.27	0.31
Brazil	1 BRL	0.55	0.60	0.59	0.45
Canada	1 CAD	0.95	1.02	0.98	0.87
China	100 CNY	15.88	15.59	15.22	15.50
Czech Republic	100 CZK	5.72	6.36	5.61	5.59
Euro countries	1 EUR	1.51	1.59	1.48	1.49
Great Britain	1 GBP	1.70	2.00	1.67	1.54
Hong Kong	100 HKD	14.00	13.90	13.31	13.66
India	100 INR	2.24	2.50	2.21	2.18
Poland	100 PLN	35.00	45.35	36.15	35.65
Taiwan	100 TWD	3.28	3.43	3.25	3.22
USA	1 USD	1.09	1.08	1.03	1.06

37 Events after balance sheet date

The contract regarding the sale of Rieter Perfojet in France (see note 29), which was signed in December 2009, was closed on March 9, 2010.

38 Approval for publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Board of Directors on March 17, 2010. They are also subject to approval by the Annual General Meeting of shareholders. No events have occurred up to March 17, 2010, 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, 2009

			Paid-in capital	Group interest	Research & development	Sales/trading	Production	Services/financing
Argentina	Rieter Automotive Argentina S.A., Córdoba	ARS	15 643 600	98%		•	•	
Belgium	Rieter Automotive Belgium N.V., Genk	EUR	7 994 569	100%		•	•	
Brazil	Graf Máquinas Têxteis Ind.e.com. Ltda., São Paulo	BRL	10 220 000	100%		•	•	•
	Rieter Automotive Brasil-Artefatos de Fibras Têxteis Ltda., São Bernardo d.C.	BRL	87 335 251	100%	•	•	•	
	Rieter South America Ltda., São Paulo	BRL	3 287 207	100%		•		
Canada	Rieter Automotive Mastico Ltd., Tillsonburg	CAD	381 000	100%	•	•	•	
China	Rieter Changzhou Textile Instruments Co. Ltd., Changzhou	EUR	37 800 000	100%			•	
	Rieter Textile Systems (Shanghai) Co. Ltd., Shanghai	USD	200 000	100%		•		
	Rieter Asia (Hong Kong) Ltd., Hongkong	HKD	1 000	100%		•		
	Rieter Automotive (Chongqing) Sound-Proof Parts Co. Ltd., Chongqing	CHF	7 600 000	100%			•	
	Rieter Nittoku (Guangzhou) Automotive Sound-Proof Co. Ltd., Guangzhou City	USD	9 250 000	51%		•	•	
	Tianjin Rieter Nittoku Automotive Sound-Proof Co. Ltd., Tianjin	USD	5 700 000	51%		•	•	
Czech Republic	Rieter CZ a.s., Ústí nad Orlicí	CZK	982 169 000	100%	•	•	•	•
	Novibra Boskovice s.r.o., Boskovice	CZK	40 000 000	100%	•	•	•	
France	Rieter France SAS, Lyon	EUR	39 843 540	100%				•
	Rieter Perfojet SAS, Grenoble	EUR	1 033 600	100%	•	•	•	•
	Graf France Sàrl, Illzach	EUR	150 000	100%		•		•
	Rieter Automotive France SAS, Aubergenville	EUR	8 000 000	100%	•	•	•	
Germany	Rieter Vertriebs GmbH, Ingolstadt	EUR	15 338 756	100%		•		•
	Rieter Deutschland GmbH & Co. OHG, Ingolstadt	EUR	15 645 531	100%		•		•
	Rieter Ingolstadt GmbH, Ingolstadt	EUR	12 273 600	100%	•	•	•	•
	Wilhelm Stahlecker GmbH, Reichenbach im Täle	EUR	255 645	100%	•			
	Spindelfabrik Suessen GmbH, Süssen	EUR	5 050 100	100%	•	•	•	•
	Graf-Kratzen GmbH, Gersthofen	EUR	400 000	100%		•		•
	Rieter Automotive Germany GmbH, Rossdorf	EUR	11 248 421	100%	•	•	•	
Great Britain	Rieter Automotive Great Britain Ltd., Heckmondwike	GBP	22 832 137	100%	•	•	•	
India	Rieter India Pvt. Ltd., New Delhi	IND	34 901 990	74%		•		
	Rieter-LMW Machinery Ltd., Coimbatore	INR	250 000 000	50%			•	
	Lakshmi Machine Works Ltd., Coimbatore[1]	INR	123 692 500	13%	•	•	•	•
	Rieter Automotive India Pvt. Ltd., New Delhi	INR	293 626 000	100%		•	•	

			Paid-in capital	Group interest	Research & development	Sales/trading	Production	Services/financing
Italy	Graf Italia S.r.l., Bergamo	EUR	500 000	100%		•	•	•
	Rieter Automotive Fimit S.p.A., Milan	EUR	8 400 000	100%	•	•	•	
	Idea Institute S.p.A., Turin	EUR	120 000	100%	•			•
Netherlands	Graf Holland B.V., Enschede	EUR	113 445	100%		•	•	•
Poland	Rieter Automotive Poland Sp.z.o.o., Katowice	PLN	20 844 000	100%		•	•	
Portugal	Rieter Componentes para Veículos Lda., Setúbal	EUR	598 557	87%		•	•	
Switzerland	Rieter Management AG, Winterthur	CHF	5 000 000	100%				•
	Tefina Holding-Gesellschaft AG, Zug	CHF	5 000 000	100%				•
	Sofima AG, Winterthur	CHF	1 000 000	100%				•
	Rieter Services AG, Winterthur	CHF	3 000 000	100%				•
	Maschinenfabrik Rieter AG, Winterthur	CHF	8 500 000	100%	•	•	•	•
	Schaltag AG, Effretikon	CHF	400 000	100%	•	•	•	
	Hogra Holding AG, Freienbach	CHF	1 000 000	100%				•
	Graf + Cie AG, Rapperswil	CHF	1 000 000	100%	•	•	•	•
	Bräcker AG, Pfäffikon	CHF	1 000 000	100%	•	•	•	•
	Rieter Automotive Heatshields AG, Sevelen	CHF	250 000	100%	•	•	•	
	Rieter Automotive Management AG, Winterthur	CHF	1 300 000	100%	•			•
	Rieter Automotive (International) AG, Winterthur	CHF	5 000 000	100%				•
Spain	Graf España S.A., Santa Perpètua de Mogoda	EUR	601 012	100%		•	•	•
	Rieter Saifa S.A., Barcelona	EUR	847 410	100%	•	•	•	
Taiwan	Rieter Asia (Taiwan) Ltd., Taipeh	TWD	5 000 000	100%		•		
Thailand	Summit Rieter Nittoku Sound Proof Co. Ltd., Changwat Chonburi[1]	THB	100 000 000	30%		•	•	
Turkey	Rieter Textile Machinery Trading & Services Ltd., Levent	TRY	25 000	70%				•
	Rieter Erkurt Otomotive Yan Sanayi ve Ticaret AS, Bursa	TRY	700 000	51%	•	•	•	
USA	Rieter Corporation, Spartanburg	USD	1 249	100%		•		
	Graf Metallic of America Inc., Spartanburg	USD	50 000	100%		•		•
	Rieter Automotive North America Inc., Farmington Hills	USD	1 000	100%	•	•	•	
	UGN, Inc., Chicago	USD	1 000 000	50%	•	•	•	
	Rieter Automotive North America Carpet, Bloomsburg		[2]	100%	•	•	•	
	Rieter America Corporation, Farmington Hills	USD	1	100%				•

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

Report of the statutory auditor on the consolidated financial statements

PRICEWATERHOUSECOOPERS

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

As statutory auditor, we have audited the consolidated financial statements of Rieter Holding Ltd., which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in consolidated equity and notes (pages 30 to 65), for the year ended December 31, 2009.

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended December 31, 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Urs Honegger Audit expert Auditor in charge	Nicolas Mayer

Zurich, March 18, 2010

Income statement of Rieter Holding Ltd.

for the financial year from January 1 to December 31

CHF million	Notes	2009	2008
Income			
Income from investments	(1)	48.8	107.7
Income from marketable securities and interest income	(2)	12.4	– 62.8
Other income	(3)	4.8	10.5
Total income		**66.0**	**55.4**
Expenses			
Financial expenses	(4)	20.6	13.3
Administration expenses		4.8	4.2
Value adjustments, provisions	(5)	39.6	35.0
Total expenses		**65.0**	**52.5**
Net profit		**1.0**	**2.9**

Balance sheet of Rieter Holding Ltd.

at December 31, before appropriation of profit

CHF million	Notes	2009	2008
Assets			
Investments in and loans to subsidiaries	(6)	553.9	572.7
Non-current assets		**553.9**	**572.7**
Accrued income and prepayments	(7)	8.4	1.4
Receivables	(8)	139.9	70.7
Liquid funds	(9)	76.2	208.7
Current assets		**224.5**	**280.8**
Total assets		**778.4**	**853.5**
Shareholders' equity and liabilities			
Share capital	(10)	23.4	21.4
Legal reserves			
• General reserve	(11)	27.5	27.5
• Reserve for own shares	(12)	6.4	122.8
Other reserves	(13)	279.3	86.0
Retained earnings	(14)		
• Balance brought forward		43.7	40.8
• Net profit for the year		1.0	2.9
Shareholders' equity		**381.3**	**301.4**
Long-term financial debt	(15)	250.0	270.0
Provisions	(16)	11.3	11.3
Non-current liabilities		**261.3**	**281.3**
Short-term liabilities	(17)	133.3	268.5
Accrued liabilities		2.5	2.3
Current liabilities		**135.8**	**270.8**
Liabilities		**397.1**	**552.1**
Total shareholders' equity and liabilities		**778.4**	**853.5**

Notes to the financial statements of Rieter Holding Ltd.

1 Income from investments

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

2 Income from marketable securities and interest income

This includes income from marketable securities, interest income as well as the foreign exchange result.

3 Other income

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

4 Financial expenses

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

5 Value adjustments, provisions

The value adjustment for general business risks was increased by 39.6 million CHF and deducted from investments in and loans to subsidiaries.

6 Investments in and loans to subsidiaries

CHF million	2009	2008
Investments in subsidiaries	215.3	261.5
Loans to subsidiaries	338.6	311.2
Total	**553.9**	**572.7**

The main subsidiaries and associated companies are listed on pages 64 and 65. These investments are held directly or indirectly by Rieter Holding Ltd.

7 Accrued income and prepayments

Accrued income and prepayments consist mainly of accrued interest on granted loans, foreign exchange transactions and accrued financing costs.

8 Receivables

CHF million	2009	2008
Receivables from third parties	0.7	2.5
Receivables from subsidiaries	139.2	68.2
Total	**139.9**	**70.7**

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

9 Liquid funds

CHF million	2009	2008
Cash and cash equivalents	74.5	178.3
Marketable securities[1]	1.7	30.4
Total	**76.2**	**208.7**

1. Incl. own shares.

10 Share capital

On May 5, 2009, Rieter alloted to its shareholders one shareholders' option for each share held. Eleven shareholders' options entitled the holder to purchase one new Rieter share at a price of 120 CHF. Up to May 29, 2009 (the end of the purchase period) 389 307 new Rieter shares were purchased, which increased share capital by 9.1% from 21 415 280 CHF to 23 361 815 CHF.

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, 2009	223 743
Purchases January to December 2009 (average price 163.36 CHF)	20 224
Sales January to December 2009 (average price 137.55 CHF)	216 339
Registered shares held at December 31, 2009	27 628

A reserve for own shares has been made at an acquisition cost of 6.4 million CHF. This amount was deducted from other reserves.

13 Other reserves

CHF million	2009	2008
Opening balance	86.0	120.2
Transfer to reserve for own shares	116.4	36.5
Share buyback	0.0	–73.8
Premium received on shares issued	76.9	3.1
Total	**279.3**	**86.0**

Share premium relates to the sale of 253 000 reserved treasury shares and the issue of 389 307 new shares (see also note 10).

14 Retained earnings

Including the balance brought forward, the Annual General Meeting has a total of 44.7 million CHF at its disposal (43.7 million CHF in 2008).

15 Long-term financial debt

CHF million	2009	2008
Financial debt	100.0	100.0
Loans from subsidiaries	150.0	170.0
Total	**250.0**	**270.0**

In 2009 long-term financial debts were reduced by 20 million CHF.

16 Provisions

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

17 Short-term liabilities

CHF million	2009	2008
Liabilities to Group companies	132.9	177.7
Liabilities to third parties	0.4	90.8
Total	**133.3**	**268.5**

Rieter Holding Ltd. manages liquid funds for Group companies in the central cash pool. In 2009 short-term liabilites to third parties could be reduced by some 90 million CHF.

18 Guarantees to third parties

CHF million	2009	2008
Guarantees	42.1	12.3

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

19 Shareholders

Major groups of shareholders with holdings exceeding 3% of all voting rights (pursuant to Art. 663c of the Swiss Code of Obligations) at December 31, 2009:

According to the notification on August 27, 2009, PCS Holding, Weiningen, Switzerland, held 894 223 shares.

According to the notification on August 27, 2009, the investment group Artemis Beteiligungen IV AG, Hergiswil, Switzerland, and Forbo International SA, Baar, Switzerland, held 677 549 shares.

According to the notification on December 7, 2009, First Eagle Investment Management LLC, Wilmington, USA, formerly called Arnhold and S. Bleichroeder Advisers LLC, New York, USA, held 183 274 shares.

20 Risk management

The detailed disclosures regarding the risk management that are required by law are included in the consolidated financial statements of the Rieter Group on page 39.

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

Content and process for specifying remuneration and equity participation programs

The basic features of salary policy are elaborated by the personnel committee and adopted by the Board of Directors as a whole, which also approves the bonus program, the share purchase plan and the option plan. The Board of Directors approves the remuneration of the members of the Board of Directors and the Group Executive Committee on the basis of proposals submitted by the personnel committee. The Board of Directors anually reviews the main features of the salary policy. It rules on the adjustment of the basic salary of the members of the Group Executive Committee annually and stipulates the targets for performance related payments and the key data for the share purchase plan and the option plan. The Board of Directors has not engaged independent consultants for elaborating the salary policy or the compensation programs.

Remuneration of the Board of Directors

Until April 30, 2009 remuneration of the Board of Directors consisted of a payment in cash and a further fixed sum which is disbursed in the form of shares. Since May 1, 2009 members of the Board of Directors can chose whether to receive remuneration as cash or to take up shares. In case remuneration is settled in shares, the number of shares is calculated on the basis of the average price of Rieter shares 20 trading days prior to the meeting of the Board of Directors, at which the annual accounts are approved. Shares will be allocated at tax value and are blocked for three years as of allocation date (28.4.2010). All entitled members of the Board of Directors have opted for remuneration in the form of shares. Erwin Stoller is Executive Chairman since 4.8.2009. His remuneration comprises a fixed component, a share component, and a performance-related component based on the operational and strategic targets set by the Board of Directors.

Total 2009 compensation to the members of the Board of Directors

	Cash compensation		Shares		Options			Total
CHF	Fixed net	Variable net	Number	Value[1]	Number	Value	Contri-bution to pension plans	
Erwin Stoller, Chairman, since 4.8.2009 Executive Chairman	392 500		180	41 760[2]	0	0	11 200	445 460
Dr. Ulrich Dätwyler, Vice-Chairman, until 30.4.2009	35 596		248	25 296[1]	0	0	0	60 892
Dr. Jakob Baer	42 000		177	41 064[2]	0	0	0	83 064
Dr. Rainer Hahn, until 30.4.2009	23 197		186	18 972[1]	0	0	0	42 169
Michael Pieper, since 1.5.2009			117	27 144[2]	0	0	0	27 144
Hans Peter Schwald, since 1.5.2009			160	37 120[2]	0	0	0	37 120
This E. Schneider, Vice-Chairman, since 1.5.2009			117	27 144[2]	0	0	0	27 144
Dr. Dieter Spälti	37 000		172	39 904[2]	0	0	0	76 904
Peter Spuhler, since 1.5.2009			117	27 144[2]	0	0	0	27 144
Dr. Peter Wirth, until 30.4.2009	23 197		186	18 972[1]	0	0	0	42 169
Total	**553 490**		**1 660**	**304 520**	**0**	**0**	**11 200**	**869 210**

1. For the purpose of inclusion in the total compensation, the shares are valued at 102 CHF (average trading price 20 days prior to the March 2009 Board meeting [= 121 CHF] less a 16% discount for the three-year restriction on sale).
2. The shares are valued at 232 CHF (average trading price 20 days prior to the March 2010 Board meeting [= 277 CHF] less a 16% discount for the three-year restriction on sale). The ownership of the shares will be transfered on April 28, 2010.

Total 2008 compensation to the members of the Board of Directors

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

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

Remuneration of former members of the Board of Directors

No remuneration was disbursed to former directors and officers.

Remuneration of the Group Executive Committee

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

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

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

Total 2009 compensation to the members of the Group Executive Committee

	Cash compensation		Shares		Options			Total
CHF	Fixed net	Variable net	Number	Value[1]	Number	Value[2]	Contri-bution to pension plans	
Members of the Executive Commitee	1 805 650	0	7 128	35 640	7 128	228 096	138 064	2 207 450
Thereof Hartmut Reuter, Chief Executive Officer, until 31.07.2009	419 150	0	3 202	16 010	3 202	102 464	49 664	587 288

1. For the purpose of inclusion in the total compensation, the shares are valued at 5 CHF (difference between the preferred purchase price [= 97 CHF] and the average trading price 20 days prior the March 2009 Board meeting less a 16% discount for the three-year restriction on sale [= 102 CHF]).
2. One option entitles the holder to purchase one Rieter share at the exercise price of 137 CHF. The awarded options are valued according to the Black-Scholes formula at 32 CHF per option.

Remuneration of former members of the Board of Directors[1]

299 392 CHF to Hartmut Reuter since August 1, 2009 in fulfillment of a current contract of employment.

1. The contract of employment was terminated prematurely at the beginning of 2010, giving rise to an entitlement to compensation on the part of Hartmut Reuter totaling some 1.1 million CHF. This amount is in much the same order of magnitude as the remuneration for 2008, when no bonus was paid. This payment will be disbursed in 2010 and disclosed accordingly in the 2010 annual report. If the restructuring program initiated in 2008 under Hartmut Reuter as CEO at that time were to yield a positive net result in the years 2011 and 2012, a bonus of 0.15 million CHF would be due for each of these years. Any corresponding financial obligations will be disclosed in 2011 and 2012.

Total 2008 compensation to the members of the Group Executive Committee

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

1. For the purpose of inclusion in the total compensation, the shares are valued at 99 CHF (difference between the preferred purchase price [= 249 CHF] and the average trading price 20 days prior the March 2008 Board meeting less a 16% discount for the three-year restriction on sale [= 348 CHF]).
2. One option entitles the holder to purchase one Rieter share at the exercise price of 359 CHF. The awarded options are valued according to the Black-Scholes formula at 36 CHF per option.

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 2009, nor were severance payments disbursed to any member of the Board of Directors or the Group Executive Committee in 2009.

Directorships with other companies

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

Loans to directors and officers

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

Disclosure of the equity holdings of the Board of Directors and the Group Executive Committee (including related parties) as of December 31, 2009 (Art. 663c, Swiss Code of Obligations)

	Shares	Options			
		Expiry date 2011	Expiry date 2012	Expiry date 2013	Expiry date 2014
Erwin Stoller, Chairman	8 993	599	475	784	0
Dr. Jakob Baer	572	118	145	0	0
Michael Pieper[1]	249 154	0	0	0	0
Hans Peter Schwald	2 181	0	0	0	0
This E. Schneider[1]	0	0	0	0	0
Dr. Dieter Spälti	1 071	157	145	0	0
Peter Spuhler	894 223	0	0	0	0

1. Excluding 428 395 shares held by Forbo International SA.

	Shares	Options			
		Expiry date 2011	Expiry date 2012	Expiry date 2013	Expiry date 2014
Wolfgang Drees	302	0	0	302	0
Peter Gnägi	5 502	450	396	856	2 066
Urs Leinhäuser	3 974	400	506	868	1 860

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

	Shares	Options			
		Expiry date 2011	Expiry date 2012	Expiry date 2013	Expiry date 2014
Erwin Stoller, Chairman	8 427	599	475	784	0
Dr. Ulrich Dätwyler, Vice-Chairman	3 285	157	185	0	0
Dr. Jakob Baer	484	118	145	0	0
Dr. Rainer Hahn	1 875	157	145	0	0
Dr. Dieter Spälti	981	157	145	0	0
Dr. Peter Wirth	1 276	157	145	0	0

	Shares	Options			
		Expiry date 2011	Expiry date 2012	Expiry date 2013	Expiry date 2014
Hartmut Reuter, Chief Executive Officer	9 066	699	886	1 495	0
Wolfgang Drees	302	0	0	302	0
Peter Gnägi	5 156	450	396	856	0
Urs Leinhäuser	2 948	400	506	868	0

Proposal of the Board of Directors

for the appropriation of profit (2009 financial year)

CHF	2009	2008
Net profit for the year	979 653	2 909 032
Retained earnings brought forward from previous year	43 711 178	40 802 146
Retained earnings at the disposal of the Annual General Meeting	**44 690 831**	**43 711 178**
Proposal		
Retained earnings	44 690 831	43 711 178
Retained earnings at the disposal of the Annual General Meeting	**44 690 831**	**43 711 178**

Report of the statutory auditor on the financial statements

PRICEWATERHOUSECOOPERS

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

As statutory auditor, we have audited the financial statements of Rieter Holding Ltd., which comprise the income statement, balance sheet and notes (pages 68 to 77 and pages 64 and 65), for the year ended December 31, 2009.

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

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

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

Opinion
In our opinion, the financial statements for the year ended December 31, 2009 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

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

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

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

PricewaterhouseCoopers AG

Urs Honegger Audit expert Auditor in charge	Nicolas Mayer

Zurich, March 18, 2010

Review 2005 to 2009

Consolidated income statement		2009	2008	2007	2006	2005
Sales	CHF million	1 956.3	3 142.5	3 930.1	3 579.9	3 122.0
• Europe	CHF million	901	1 450	1 728	1 598	1 439
• Asia[1]	CHF million	405	791	1 206	1 003	775
• North America	CHF million	433	589	715	726	722
• Latin America	CHF million	182	257	204	172	156
• Africa	CHF million	36	56	77	81	30
Corporate output	CHF million	1 846.5	2 971.7	3 822.8	3 447.5	3 035.6
Operating result before interest, taxes, depreciation and amortization (EBITDA)	CHF million	– 45.7	– 52.6	437.0	325.6	313.4
• in % of corporate output		– 2.5	– 1.8	11.4	9.4	10.3
Operating result before interest and taxes (EBIT)	CHF million	– 186.6	– 312.1	278.7	180.6	183.0
• in % of corporate output		– 10.1	– 10.5	7.3	5.2	6.0
Net result[2]	CHF million	– 217.5	– 396.7	211.5	157.4	138.1
• in % of corporate output		– 11.8	– 13.3	5.5	4.6	4.5
Return on net assets (RONA) in %		– 19.5	– 28.1	13.8	10.8	10.2
Consolidated balance sheet						
Non-current assets	CHF million	886.5	929.3	1 192.0	1 152.0	1 159.6
Current assets	CHF million	927.6	1 159.6	1 655.4	1 732.6	1 555.1
Equity attributable to Rieter shareholders	CHF million	587.2	689.9	1 309.4	1 320.5	1 192.2
Equity attributable to minority interests	CHF million	68.7	56.3	60.1	54.9	70.0
Non-current liabilities	CHF million	399.3	418.9	321.6	318.1	515.0
Current liabilities	CHF million	759.1	923.8	1 156.3	1 191.1	937.5
Total assets	CHF million	1 814.1	2 088.9	2 847.4	2 884.6	2 714.7
Shareholders' equity in % of total assets		36.2	35.7	48.1	47.7	46.5
Consolidated statement of cash flows						
Net cash from operating activities	CHF million	– 1.6	57.2	394.9	252.6	242.8
Net cash used for investing activities	CHF million	– 33.2	– 35.8	– 118.5	– 84.9	– 322.8
Net cash from financing activities	CHF million	– 27.8	8.8	– 309.5	– 67.5	– 123.0
Net liquidity	CHF million	**10.4**	**– 36.8**	**144.5**	**147.3**	**96.7**
Number of employees at year-end		**12 761**	**14 183**	**15 506**	**14 826**	**14 652**

1. Including Turkey.
2. Net result before deduction of minority interests.

Information for investors

		2009	2008	2007	2006	2005
Share capital	CHF million	23.4	21.4	22.3	22.3	22.3
Net profit of Rieter Holding Ltd.	CHF million	1.0	2.9	67.4	63.4	49.3
Gross distribution	CHF million	0.0[1]	0	62.8	62.1	41.5
Payout ratio (in % of net profit)[2]	in %	0	0	32	42	33
Market capitalization (December 31)	CHF million	1 085	651	1 966	2 661	1 624
Market capitalization in % of						
• sales	in %	55	21	50	74	52
• equity attributable to Rieter shareholders	in %	185	94	150	202	136

1. Proposed by the Board of Directors (see page 77).
2. Net profit after deduction of minority interests.

Data per share (RIEN)

			2009	2008	2007	2006	2005
Share prices on the SIX Swiss Exchange	high	CHF	270	505	717	641	393
	low	CHF	95	151	478	387	328
Price/earnings ratio	high		– 5.3	– 4.8	14.9	18.0	12.8
	low		– 1.9	– 1.4	9.9	10.9	10.6
Shareholders' equity (Group) per registered share		CHF	126.42	181.25	332.86	316.34	286.29
Tax value per registered share		CHF	233.50	171.00	500.00	637.50	390.00
Gross distribution per registered share		CHF	0.00[1]	0.00	15.00	15.00	10.00
Gross yield on registered shares	high	in %	0.0[1]	0.0	2.1	2.3	2.5
	low	in %	0.0[1]	0.0	3.1	3.9	3.0
Earnings per share		CHF	– 50.96	– 106.18	48.19	35.53	30.80

1. Proposed by the Board of Directors (see page 77).

March 2010

This is a translation of the original German text.

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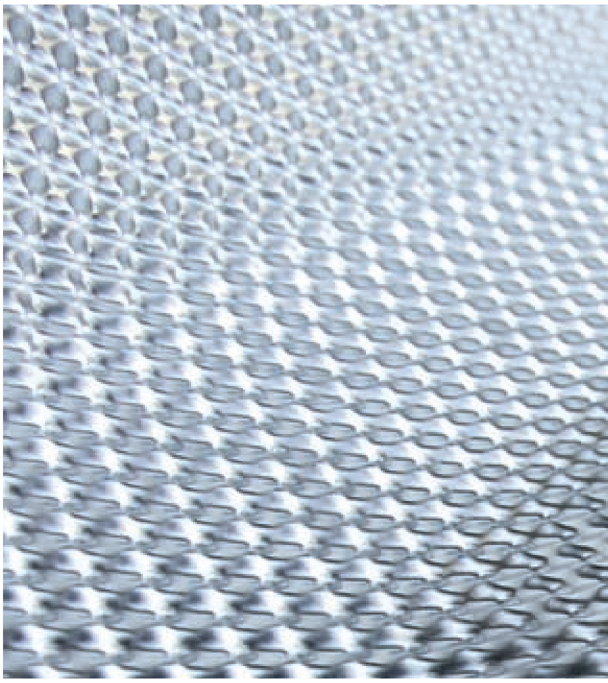

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