Annual Report 2010

Important dates:

- Annual General Meeting 2011: April 13, 2011
- Semi-Annual Report 2011: July 27, 2011
- Publication of sales 2011: February 2, 2012
- Deadline for proposals regarding the agenda of the Annual General Meeting: February 24, 2012
- Results press conference 2012: March 20, 2012
- Annual General Meeting 2012: April 18, 2012

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 12 804 employees, some 12% 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 including 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 2010 the Textile Systems Division posted sales of 870.4 million CHF, equivalent to 33.7% of total group sales, with 4 357 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 systems, components and modules for vehicle acoustics and thermal management (including carpet and trunk systems, engine bay and underbody systems). The Automotive Systems' customers include 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 2010 the Automotive Systems Division posted sales of 1 715.4 million CHF, equivalent to 66.3% of total group sales, with 8 409 employees.

Financial highlights

CHF million		2010	2009	Change in %
Rieter Group				
Orders received		3 170.0	1 935.1	64
Sales		2 585.8	1 956.3	32
Corporate output[1]		2 525.5	1 846.5	37
Operating result before interest and taxes (EBIT)		98.0	– 186.6	
• in % of corporate output		3.9	– 10.1	
Net profit		41.6	– 217.5	
• in % of corporate output		1.6	– 11.8	
Cash flow[2]		170.3	– 93.0	
• in % of corporate output		6.7	– 5.0	
Investments in tangible fixed assets and intangible assets		98.2	61.7	59
Total assets		1 969.1	1 814.1	9
Shareholders' equity before appropriation of profit		627.6	655.8	– 4
Number of employees at year-end[3]		12 804	12 761	0
Divisions				
Sales Textile Systems		870.4	532.0	64
Operating result before interest and taxes (EBIT) Textile		77.9	– 73.6	
• in % of corporate output Textile Systems		9.2	– 15.8	
Sales Automotive Systems		1 715.4	1 424.3	20
Operating result before interest and taxes (EBIT) Automotive		31.0	– 105.1	
• in % of corporate output Automotive Systems		1.8	– 7.6	
Rieter Holding Ltd.				
Share capital		23.4	23.4	
Net profit		143.1	1.0	
Gross distribution		[4]	0.0	
Number of registered shares, paid-in		4 672 363	4 672 363	
Average number of registered shares outstanding		4 640 220	4 392 808	6
Price per share (high / low)	CHF	343/244[5]	270/95[5]	
Number of registered shareholders on December 31		8 415	8 400	0
Market capitalization on December 31		1 565.8	1 084.5	44
Data per registered share				
Earnings per share	CHF	5.72	– 50.96	
Equity (group)[6]	CHF	120.57	126.42	– 5
Gross distribution (Rieter Holding Ltd.)	CHF	[4]	0.00	

1. Sales, adjustments for sales deductions and own work capitalized and changes in inventories of products manufactured by the company (cf. page 46).
2. Net profit plus depreciation and amortization (cf. page 78).
3. Excluding apprentices and temporary employees.
4. See proposal of the Board of Directors on page 93.
5. Source: Bloomberg.
6. Shareholders' equity attributable to shareholders of Rieter Holding Ltd. per share outstanding at December 31.

Letter to the shareholders of the Rieter Holding Ltd.

Erwin Stoller
Chairman of the Board of Directors

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

Dear shareholder

Rieter Group is at a historical turning point.

At the forthcoming Annual General Meeting on April 13, 2011, the Board of Directors proposes to separate Rieter's Textile Systems and Automotive Systems divisions into two distinct listed companies with independent ownership and management (the "Separation"). In order to effect the Separation, Rieter Holding will, subject to the approval by the Annual General Meeting, distribute the shares of the entity holding the business of its Automotive Systems Division to its shareholders in form of a special dividend and list such entity on the SIX Swiss Exchange under the name of Autoneum.

Upon successful completion of the Separation, Rieter Holding will retain the business of its Textile Systems Division and continue trading under the name of Rieter on the SIX Swiss Exchange. Overall, the objective of the Separation proposed by the Board of Directors is to create the best possible conditions for the future development of both businesses.

Strategic considerations

What has prompted us to submit this proposal to the Annual General Meeting? The Board of Directors is convinced that operating the Textile Systems and Automotive Systems divisions as legally and financially independent businesses would reap a number of considerable benefits for both businesses and their respective customers and employees, as well as for the shareholders of Rieter Holding. The Board of Directors realizes that such a proposal is of far reaching significance for Rieter Holding and its shareholders and that Rieter, with its long and rich tradition, will look different if the proposed Separation is approved by the Annual General Meeting.

However, change is part of the history of our company, which stretches back more than 200 years: in the past Rieter has repeatedly demonstrated that it can successfully transform itself and adapt to new challenges.

We are now facing another such turning point: in recent years the economic and competitive environment in which Rieter operates has changed in a number of respects. The Board of Directors took these fundamental changes into account when it decided to propose the repositioning of Rieter's two industrial activities as two separate companies.

Rieter acquired its automotive component supply business in the mid-1980s, thereby creating a counterweight to its established but cyclical business in the textile machinery sector.

Rieter's Automotive Systems Division developed steadily for many years against the backdrop of the previously prevailing constant growth rates in the automotive component supply business. Innovations and numerous acquisitions also contributed to its growth.

Rieter's Textile Systems Division has also developed satisfactorily and nowadays successfully counteracts the demand cycles typical of its sector with flexible structures.

Rieter has coped successfully with the market-related slump in 2008 and 2009 by systematically implementing restructuring and cost-cutting programs, and achieved the turnaround in the past financial year.

Following the successful, joint development under one roof for decades, both divisions are now globally structured, individually sustainable and ready to be positioned as strong and focused standalone entities on the capital markets:

- Rieter is a leading supplier of short-staple fiber spinning machinery and components with the broadest global product offering.
- Autoneum is one of the global technology leaders in acoustic and thermal management solutions for motor vehicles.

An individual listing will enable the businesses to better position themselves and sharpen their individual investment cases.

One important result of being independent will be the higher strategic and operational flexibility of each entity. This will enable Rieter as well as Autoneum to capitalize on further development potential and growth opportunities, e.g. through partnerships or co-operations.

The proposed Separation is also a consequence of our long running development goal to establish the financial independence of both businesses. Already today both divisions are operated as separate businesses with their own management teams and organizations. Making them formally independent is therefore a logical step.

The proposed Separation is not expected to result in any job losses.

Advantages for shareholders
The proposed Separation offers interesting prospects for our shareholders. By separating the group into two pure-play listed entities, shareholders will benefit from increased transparency and visibility.
The Board of Directors is convinced that stronger individual investment cases are a better value proposition to existing and new shareholders.

If the Annual General Meeting adopts the Board of Directors' proposal, each shareholder of Rieter Holding will receive in the form of a special dividend one share in Autoneum for each share in Rieter Holding it holds as of the specified cut-off date. Therefore, immediately following the Separation, Rieter Holding's shareholders will own two shares for each Rieter Holding share held prior to the Separation: one in Rieter Holding and one in Autoneum.

In light of the benefits of the proposed transaction, the Board of Directors of Rieter Holding unanimously recommends that shareholders vote in favor of the proposed Separation at the Annual General Meeting on April 13, 2011.

With the proposed transaction, we create favorable conditions for a successful independent future for each of the industrial activities of Rieter Holding.

Winterthur, March 21, 2011

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

2010 financial year: striking increase in volumes and return to profit

Dear shareholder

The Rieter Group reported a striking improvement in all key statistics for the 2010 financial year and returned to profit earlier than originally forecast. Following two years of adverse economic conditions, in the second half of 2009 signs of recovery emerged in both industrial sectors in which Rieter operates. The favorable market trend in the textile machinery and automotive component supply businesses then continued throughout the year under review. This was driven mainly by improved consumer sentiment in Europe and North America as well as sustained economic growth in large Asian markets.

As a leading supplier to the textile and automotive industries, Rieter participated in the upswing by virtue of attractive products which had been systematically prepared for market launch during the years of crisis. The Rieter Group recorded a striking increase in orders received and sales in the year under review. Both divisions reported positive operating results, and the group posted a profit.

Striking increase in orders received and sales

New orders received by the Rieter Group in the 2010 financial year were 64% higher (68% higher in local currencies) at 3 170.0 million CHF (1 935.1 million CHF in 2009). The trend in order intake was dynamic throughout the year. The steep rise compared with the previous year was due primarily to extremely strong demand at Textile Systems. The 32% increase (+ 36% in local currencies) in sales by the Rieter Group was less than the growth in orders received due to the low order volume in the previous year. Sales in the second half were slightly higher than in the first six months and totaled 2 585.8 million CHF (1 956.3 million CHF in 2009). Exchange rate trends adversely affected both key statistics, especially in the second half. Based on exchange rates prevailing in 2007, consolidated sales would currently already be 2.9 billion CHF again.

As a result of higher volumes and also due to cost-cutting efforts and restructuring projects, Rieter reported a disproportionately strong increase in profits. Rieter has many years of experience in dealing with pronounced demand cycles and proven know-how in repeatedly adjusting development, sales and manufacturing structures to new requirements. In combination with its strong market position, its sound financial basis and the confidence of its investors, this significantly contributed to the group's ability to cope successfully with the severe crisis in 2008 and 2009.

Disproportionate increase in the operating result

The Rieter Group posted an operating result before interest and taxes (EBIT) of 98.0 million CHF in 2010. This is equivalent to 3.9% of corporate output. The Textile Systems Division made the largest contribution to this by virtue of volume. In the previous year the Rieter Group had reported a negative operating result of – 186.6 million CHF. The substantial improvement was due largely to good utilization of capacity and a favorable cost structure with a significant lowering of the breakeven point, which both divisions achieved in the years of crisis. In the context of restructuring and cost-cutting programs manufacturing capacity was reduced in North America and western Europe, the establishment of facilities in new markets was accelerated and activities which did not form part of the core business were sold.

These programs and projects were continued despite the upswing and have been largely completed. These actions will result in further cost reductions in the 2011 financial year. Rieter will be able to respond with greater flexibility to future changes in demand such as those experienced in 2008 and 2009.

Coping with the steep increase in order volumes in the 2010 financial year was a particular challenge for Rieter's personnel, managers and suppliers. Action taken in the personnel sector was a decisive factor in mastering the prolonged demand crisis and also the subsequent upswing. In 2008 and 2009 Rieter had utilized flexible working-time models, introduced short-time working at numerous locations in Europe and reduced the number of permanent employees. In the year under review Rieter initially coped with higher volumes by discontinuing short-time working and later by engaging temporary personnel.

At the end of 2010 the Rieter Group employed a workforce of 12 804. In the year under review the ongoing headcount reductions in certain countries were partially offset by the establishment of facilities in new markets and increases in capacity at Automotive Systems in North America.

The Rieter Group recorded a striking increase in orders received and sales in the year under review. Both divisions reported positive operating results, and the group posted a profit.

In Europe the increase in capacity was achieved primarily by employing temporary personnel. In China and India new plants started production.

Rieter continued to invest in innovation and access to new markets in the crisis years in order to be prepared for the upswing with attractive products and an enhanced presence in growth regions. The good trend of business in the year under review confirms that the right investment decisions had been taken.

Positive net result

The improved operating result enabled Rieter to report a 259.1 million CHF increase in the net result for the 2010 financial year. Following two years of losses Rieter posted a net profit of 41.6 million CHF, equivalent to 1.6% of corporate output, and earnings per share of 5.72 CHF (–50.96 CHF in 2009).

Dividend

Rieter Holding Ltd. posted a net profit of 143.1 million CHF for the 2010 financial year, after the group had reported a loss in the previous year. Retained earnings of 187.8 million CHF are at the disposal of the Annual General Meeting. The Board of Directors proposes to the Annual General Meeting on April 13, 2011 the distribution of a special dividend to the shareholders of Rieter Holding Ltd. of one registered share in Autoneum Holding Ltd. (Division Automotive Systems) with a nominal value of CHF 0.05 and a book value of CHF 69.57 per registered share for each registered share in Rieter Holding Ltd. (a total of 4 672 363 registered shares in Autoneum Holding Ltd. with an aggregate book value of CHF 325 067 219).

Rieter Textile Systems: almost three-fold increase in orders received, clearly positive operating result

Two years of conspicuously weak demand on the world market for spinning machinery were followed by a strong recovery with a broad regional base in the year under review. The upswing was driven by investment demand for replacements and expansion as well as strong growth in textile consumption in the major Asian markets in addition to improved sentiment in the European and US textile markets. Rieter Textile Systems successfully exploited the positive trend due to its strong market position and with machinery and technology components which are also adapted to local needs in emerging markets.

Orders received by Rieter Textile Systems rose from 510.8 million CHF in the previous year to 1 454.6 million CHF, corresponding to an almost three-fold increase. The trend in order intake was uniformly positive throughout the financial year. Sales growth was especially strong in the second half, and in the year as a whole revenue rose by 64% to 870.4 million CHF (532.0 million CHF in 2009). In local currency terms, orders received and sales increased by 188% and 67%, respectively.

Rieter Textile Systems posted a positive operating result due to high capacity utilization, especially in the second half of the year, and attractive products yielding good margins, as well as through a lean organization, low fixed costs and a lowering of the breakeven point. The operating result amounted to 77.9 million CHF or 9.2% of corporate output. In the previous year the division had posted an operating loss due to a massive drop in volumes.

Rieter Textile Systems posted a encouraging operating result due to high capacity utilization, attractive products and a lowering of the breakeven point.

In the course of focusing on its core business, in 2009 Rieter agreed to sell its nonwovens activities to the Andritz Group, which operates internationally. This transaction was completed on March 9, 2010.

Rieter Automotive Systems: striking increase in sales and positive operating result

The automotive industry recorded substantial growth in output in all major economic regions in 2010 after suffering a steep decline in demand in 2008/2009. This had affected Rieter's main markets in the automotive component supply business – North America and Europe – with unprecedented severity. The comparatively high growth rates in these markets thus have to be viewed against the backdrop of very weak figures in preceding years. The trend in vehicle production in the emerging Asian markets remained positive.

Rieter Automotive Systems reaped the benefit of the more favorable global environment with its broad-based customer portfolio as well as established and newly launched products. Sales by the division rose by 20% from 1 424.3 million CHF to 1 715.4 million CHF. Encouragingly, Automotive Systems recorded only slightly lower sales in the second half than in the first six months, despite seasonal effects. However, the weakness of the US dollar and the Euro versus the Swiss franc had an adverse impact on the trend in sales, especially in the second six months. In local currency terms, Automotive Systems' sales were 25% higher in the 2010 financial year. Based on exchange rates prevailing in 2007, Automotive's sales would currently be around 2 billion CHF, albeit still 15% below their peak in 2007.

In 2010 Rieter Automotive Systems continued to implement the restructuring program launched in the preceding years, despite the high production volumes, thus significantly lowering the breakeven point. The restructuring was virtually completed. In conjunction with the higher volumes, which resulted in good capacity utilization, the division posted an improvement in the operating result from – 105.1 million CHF in the previous year to 31.0 million CHF, equivalent to an operating margin of 1.8%.

In the context of adjustment and cost-cutting programs and focusing on core activities, in the summer of 2010 Rieter sold Idea Institute, based in Turin, Italy, together with the associated activities in China and Brazil to Quantum Kapital AG in Switzerland. The Italian design, modeling and engineering company was part of Rieter Automotive Systems.

Sound balance sheet and the confidence of the capital markets

Rieter had a sound balance sheet at the end of the year under review. The equity ratio was 32%, cash and cash equivalents at the end of the year amounted to 351.9 million CHF (217.7 million CHF in 2009) and net liquidity was – 3.5 million CHF (10.4 million CHF in 2009).

On March 30, 2010, Rieter Holding Ltd. issued 250 million CHF of 5-year bonds with a 4.50% coupon, maturing on April 30, 2015. This issue of bonds enabled Rieter to diversify its financial resources, extend the maturity of its funding and take advantage of the favorable capital market environment.

Access to the markets of the future; innovations for developing the business

In the 2010 financial year the Rieter Group continued to implement its strategy for ensuring sustained, profitable growth and gradually increased capital investment again. Rieter had postponed a number of projects in the two previous years. However, Rieter invested selectively in projects to access new markets and speed up innovation. It is of crucial importance for both divisions to have a presence in the major growth regions worldwide and be able to supply customers with market-specific products and services. Only in this way can they maintain and expand their strong position as global systems suppliers.

However, Rieter invested selectively in projects to access new markets and speed up innovation.

Rieter Textile Systems continued to expand its development and manufacturing structures in India and China in 2010. In addition to its leading position as a premium supplier of machinery, service offerings and technology components, Rieter Textile Systems also aims to position itself in the mid-market segment in the major new Asian markets. In 2010 Rieter Textile Systems launched new products to meet the specific needs of customers in the major growth markets of China and India and achieved encouraging market success. In the year under review Rieter Textile Systems also continued to pursue innovations in machinery and technology components which will provide competitive advantages for customers worldwide, either with new types of yarn or in terms of lower manufacturing costs. The novel airjet spinning process launched in selected markets in the previous year has demonstrated its qualities in selected customers' mills and is being developed further.

Rieter Automotive Systems also continued to expand its presence in India and China in 2010, and achieved disproportionately strong growth in these markets. The Chinese automobile market has recorded enormous growth rates in recent years, in the meantime also on the basis of high unit volumes: more automobiles were produced in China in 2010 than in western Europe or the USA. Rieter Automotive Systems still has a relatively small market share in China, but is well placed to benefit from the great potential of the market. In the year under review Automotive Systems continued to work on innovations which support customers in their response to the major technical challenges facing automotive engineering. Legal stipulations for fuel economies and the reduction of noise and pollutant emissions are being tightened for automobiles and commercial vehicles in many large markets. Automotive Systems has unique expertise at its disposal in acoustic and thermal management, and contributes substantially to making vehicles lighter and at the same time more economical with lightweight combinations of materials such as Rieter Ultra Silent und Rieter Hybrid Acoustics.

Annual General Meeting and shareholders

Shareholders elected Dr. Dieter Spälti to the Board of Directors of Rieter Holding Ltd. for a further three-year term of office at the Annual General Meeting held on April 28, 2010.

Erwin Stoller will be nominated for a further three-year term of office as a member of the Board of Directors at the Annual General Meeting on April 13, 2011. Subject to his election, it is envisaged that Erwin Stoller will continue to chair this body.

Outlook

As a leading supplier to the textile machinery and automobile industries, Rieter participated successfully in market recovery last year. Order intake and sales rose markedly throughout 2010. Both divisions attained a positive operating income again, and the Group recorded a net profit.

Further development of the respective divisional markets mainly depends on consumer sentiment in Europe and North America, and on economic growth in the major Asian markets. Factors that can additionally influence business developments also include exchange rate effects, commodity prices such as for crude oil, cotton, etc. – not to speak of disasters as for example in Japan in March 2011.

Rieter Automotive Systems also continued to expand its presence in India and China in 2010, and achieved disproportionately strong growth in these markets.

The cost reduction measures and restructuring projects largely completed per end of 2010 have lowered our break-even point, and the Rieter Group cost position is now better than before the financial and economic crisis.

For 2011 as a whole, the Rieter Group therefore expects today a sales growth in the double-digit percentage range, and a further improvement of the margin from operating activities also by comparison with the second half of 2010.

Thanks to the gratifying order backlog per beginning of year, and good ongoing demand for textile machinery and technology components, Rieter Textile Systems expects a substantial sales increase for 2011. This division expects with a further improvement of operating margin compared with 2010 overall, primarily due to higher volumes both in the textile machinery and technology components businesses. Textile Systems plans additional investments to accelerate production plant expansion in Asia and thereby further improve market positioning in China and India.

Rieter Automotive Systems expects further sales growth in 2011, which will not however profit from the same baseline effect as in 2010. Automotive Systems growth in Asia and North America is likely to be stronger than in other regions. Sales growth in local currencies is expected to be stronger than in Swiss francs due to appreciation of the latter against the Euro and US dollar. Automotive Systems expects for 2011 another significant improvement of operating margin. Contributions to this are expected from the European business region, which strives for a significantly reduced operating loss in 2011 compared with 2010. Automotive Systems expects a positive net result for the year thanks to operating income improvements in 2011.

Thanks

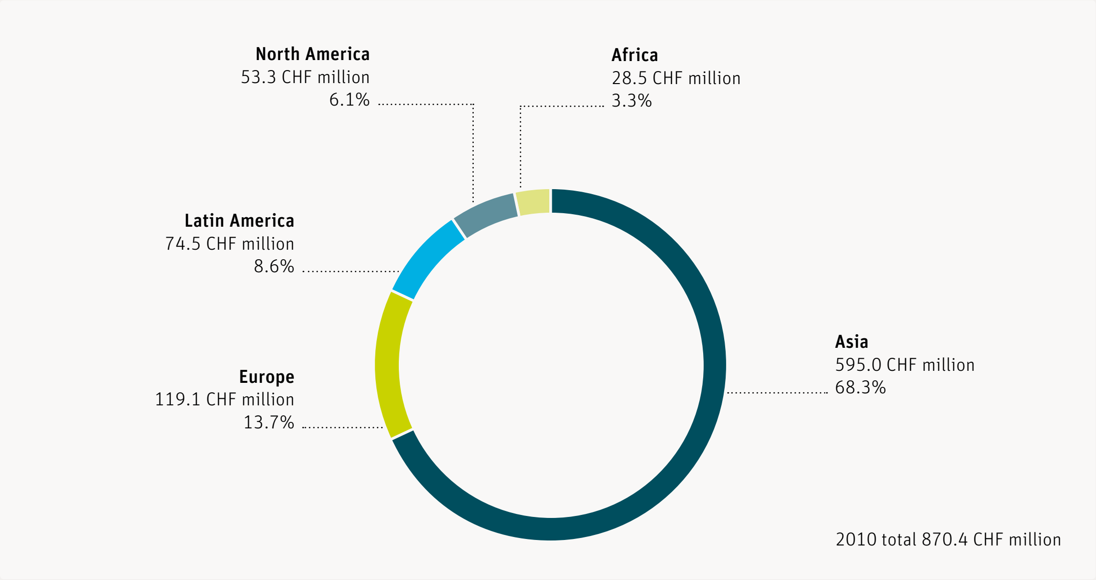
Exploiting the steep upswing on the markets after two years of crisis and coping with the huge volume of orders was an exceptionally challenging task for personnel and management in the Rieter Group. This required a high degree of flexibility and enthusiasm. The Board of Directors and the Group Executive Committee wish to thank the workforce and employee representatives, as well as customers, suppliers and other business partners, who have helped to master these difficult past years and guide Rieter back to sustained profitability. The board also thanks shareholders for the confidence they have shown in our company.

Winterthur, March 21, 2011

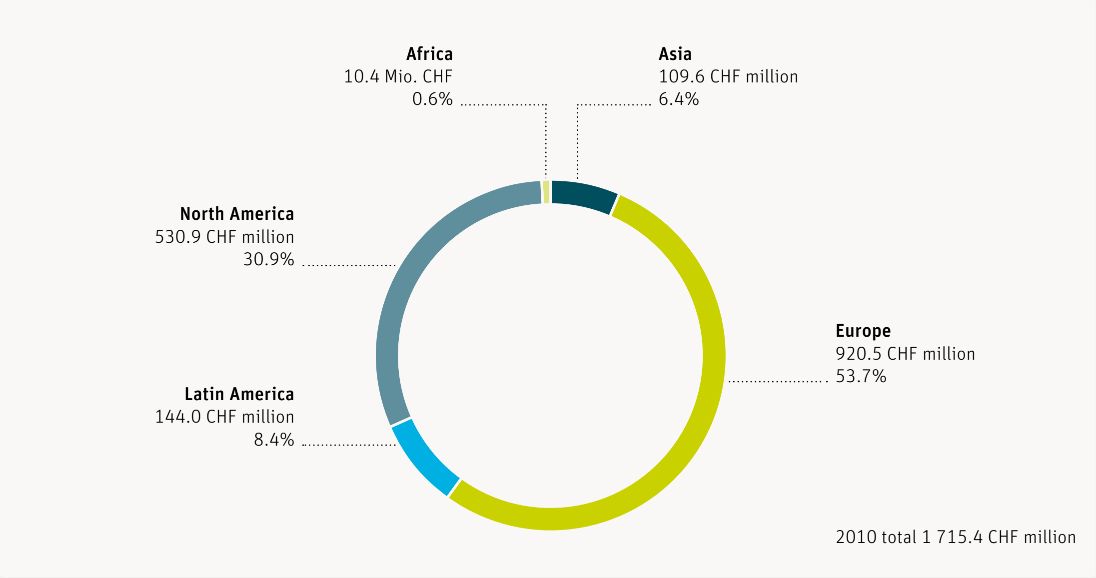
Erwin Stoller	This E. Schneider
Chairman of the Board of Directors	Vice-Chairman of the Board of Directors

Sales by geographical region 2010

Rieter Textile Systems



Rieter Automotive Systems



Rieter Textile Systems: Almost three-fold increase in orders received and clearly positive operating return

Orders received
1 454.6 (510.8)
million CHF

Sales
870.4 (532.0)
million CHF

Operating result before interest and taxes
77.9 (–73.6)
million CHF

Number of employees at year-end
4 357 (4 086)

Capital expenditure of tangible fixed assets
25.8 (5.5)
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 two years of conspicuously weak demand, there was a strong upswing in the world market for spinning machinery and components in 2010. Rieter Textile Systems successfully exploited the favorable trend, and order intake increased almost three-fold compared to 2009. Sales growth was especially strong in the second half, and in the year as a whole sales rose by 64%. Due to high capacity utilization, the implementation of restructuring programs and successful efforts to lower the breakeven point, Rieter Textile Systems reported a clearly positive operating result following a loss in the previous year. The encouraging trend of business in 2010 was also attributable to the fact that Textile Systems had systematically prepared for the upswing by developing market-oriented products. Demand was based in regional terms and included integrated installations and machinery as well as technology components and service offerings.

Market developments and the trend of business

The upswing in the textile machinery markets in 2010 followed two difficult crisis years resulting from the financial and economic crisis and a preceding investment boom. Domestic demand in China and India, the world's largest textile producers, remained quite stable even during the crisis, but was unable to utilize the newly established capacity to its full potential. Toward the end of 2009 recovery commenced in the other consumer markets, resulting in destocking of end and intermediate products. As a consequence, yarn prices rose more quickly than raw material prices, which enabled spinning mills to earn good profits again. The investment climate thus also improved considerably, resulting in a steep rise in orders, initially for technology components and then also for machinery and integrated installations. This trend continued throughout the year and affected all markets. The most important countries for Rieter were China, India and Turkey. There was also a large volume of demand from Bangladesh, Brazil, Indonesia, South Korea, the USA and Uzbekistan. Spinning mills in these countries are continuing to hold their own on the world market despite the capacity that has been established in China and India.

Rieter benefited from this boom by virtue of its strong market position as a systems supplier and with market-oriented products.

Rieter benefited from this boom by virtue of its strong market position as a systems supplier and with market-oriented products. Coping with the rapid growth in order volumes – following two years of reductions in manpower and short-time working – imposed high demands on management, workforce and suppliers. Textile Systems significantly increased output between the first and fourth quarters of 2010. The great commitment of the workforce, the employment of temporary personnel and a smoothly functioning organization made this possible.

The years 2007 to 2010 showed very clearly once again that the textile machinery business is subject to pronounced cycles. In the crisis years of 2008 and 2009 Textile Systems worked intensively on improving its ability to deal with these cycles that are specific to the industry. Restructuring projects and programs of action to achieve a lasting lowering of the breakeven point continued to be pursued and were completed at the end of 2010. With the resulting improvements in efficiency and the location of manufacturing facilities in lower-cost countries, the division now has a considerably improved fixed cost structure and lower manufacturing costs. Technology components and key subassemblies continue to be developed and manufactured in Europe. The high flexibility and efficiency of personnel also enable this division to adjust rapidly to market cycles in this sector. Combined with the volume effect, Rieter Textile Systems reported a disproportionate increase in the operating result in the year under review.

The initially favorable currency trend gave way to a steep appreciation of the Swiss franc as of the second quarter, which boosted competitors in Europe and Asia. This effect was partially offset by purchasing in Euroland, efficiency improvements and transferring operations to sales markets.

Innovations to meet specific market needs
Through innovation, Rieter Textile Systems seeks to enable new types of yarn to be produced, to abbreviate the spinning process, to make further improvements in the price/performance ratio of its own products and to reduce customers' production costs. Raw material and energy savings in the spinning mills are at the forefront of these efforts. Textile Systems systematically continued to develop its offering, even in the crisis years. The focus was on products that ideally met the needs of the major Asian markets. These included, for example, the G 32 ring spinning machine, which is assembled in India for the local market and was co-developed there. With the G 32 Rieter has successfully gained access to the mid-market segment in India, where market share has been increased. The C 70 card features substantially higher performance with unchanged operating costs.

The technology components business which is less cyclical than the machinery business, was further expanded and given a broader regional basis.

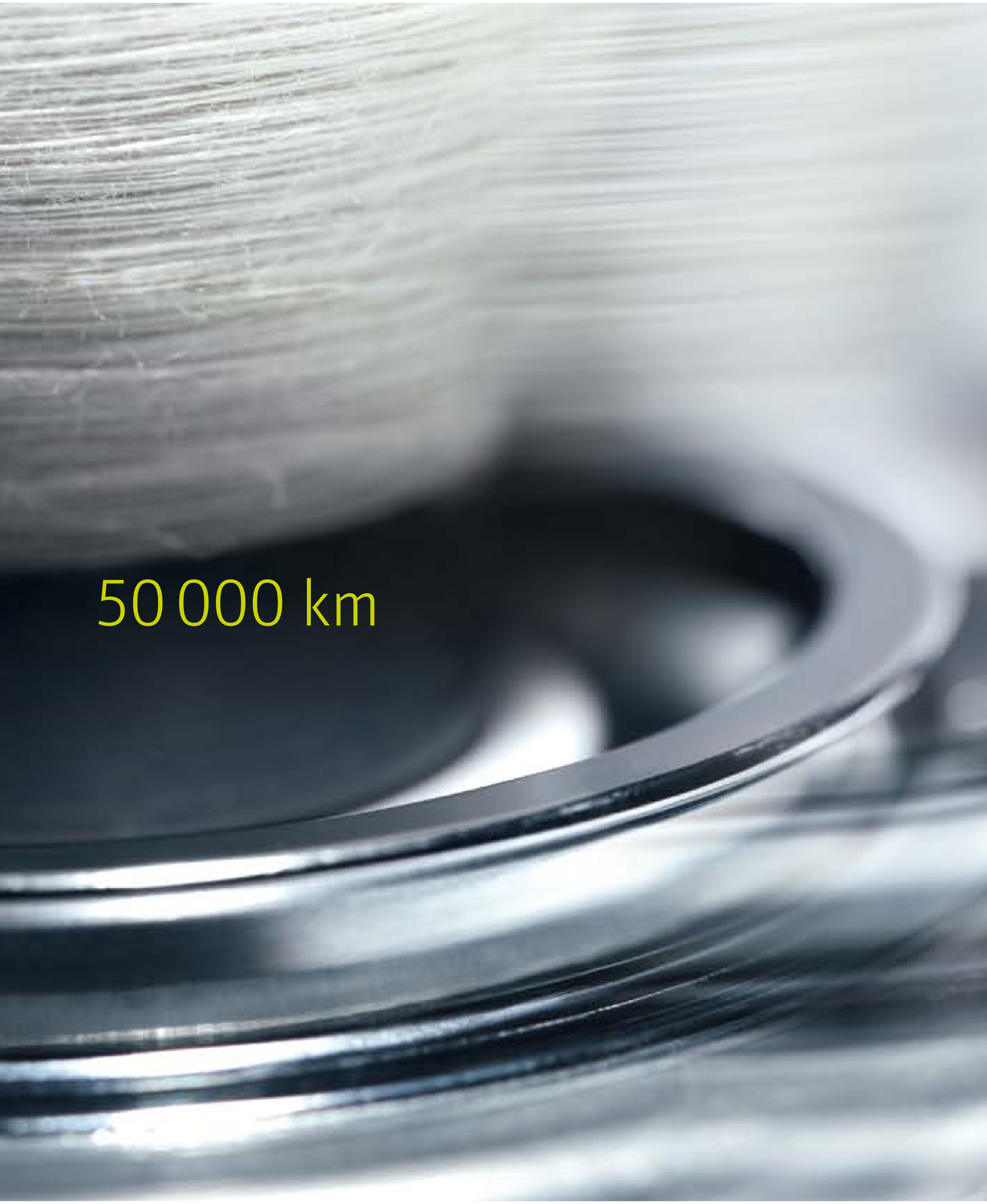
The J 10 airjet spinning machine, the most productive of all known spinning machines, has been tested by selected customers for further applications. It is also especially suited to manufacturing yarns from viscose fibers. This cellulose-based raw material is forecast to account for a growing proportion of global fiber consumption in future, since viscose production is less dependent on steadily declining reserves of agricultural land.

The technology components business of Textile Systems, which is less cyclical than the machinery business, was further expanded and given a broader regional basis. It has established itself as a business comprising different brands with a specialized sales organization. Rieter is the world's largest supplier of technology components and the only manufacturer that can support spinning mills throughout their manufacturing process chain. Rieter has at its disposal virtually all components that come into contact with the fiber during the manufacturing process of the yarn. In the year under review new technology components were launched to cater to the specific needs of the Asian markets. All prominent textile machinery manufacturers – including competitors of Rieter – are sourcing from Rieter's several components manufacturers which demonstrates the customers' respect and confidence.

Further expansion of global presence
In the year under review Rieter further reinforced its presence in China and India and pressed ahead with the establishment of further manufacturing capacity. Textile Systems has one plant in China and two in India. A further facility is under construction in each of these two countries. These manufacturing facilities are of a high technical and organizational standard and supply customers with the first-class quality expected of Rieter. Close cooperation between personnel in Europe and Asia is of crucial importance, starting with market analyses and product development and continuing through to manufacture, sales and service in the field.

Rieter also invested in European locations in the 2010 financial year with a view to the further development and manufacturing of key technologies. Rieter aims to maintain and extend its innovation and market lead through a flexible, global manufacturing network and a strong sales organization.

Rieter Textile Systems is the only supplier of integrated systems for manufacturing the four types of yarn produced from short-staple fibers: ring-spun yarns, compact yarns, rotor-spun yarns and airjet yarns.


50 000 km

50 000 km in two weeks

A ring traveler covers about 50 000 km – more than once around the globe – during its 2-week service life. It winds the yarn around a sleeve on the spindle of a ring-spinning machine at up to 22 000 rpm. Withstanding this enormous stress demands components of the highest quality and precision.

The Rieter G 35 ring-spinning machine has up to 1 632 such spindles, enabling particularly cost-effective yarn production. Each spindle must produce exactly the same yarn quality 24 hours per day, because even the slightest deviation would be visible in the end product. Each mill can have up to fifty spinning machines producing the same type of yarn.


3.1 million

3.1 million T-shirts

The fiber processed in one year by a single Rieter carding machine is enough to make 3.1 million T-shirts. It breaks down and aligns the fiber flocks between millions of rotating and stationary needle tips, removing impurities, shell residues and short staples at the same time. Only machine components of the very highest quality are good enough to ensure impeccable yarn quality. The needle tips must not contact each other – but must never be more than 20 hundredths of a millimeter apart. And this at an operating speed of 120 km/h. Each needle travels more than 1 million kilometers before it has to be replaced.

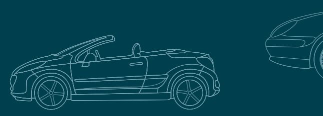
The new Rieter C 70 high-performance carding machine enables cost-effective production of carded and combed ring-spun yarns. A sliver is made on the carding machine for the first time in the spinning process. Compared with conventional processing, a state-of-the-art C 70 carding system saves more than 112 000 kWh electrical energy each year. This would be enough to heat nine houses for a whole year in the Central European climate.

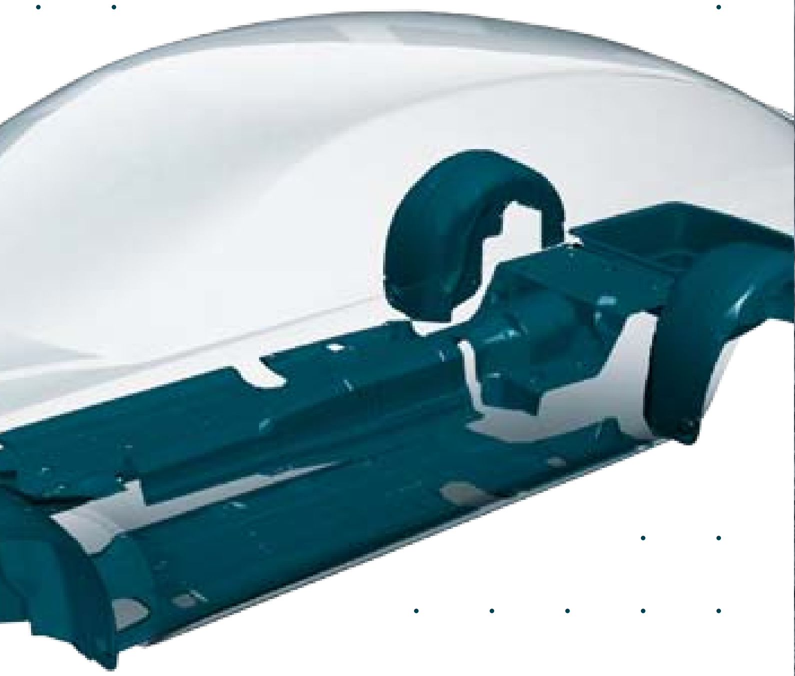

RIETER


15 million

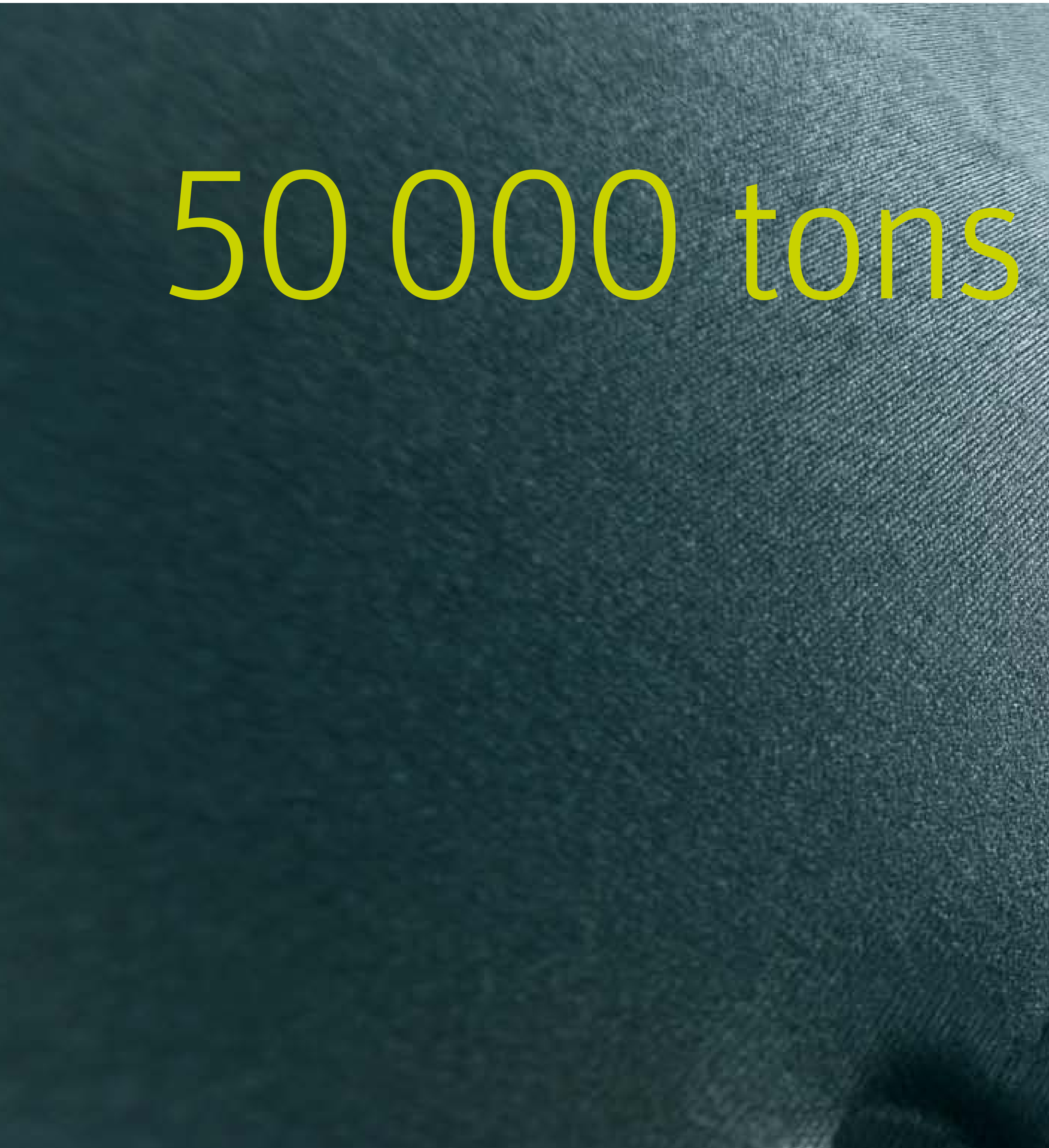
15 million automobiles could be soundless

Fitting all 73 million automobiles produced each year with Rieter Ultra Silent acoustic underbody panels would reduce road traffic noise emmissions by 21 % – equivalent to silencing 15 million automobiles.



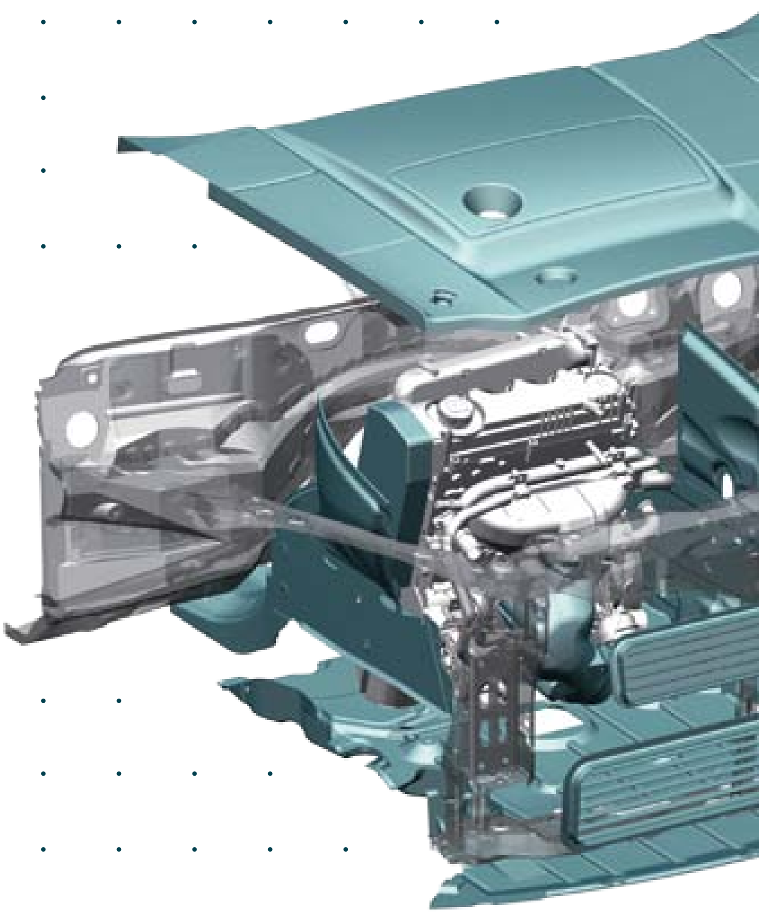


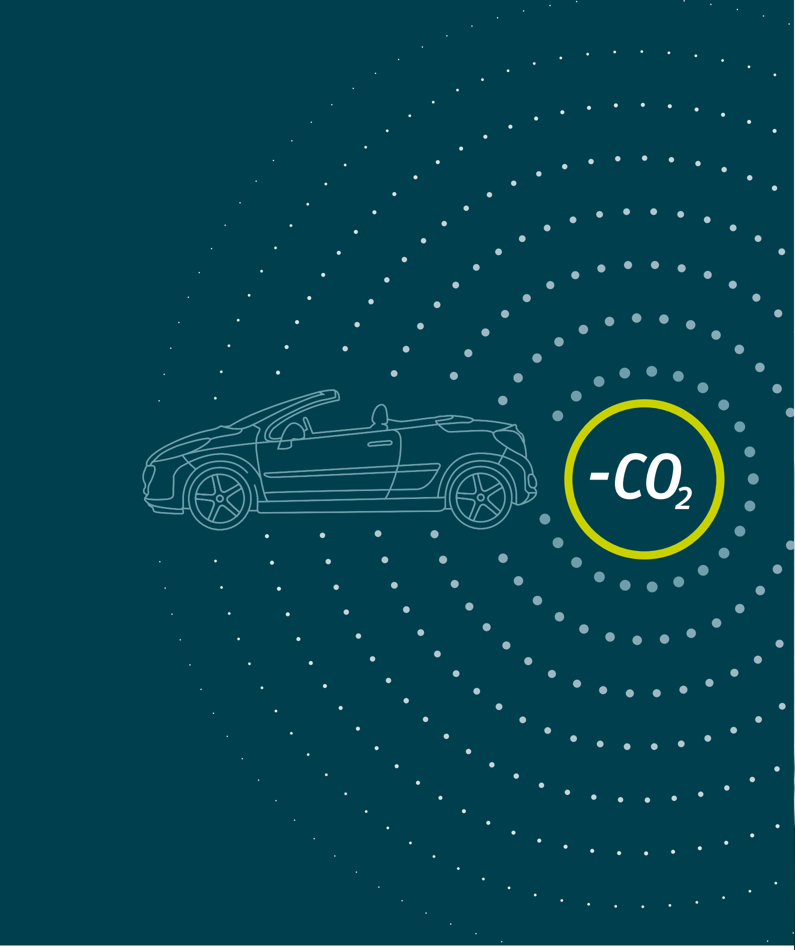
Thanks to Rieter Ultra Silent fiber technology, Rieter offers lightweight products distinguished by high rigidity and excellent acoustic insulation. These mono-materials are moreover fully recyclable. Apart from primary underbody applications, Rieter Ultra Silent applications for other vehicle zones are also under continuous development.


50 000 tons

50 000 tons less CO_2 in the atmosphere

Fitting all the automobiles produced each year with the new Rieter thermo-acoustic engine encapsulation – saving up to 5 g CO_2/100 km per vehicle – would reduce global CO_2 emissions by 50 000 tons.





Rieter thermo-acoustic engine encapsulation saves fuel by keeping the engine bay warm for more efficient cold starting. It also reduces engine noise. Rieter's unique combination of heat management and acoustic control helps the automobile industry meet not only CO_2 targets but also future limits on pass-by noise.

Rieter Automotive Systems: Striking increase in sales and positive operating result

Sales
1 715.4 (1 424.3) million CHF

Operating result before interest and taxes
31.0 (– 105.1) million CHF

Number of employees at year-end
8 409 (8 600)

Capital expenditure of tangible fixed assets
72.4 (56.2) 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)

Automobile production increased in all regions of the world in 2010 following the severe downturn in vehicle production in 2008 and 2009, especially in North America and Europe, as a result of the financial and economic crisis. Rieter Automotive Systems reaped the benefit of the more favorable business climate with both established and newly launched products. The division's sales rose by 20% (by 25% in local currencies) in the year under review. Due to improved capacity utilization, the implementation of restructuring projects and action to boost productivity, Automotive Systems was able to report a 136.1 million CHF improvement in EBIT and returned to a positive operating result. Due to the plunge in volumes Automotive Systems posted a negative operating result of –105.1 million CHF in the previous year. Automotive Systems continued to work on innovations in 2010 and launched products on the market which meet the current and future requirements of the automotive industry. Automotive Systems also continued to expand its presence considerably in the growth markets of China and India by opening three new plants, and acquiring significant new orders in all regions of the globe. Rieter Automotive Systems is therefore well placed to generate further profitable growth.

Market developments and the trend of business

Automobile production worldwide developed dynamically throughout 2010. A total of some 73 million light motor vehicles were manufactured, equivalent to an increase of 23% compared with the previous year. Growth was strongest in North America, where output of light motor vehicles rose by 38%. After market activity in the previous year had been overshadowed by very negative consumer sentiment and the temporary insolvency of large automobile manufacturers, demand began to recover to more normal levels in the year under review. Automobile production in Europe grew by 14% on the back of an improvement in consumer sentiment. The phasing-out of scrappage incentives had no material impact on growth. Despite the upswing in 2010, neither of Rieter Automotive Systems' main markets – Europe and North America – has yet regained the output levels achieved in the good years before the financial and economic crisis.

> Due to improved capacity utilization, the implementation of restructuring projects and action to boost productivity, Automotive Systems was able to report a 136.1 million CHF improvement in EBIT and returned to a positive operating result.

China experienced a boom exceeding even optimistic forecasts, with automobile production increasing by 28%. In 2010 more automobiles were manufactured in China than in North America as a whole. Other Asian markets also recorded very good growth rates. There was a striking increase in the production of commercial vehicles worldwide, albeit also compared with a very low level in the previous year.

Rieter Automotive Systems benefited from the favorable market trends in all regions and overall sales were substantially higher due to its broad customer portfolio as well as established and new products offering innovative solutions to the challenges facing the automotive engineering industry. Due to its own stability Rieter Automotive Systems also continued in 2010 to acquire orders which had previously been filled by inadequately financed competitors. Rieter further developed its market position in North America, both with American manufacturers, which have returned to the growth track and emerged from losses with successful models, and also with European and Japanese manufacturers. Automotive Systems also benefited from improved consumer sentiment in Europe; the division's sales increased in line with production figures for the industry. Automotive Systems recorded a disproportionately strong increase in sales in China, albeit still at a much lower level than in the main western markets.

Parallel to the rapid increase in output and productivity, Rieter Automotive Systems pursued the restructuring projects launched in the preceding years and actions to lower breakeven level, as well as aligning structures to market trends; these were almost completed by year-end. Since the outbreak of the crisis the division has closed nearly eight plants in Europe and the US or largely completed their closure.

Innovations for long-term development of the business

Rieter Automotive Systems is working intensively on further extending its technical lead through innovations based on the “cost down – value up” principle. The division has unique expertise as an automotive component supplier by virtue of its combination of know-how in acoustics and thermal management. Rieter sets the global standards in this field with simulation and measuring methods developed in-house. The automotive industry is facing major challenges posed by increasingly severe legal stipulations on a global scale. Three technological trends are predominant: new drive concepts and the reduction of CO_2 emissions and exterior noise. Its profound understanding of the system as a whole enables Rieter Automotive to offer optimal acoustic and thermal management solutions for a wide range of needs arising from these trends. The new internal combustion engines and hybrid drive systems impose greater demands on vehicle acoustics and thermal management. Internal combustion engines are tending to become more compact and thus louder. Hybrid-powered vehicles are more complex than conventionally powered automobiles in this respect. They require more extensive, high-tech acoustic packages and thermal management solutions. This boosts the market potential for Rieter Automotive Systems.

One of the main requirements in automobile engineering is weight reduction. Rieter Automotive Systems is very well positioned with lightweight material combinations such as the established Rieter Ultra Light product, innovative Rieter Ultra Silent technology, which commenced volume production in 2008, and Rieter Hybrid Acoustics, a promising innovation offering weight reductions of up to 50% compared with a conventional solution for engine bay rear bulkhead insulation. Rieter has also developed the new generations of heat shields and carpet systems with a view to minimizing weight, combined with high acoustic and thermal management performance. Automotive Systems received initial volume orders in the year under review for RieBay, a novel engine enclosure which enables fuel consumption to be reduced substantially. Rieter Automotive Systems is responding to the clearly apparent trend, especially in Europe, toward further tightening of regulations to reduce exterior noise by means of the above-mentioned engine enclosure and innovative underbody systems featuring Rieter Ultra Silent acoustic technology.

Further expansion in growth markets

A global presence with wholly owned manufacturing facilities is a crucial success factor for Rieter Automotive Systems. The automobile manufacturers expect the products and technologies they purchase from their suppliers to be available in all parts of the globe. In order to ensure that this is so, Automotive Systems established facilities in emerging markets at an early stage, for example in Latin America and Turkey. In recent years Rieter has clearly focused on developing its presence in the large Asian markets, China and India, where further strong growth is forecast. In 2010 Rieter Automotive established three new plants in Asia – including two in China and one in India. Capacity will be increased further in 2011, and at the end of the year the division will have six plants and a research center in China and two plants in India. Rieter already has a good market position in these countries with Japanese and western manufacturers; customer relationships with local manufacturers are being established. In the year under review Automotive Systems gained significant new orders which will contribute to higher sales in the years to come. However, both markets still offer great potential for Rieter. Automotive Systems is also establishing a third manufacturing facility in the Czech Republic in response to structural changes in Europe.

Sustainability

For Rieter, sustainability is a major aspect of corporate management. Since 1997 Rieter has adhered to environmental and safety principles that reflect the group's commitment to sustainable development. For Rieter, sustainability includes acting responsibly in relation to the environment and natural resources, managing personnel with consideration and engaging in dialog with official bodies and the local population at its sites.

Rieter collects all data of relevance for the sustainable management of the company in the SEED (Social, Economic and Environmental Data) database. These are analyzed annually in order to assess Rieter's sustainability performance. Ecologically relevant facts and figures are published in a separate environmental report which appears each July. This can be found on the website at www.rieter.com under the heading of "Environmental Report".

The environment

Both divisions make considerable efforts to ensure that the environmental impact of their products throughout their life cycle is as small as possible, also by employing production processes that enable more effective and efficient utilization of the raw materials used. Rieter Textile Systems optimizes recycling processes in spinning mills in cooperation with customers. Automotive Systems employs corresponding processes in its own manufacturing plants. This involves not only the reutilization of waste, but also maximum recyclability of the products manufactured. With efficient thermal and noise insulation cladding, Rieter Automotive Systems helps to reduce vehicles' fuel consumption and emissions. Rieter Textile Systems is constantly engaged in product and process optimization with regard to its machines and components with a view to reducing energy and fiber consumption in spinning mills.

Rieter Automotive Systems
Requirement: lower CO_2 emissions and fuel consumption with reduced noise
Response: heat retention in the drive train by means of engine enclosure and enhanced acoustic insulation

In recent years Rieter Automotive has developed methods and material technologies for producing innovative thermo-acoustic engine enclosures. These enable CO_2 emissions to be reduced – a major goal of the automotive industry.

Binding CO_2 limits have already been stipulated in Europe and the USA. Other important countries such as Japan and China will soon follow suit. CO_2 emissions can be reduced by up to 5 g per vehicle per 100 km by means of engine encapsulations. This would result in a reduction of some 50 000 tons in CO_2 emissions by the automobiles produced globally in one year.

Based on its unique combination of know-how in acoustics and thermal management, Rieter Automotive can integrate into the encapsulation a function to enhance noise insulation in addition to heat retention. The system thus also helps to reduce exterior noise emitted by vehicles.

Rieter Textile Systems
Requirement: reduced energy consumption
Response: energy-efficiency in spinning preparation

Rieter Textile Systems launched the new C 70 generation of cards in November 2010. The production performance of the C 70 is more than 40% higher than that of the predecessor model. Compared with a conventional spinning preparation line, more than 112 000 kWh of electricity can be saved annually with the C 70 card, equivalent to a reduction of 16.5%. The power saved in this way could heat nine residential buildings with a floor area of 150 m^2 each for a whole year in a central European climate.

Personnel

Industrial safety
In 2010 Rieter again conducted a series of training courses in industrial safety, including a comprehensive course at its location in India. Training is intended to increase the awareness of risk among responsible personnel, so that they identify hazards at an early stage and take purposeful preventive action. The three main topics of these training courses are accident prevention, risk awareness and a general increase in knowledge. Further priorities are fire safety, industrial safety, environmental protection and emergency management.

Code of Conduct
Rieter revised its Code of Conduct in the year under review, taking into account customers' current requirements and the OECD guidelines for companies operating internationally. The code of conduct remains an integral part of the contract of employment. Familiarity with it is regularly tested by means of an e-learning program. Members of top management were again examined in the year under review. In this way Rieter ensures that all those in positions of leadership are also familiar with the principles of conduct and communicate them to their employees.

The full Code of Conduct can be found on the Rieter website at http://www.rieter.com/en/group/about-rieter-group.

Personnel development/Change management
In the field of management development a group-wide management training program entitled "Corporate Management Training" and various further training sessions in the divisions are conducted annually. Training modules under the headings of Values & Principles, Strategy, Human Resources and Corporate Culture are attended by managers worldwide.

Rieter Textile Systems had to adjust its structures to prevailing market conditions in response to the slump in 2008 and 2009. This process was monitored by Change Management Workshops in the context of a reorganization project. The goal was to provide support to those involved in the process of change and to point out the opportunities presented by this realignment. Global in-house interchange was also to be encouraged. A total of six, three-day seminars were held at the sites in Winterthur, Changzhou, Ingolstadt and Pune.

Promoting vocational training in India
Rieter is playing an active role in the development and implementation of the VET (Vocational Education and Training) concept in India, which has been initiated by the Swiss Federal Office for Vocational Training and Technology and the Swiss-Indian Chamber of Commerce. This initiative offers young Indians an opportunity to undertake an internationally recognized technical apprenticeship. This is based on the successful Swiss vocational training concept and is adapted to the needs of the location in cooperation with local authorities, trade associations and companies operating in India. Rieter has many years of experience with production facilities in India and can make an especially valuable contribution to the development of the concept.

Customers

Rieter Textile Systems conducts monthly surveys of customer satisfaction in order to respond even more effectively to customers' needs and requirements. These surveys are made in different stages: after the contract of sale has been concluded, after the machine has been commissioned and after the warranty has expired. The personalized surveys enable an immediate response to be made.

Rieter frequently organizes specific events at various locations in order to be able to respond better to customers' requirements and to enhance their technical know-how. In 2010 these included a customer conference in China on the subject of rotor spinning machines.

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, 2010. 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 89 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 59 and 60.

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 Chief Financial Officer (CFO) is Head of the Corporate Center and reports to the Executive Chairman. Some 85 companies worldwide belonged to the Rieter Group as of December 31, 2010. A list of the main companies can be found on pages 80 and 81. 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, 2010, Rieter was aware of the following shareholders with more than 3% of all voting rights in the company:

- PCS Holding, Weiningen, Switzerland
- Artemis Beteiligungen I AG, Hergiswil, Switzerland, and Forbo International SA, Baar, Switzerland
- First Eagle Investment Management LLC, Delaware, USA
- Sparinvest Holding A/S (indirectly via Investeringsforeningen Sparindex, Randers, Denmark)

Refer to page 88 for details.

All notifications of shareholders with more than 3% of all voting rights in the company have been reported to the Disclosure Unit of the SIX Swiss Exchange and published via its electronic publication platform at: http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_de.html.

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

2 Capital structure

Share capital

On December 31, 2010, 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, 2010, was 1 565.8 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, 2010.

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 reinforced the capital base of Rieter Holding Ltd. with an inflow of 46.7 million CHF.

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 31 (page 77) 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 2010 financial year, one member of the Board (Chairman) performed executive duties.

Since August 4, 2009, the Chairman of the Board has also acted as Executive Chairman. At the same time the Vice Chairman was appointed Lead Director in order to ensure compliance with the principles of good corporate governance. The management structure within the Board of Directors is periodically reviewed.

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 28, 2010, elected Dr. Dieter Spälti to the Board of Directors for a further term of office.

The term of office of Erwin Stoller expires at the Annual General Meeting to be held on April 13, 2011. He is standing for re-election.

Board of Directors



Name, year of birth Function Nationality	**Erwin Stoller (1947)** Chairman Swiss national	**This E. Schneider (1952)** Vice Chairman Swiss national	**Dr. Dieter Spälti (1961)** Board member Swiss national
First election to Board	Board member and Chairman since 2008, Chairman and Delegate of the Board of Directors (Executive Chairman) since 2009	Board member and Vice Chairman (Lead Director) since 2009	Board member since 2001
Term of office expires in	2011	2012	2013
Educational and professional background	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 per end of 2007.	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 CEO of the Selecta Group, from 1997 to 2002; Delegate of the Board of Directors and Chief Executive Officer, Forbo Group, since 2004.	Dr.iur. University of Zurich; Partner McKinsey until 2001; Managing Partner Spectrum Value Management, Jona, since 2002.
Other activities and interests		Board member, Galenica SA, Berne; Chairman of the Board, Selecta AG, Muntelier.	Board member, IHAG Holding, Zurich; Board member, Holcim AG, Jona.
Committees	Member of the nomination and compensation committee	Chairman of the nomination and compensation committee	Member of the audit committee
Executive/non-executive	executive since 2009	non-executive	non-executive

Dr. Jakob Baer (1944)
Board member
Swiss national

Board member since 2006

2012

Dr.iur. University of Berne; Lawyer; CEO of KPMG Switzerland until 2004; independent consultant since then.

Board member: Adecco S.A., Chéserex; Swiss Re, Zurich; Allreal Holding AG, Baar; Barry Callebaut AG (since December 7, 2012); Member and Chairman of the Board, Stäubli Holding AG, Pfäffikon, Schwyz.

Chairman of the audit committee

non-executive

Michael Pieper (1946)
Board member
Swiss national

Board member since 2009

2012

Lic.oec. HSG; Owner and Chief Executive Officer of the Franke Artemis 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; Adval Tech Holding AG, Niederwangen.

non-executive

Hans-Peter Schwald (1959)
Board member
Swiss national

Board member since 2009

2012

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.

Member of the audit and nomination and compensation committee

non-executive

Peter Spuhler (1959)
Board member
Swiss national

Board member since 2009

2012

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.

non-executive

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 nomination and compensation committee to assist it in its work. However, decisions are made by the Board of Directors as a whole.

The Board of Directors met for 10 regular meetings in the 2010 financial year. In addition two telephone conferences of the whole Board were 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. In the year under review the Board of Directors visited Rieter Textile Systems' manufacturing site in Changzhou and the Automotive Systems facility in Shanghai on the occasion of the ITMA Asia in Shanghai. 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 review its internal working methods and cooperation with the Group Executive Committee in the context of a self-assessment.

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 2010 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
- overall supervision of risk management and acceptance of the Group Executive Committee's risk report addressed to the Board of Directors
- 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 2010. 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.

The **nomination and compensation committee** consists of three members. The Chairman of this committee is appointed by the Board of Directors. This E. Schneider held this position in 2010. 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 nomination and compensation committee is also informed about plans for Board of Directors and senior management succession and the relevant development plans.

The committee met for one regular meeting in 2010. The meeting lasted half a day. All committee members attended all the meeting. The Lead Director chairs the nomination and compensation 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, and the previous year. The Board of Directors is also informed at each meeting about the course of business, important projects and risks, as well as rolling earnings and liquidity budgets. 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 24 audits in 2010. 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. A restructured edition of the Code of Conduct including a number of additional items was published in the year under review and implemented worldwide. 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, 2010: the heads of the two divisions and the CFO, who is head of the Corporate Center.

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.

Management contracts

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

Group Executive Committee

			
Name, years of birth Function Nationality	**Peter Gnägi (1954)** Head of Textile Systems Division Swiss national	**Urs Leinhäuser (1959)** Chief Financial Officer (CFO) and Head of the Corporate Center Swiss national	**Wolfgang Drees (1953)** Head of Automotive Systems Division German national
Member of the Group Executive Committee since	2002	2003	2008
Educational and professional background	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 Group Executive Committee of Rieter since 2002, in his present function since 2002.	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 2004.	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 2007 as Head of Business Group Europe of Rieter Automotive Systems and deputy head of the division, in his present function since 2008.
Other activities and interests	Member of the Executive Committee, Swissmem.	Member of the Board, Burckhardt Compression Holding AG, Winterthur.	Member of the Board, Huber Packaging Group, Öhringen, Germany; Member of the Advisory Board, MSC-Gleichmann Unternehmensgruppe, Stutensee, Germany.

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 89.

6 Shareholders' participatory rights

Voting restrictions

Rieter imposes no voting restrictions.

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.

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 $\frac{1}{3}$% 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 1.8 million CHF (2.0 million CHF in 2009) for services in connection with auditing the annual financial statements of the group companies and Rieter's consolidated accounts in the 2010 financial year. PwC, KPMG and other auditors invoiced some 1.3 million CHF (0.8 million CHF in 2008) for additional services. 0.3 million CHF (0.3 million CHF in 2009) of this total were for audit related services, and 0.5 million CHF (0.5 million CHF in 2009) for tax consulting and 0.5 million CHF for the project of separating the divisions Rieter Textile Systems and Rieter Automotive Systems.

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 2011	April 13, 2011
• Semi-Annual Report 2011	July 27, 2011
• Publication of sales 2011	February 2, 2012
• Deadline for proposals regarding the agenda of the Annual General Meeting	February 24, 2012
• Results press conference 2012	March 20, 2012
• Annual General Meeting 2012	April 18, 2012

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Financial report

Consolidated financial statements

Consolidated income statement

CHF million	Notes	2010	%*	2009	%*
Sales	(4)	**2 585.8**		**1 956.3**	
Sales deductions		– 96.4		– 73.6	
Net sales		**2 489.4**		**1 882.7**	
Change in semi-finished and finished goods		34.5		– 41.1	
Own work capitalized		1.6		4.9	
Corporate output		**2 525.5**	**100.0**	**1 846.5**	**100.0**
Material costs		– 1 213.2	– 48.0	– 885.1	– 48.0
Employee costs	(5)	– 764.7	– 30.3	– 693.0	– 37.5
Other operating expenses	(6)	– 354.8	– 14.1	– 349.3	– 18.9
Other operating income		30.0	1.2	35.2	1.9
Depreciation and amortization	(7)	– 124.8	– 4.9	– 140.9	– 7.6
Operating result before interest and taxes (EBIT)		**98.0**	**3.9**	**– 186.6**	**– 10.1**
Financial income	(8)	3.6		4.7	
Financial expenses	(9)	– 34.8		– 29.6	
Result before taxes		**66.8**	**2.6**	**– 211.5**	**– 11.5**
Income taxes	(10)	– 25.2		– 6.0	
Net result		**41.6**	**1.6**	**– 217.5**	**– 11.8**
Attributable to shareholders of Rieter Holding Ltd.		26.5		– 223.9	
Attributable to non-controlling interests		15.1		6.4	
Earnings per share • average number of registered shares outstanding: 4 640 220 (4 392 808 in 2009)	CHF	5.72		– 50.96	
Diluted earnings per share • average number of shares to calculate diluted earnings per share: 4 642 437 (4 392 808 in 2009)	CHF	5.71		– 50.96	

* In % of corporate output.

Consolidated statement of comprehensive income

CHF million	2010	2009
Net result	**41.6**	**– 217.5**
Currency effects	– 62.3	5.9
Financial instruments available for sale:		
Change in fair value	15.0	54.1
Realized results through income statement	0.0	0.3
Income taxes	– 5.9	– 19.9
Total other comprehensive income	**– 53.2**	**40.4**
Total comprehensive income	**– 11.6**	**– 177.1**
Attributable to shareholders of Rieter Holding Ltd.	– 20.5	– 182.5
Attributable to non-controlling interests	8.9	5.4

The notes on pages 50 to 81 are an integral part of the consolidated financial statements.

Consolidated balance sheet

CHF million	Notes	December 31, 2010	December 31, 2009
Assets			
Tangible fixed assets	(12)	606.1	696.0
Intangible assets	(13)	15.2	23.0
Other non-current assets	(14)	175.6	164.0
Deferred tax assets	(10)	5.3	3.5
Non-current assets		**802.2**	**886.5**
Inventories	(15)	328.4	266.0
Trade receivables	(16)	381.5	331.5
Other receivables	(17)	98.0	92.4
Assets of disposal groups	(28)	0.0	7.0
Marketable securities and time deposits	(18)	7.1	13.0
Cash and cash equivalents	(19)	351.9	217.7
Current assets		**1 166.9**	**927.6**
Assets		**1 969.1**	**1 814.1**
Shareholders' equity and liabilities			
Share capital	(20)	23.4	23.4
Share premium account (capital reserve)		27.5	27.5
Group reserves		506.0	536.3
Equity attributable to shareholders of Rieter Holding Ltd.		**556.9**	**587.2**
Equity attributable to non-controlling interests	(21)	70.7	68.6
Total shareholders' equity		**627.6**	**655.8**
Long-term financial debt	(22)	296.3	140.7
Deferred tax liabilities	(10)	79.2	75.0
Provisions	(23)	180.7	182.2
Other non-current liabilities		0.9	1.4
Non-current liabilities		**557.1**	**399.3**
Trade payables		315.8	226.8
Advance payments by customers		110.9	63.3
Short-term financial debt	(22)	66.2	81.7
Current tax liabilities		26.0	22.2
Provisions	(23)	89.0	174.3
Other current liabilities	(24)	176.5	177.3
Liabilities of disposal groups	(28)	0.0	13.4
Current liabilities		**784.4**	**759.0**
Liabilities		**1 341.5**	**1 158.3**
Shareholders' equity and liabilities		**1 969.1**	**1 814.1**

The notes on pages 50 to 81 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

CHF million	Notes	2010	2009
Net result		41.6	– 217.5
Interest income	(8)	– 2.8	– 4.0
Interest expenses	(9)	29.4	27.6
Income taxes		25.2	6.0
Depreciation and amortization of tangible and intangible fixed assets		124.8	140.9
Gains on divestments	(30)	– 4.5	– 4.5
Other non-cash income and expenses		– 3.4	– 5.7
Change in inventories		– 93.5	96.0
Change in receivables		– 108.8	82.0
Change in non-current provisions		17.6	– 50.3
Change in trade payables		123.4	– 43.4
Change in advance payments by customers and other liabilities		– 3.0	7.1
Dividends received		0.8	0.8
Interest received		2.8	4.0
Interest paid		– 16.4	– 23.2
Taxes paid		– 27.1	– 17.4
Net cash from operating activities		**106.1**	**– 1.6**
Capital expenditure on tangible and intangible assets	(12/13)	– 98.2	– 61.7
Proceeds from disposals of tangible and intangible assets		6.1	16.3
Investments in other non-current assets		– 9.8	– 10.3
Proceeds from disposals of other non-current assets		9.9	6.0
Sale/purchase of marketable securities and time deposits		4.7	– 5.6
Divestments of businesses	(30)	– 5.2	22.1
Net cash used for investing activities		**– 92.5**	**– 33.2**
Shareholders' options program		0.0	46.7
Purchase/sale of own shares		– 9.8	56.0
Capital increases by non-controlling interests		0.0	16.2
Dividends to non-controlling interests		– 6.8	– 9.3
Repayment/proceeds from short-term financial debt		– 5.9	– 134.9
Proceeds from long-term financial debt		259.3	104.9
Repayments of long-term financial debt		– 107.5	– 107.4
Net cash from financing activities		**129.3**	**– 27.8**
Currency effects		– 8.7	– 2.3
Change in cash and cash equivalents		**134.2**	**– 64.9**
Cash and cash equivalents at beginning of the year	(19)	**217.7**	**282.6**
Cash and cash equivalents at end of the year	(19)	**351.9**	**217.7**

The notes on pages 50 to 81 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, 2009	**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 non controlling interests	0.0	0.0	0.0	0.0	– 22.9	– 22.9	16.2	– 6.7
Dividends to non controlling 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**
Net result	0.0	0.0	0.0	0.0	26.5	26.5	15.1	41.6
Total other comprehensive income	0.0	0.0	0.0	– 47.0	0.0	– 47.0	– 6.2	– 53.2
Total comprehensive income	**0.0**	**0.0**	**0.0**	**– 47.0**	**26.5**	**– 20.5**	**8.9**	**– 11.6**
Dividends to non controlling interests	0.0	0.0	0.0	0.0	0.0	0.0	– 6.8	– 6.8
Share-based compensation	0.0	0.0	0.0	0.0	0.7	0.7	0.0	0.7
Change in holding of own shares	0.0	– 0.1	0.0	0.0	– 10.4	– 10.5	0.0	– 10.5
At December 31, 2010	**23.4**	**– 0.2**	**27.5**	**189.6**	**316.6**	**556.9**	**70.7**	**627.6**

Valuation reserves include cumulative translation effects and after-tax valuation gains of 45.3 million CHF (36.2 million CHF in 2009) on financial instruments available for sale.

The notes on pages 50 to 81 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 certain financial instruments, which are measured at fair value.

As of January 1, 2010, the following new or amended standards and interpretations became operative: IFRS 3 “Business combinations”, IAS 27 “Consolidated and separate financial statements”, IAS 28 “Investments in associates”, IAS 31 “Interests in joint ventures”, IFRIC 17 “Distribution of non-cash assets to owners”, IFRIC 18 “Transfers of assets from owners”, IFRIC 9 “Reassessment of embedded derivatives”, IAS 39 “Financial Instruments: Recognition and measurement”, IFRIC 16 “Hedges of a net investment in a foreign operation”, IAS 1 “Presentation of financial statements”, IAS 36 “Impairment of assets”, IFRS 2 “Group cash-settled share based payment transactions”, IFRS 5 “Non-current assets held for sale and discontinued operations”. The adoption of these new or revised standards and interpretations 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 expected fair value less cost to sell. If the recoverable amount is below the carrying amount, a corresponding impairment loss is recognized in the income statement. Where the recoverable amount cannot be estimated for an individual asset, it is determined for the cash-generating unit to which the asset belongs. Goodwill is always tested for impairment on the level of the cash-generating unit to which it is allocated. 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. Control 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 included in the consolidated financial statements if Rieter exercises control. 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 entities and associated companies are listed on pages 80 and 81.

Changes in the scope of consolidation

The disposal of the nonwovens activities and the sale of Idea Group changed the scope of consolidations in the year under review. The impact of this transactions on the consolidated financial statements is shown in note 30 (page 76).

In December 2010 all entities of Automotive Systems were transferred to the newly founded Unikeller Holding Ltd. (Autoneum Holding Ltd. as from March 22, 2011), a subsidiary of Rieter Holding Ltd.

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 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	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. Development costs for major projects are capitalized as intangible assets if the cost can be measured reliably and it can be demonstrated that the project is technically feasible and will generate a future economic benefit.

Goodwill
Goodwill represents the difference between the purchase price of an acquired company and the estimated fair 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, 2010 and 2009.

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 and is able to hold to maturity. Rieter did not hold any investments in this category during 2010.

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 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 fair 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 where it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated.

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 unless they relate to items recognized directly in equity.

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. Actuarial gains and losses in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation at the end of the previous reporting period are charged or credited to income over the employees' expected average remaining working lives. 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 based on stage of completion of the service. Credits, discounts and rebates are deducted from gross proceeds, as well as losses 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 but do not have to be applied for annual periods beginning before January 1, 2011. Rieter has not adopted any of these new regulations early and they are not expected to have a material impact on equity and net result when they come into force: IFRS 9 “Financial Instruments”, IAS 24 (revised), “Related party disclosures”, IAS 32 (revised), IFRIC 19 “Extinguishing financial liabilities with equity instruments”, Amendment to IFRIC 14, “Prepayments of a minimum funding requirement”.

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 in August 2001 and fully revised in 2010. 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 performance against budget are also dealt with in these meetings in order to identify and implement corrective measures. Significant individual risks are included in the monthly reports to the attention of the 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 entities (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. Assuming that the Euro had been 5% stronger versus the Swiss franc at December 31, 2010, with all other variables held constant, the Group's after-tax result and retained earnings would have been 0.4 million CHF higher (12.3 million CHF higher in 2009). 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 0.9 million CHF (1.8 million CHF in 2009). 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. Since the Group has no material securities at the end of 2010, 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 2009) of the division’s sales.

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 2010 Rieter Holding SA issued a fixed-rate bond of 250 million CHF. The issue has a five-year maturity and a fixed coupon of 4.5%. This issue enabled Rieter to diversify financial resources and extend credit line maturities to take advantage of favorable capital market conditions.

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

Financial liabilities December 31, 2010	Carrying amount	Contractual cash flows			
CHF million		Within 1 year	In 1 to 5 years	In 5 or more years	Total cash-flow
Fixed-rate bond	247.6	11.3	295.0	0.0	306.3
Bank debt	78.9	67.1	17.9	0.0	85.0
Finance leasing obligations	3.4	0.8	2.6	0.4	3.8
Other financial debt	30.4	2.2	37.4	0.3	39.9
Negative replacement values of derivative financial instruments	1.0	1.0	0.0	0.0	1.0
Trade payables	315.8	315.8	0.0	0.0	315.8

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

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 32%. As an industrial Group, Rieter strives to have a strong balance sheet with an equity ratio of 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.

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

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-segment sales.

Segment information by division 2010

CHF million	Textile Systems	Automotive Systems	Reconciliation	Total Group
Sales	870.4	1 715.4	0.0	2 585.8
Net sales	812.1	1 677.3	0.0	2 489.4
Operating result before interest and taxes (EBIT)	77.9	31.0	–10.9[2]	98.0
Assets	601.7[1]	854.2[1]	513.2[3]	1 969.1
Liabilities	380.2[1]	455.6[1]	505.7[4]	1 341.5
Net assets	221.5[1]	398.6[1]	7.5	627.6
Capital expenditures on tangible and intangible assets	25.8	72.4	0.0[2]	98.2
Depr. and amort. of tangible and intangible assets	39.7	84.9	0.2[2]	124.8
Number of employees[5]	4 357	8 409	38[2]	12 804

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 interest and taxes (EBIT)	– 73.6	– 105.1	–7.9[2]	– 186.6
Assets	498.7[1]	955.4[1]	360.0[3]	1 814.1
Liabilities	285.4[1]	526.2[1]	346.7[4]	1 158.3
Net assets	213.3[1]	429.2[1]	13.3	655.8
Capital expenditures on tangible and intangible assets	5.5	56.2	0.0[2]	61.7
Depr. and amort. of tangible and intangible assets	46.2	94.3	0.4[2]	140.9
Number of employees[5]	4 086	8 600	75[2]	12 761

1. Segment assets and liabilities excluding financial and income tax related items.
2. Other units (Rieter Holding Ltd, Corporate Center).
3. Assets other units 60.3 Mio. CHF (51.5 Mio. CHF in 2009), cash and cash equivalents 351.9 Mio. CHF (217.7 Mio. CHF in 2009), marketable securities and time deposits 7.1 Mio. CHF (13.0 Mio. CHF in 2009), investments 83.8 Mio. CHF (70.1 Mio. CHF in 2009), interest bearing receivables 4.8 Mio. CHF (4.2 Mio. CHF in 2009), deferred tax assets 5.3 Mio. CHF (3.5 Mio. CHF in 2009).
4. Liabilities other units 38.0 Mio. CHF (27.1 Mio. CHF in 2009), financial debt 362.5 Mio. CHF (222.4 Mio. CHF in 2009), deferred tax liabilities 79.2 Mio. CHF (75.0 Mio. CHF in 2009), current tax liabilities 26.0 Mio. CHF (22.2 Mio. CHF in 2009).
5. At year-end (excluding apprentices and temporary employees).

Sales and non-current assets by geographic region and countries

CHF million	Sales 2010	Sales 2009	Non-current assets 2010[1]	Non-current assets 2009[1]
Europe	1 039.7	901.1	368.3	459.9
Asia[2]	704.6	405.3	109.1	99.8
North America	584.2	432.5	123.2	137.6
Latin America	218.5	181.7	18.6	19.0
Africa	38.8	35.7	2.1	2.7
Total Group	**2 585.8**	**1 956.3**	**621.3**	**719.0**
Switzerland (domicile of Rieter Holding Ltd.)	68.7	39.8	104.8	111.5
Foreign countries	2 517.1	1 916.5	516.5	607.5
Total Group	**2 585.8**	**1 956.3**	**621.3**	**719.0**
The following countries accounted for more than 10% of sales or non-current assets:				
USA	446.5	344.5	105.0	119.7
Switzerland (domicile of Rieter Holding Ltd.)	68.7	39.8	104.8	111.5
Czech Republic	22.7	19.1	73.3	87.4

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

No individual customer accounted for more than 10% of consolidated sales in 2010 and 2009. Sales by product group are not available.

Capital expenditures and number of employees by geographical region

CHF million	Capital expenditures 2010	Capital expenditures 2009	Number of employees 2010[1]	Number of employees 2009[1]
Europe	44.0	30.8	6 630	7 295
Asia[2]	27.7	13.2	2 680	2 161
North America	22.9	15.7	2 344	2 084
Latin America	3.5	1.8	1 064	1 152
Africa	0.1	0.2	86	69
Total Group	**98.2**	**61.7**	**12 804**	**12 761**

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

4 Sales

Change in sales

CHF million	2010	2009
Change in sales due to volume and price, Textile Systems	356.4	– 560.9
Change in sales due to volume and price, Automotive Systems	358.7	– 525.3
Impact of divestments	– 3.6	– 18.3
Currency effects	– 82.0	– 81.7
Total change in sales	**629.5**	**– 1 186.2**

5 Employee costs

CHF million	2010	2009
Wages and salaries	625.0	570.3
Social security and other personnel expenses	139.7	122.7
Total	**764.7**	**693.0**

6 Other operating expenses

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

7 Depreciation and amortization

CHF million	2010	2009
Tangible fixed assets	117.9	133.7
Intangible assets	6.9	7.2
Total	**124.8**	**140.9**

8 Financial income

CHF million	2010	2009
Interest income	2.8	4.0
Income from non-consolidated investments	0.8	0.7
Total	**3.6**	**4.7**

9 Financial expenses

CHF million	2010	2009
Interest cost	29.4	27.6
Loss on marketable securities	0.0	0.2
Other financial expenses and foreign exchange differences, net	5.4	1.8
Total	**34.8**	**29.6**

10 Income taxes

CHF million	2010	2009
Current income tax expense	28.1	11.3
Deferred income tax expense	– 2.9	– 5.3
Total	**25.2**	**6.0**

Reconciliation of expected and actual tax expense:

CHF million	2010	2009
Expected tax expense on pre-tax result of 66.8 million CHF (–211.5 million CHF in 2009) at an average rate of 17.2% (35.5% in 2009)	11.5	– 75.0
Impact of non tax-deductible income/expenses	3.4	2.5
Impact of losses and loss carry-forwards	9.0	77.4
Impact of changes in tax rates and tax legislation	– 0.4	– 2.4
Other effects	1.7	3.5
Total	**25.2**	**6.0**

Deferred income taxes

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

CHF million	Deferred tax assets 2010	Deferred tax liabilities 2010	Deferred tax assets 2009	Deferred tax liabilities 2009
Tangible fixed assets	7.0	– 22.5	7.9	– 23.1
Inventories	5.1	– 8.0	7.2	– 5.0
Other assets	7.6	– 61.5	2.8	– 44.7
Provisions	10.2	– 2.6	9.8	– 4.7
Other liabilities	8.3	– 2.9	10.3	– 14.0
Valuation adjustments on deferred tax assets	– 17.3	0.0	– 20.8	0.0
Tax loss carry-forwards and tax credits	2.7	0.0	2.8	0.0
Total	23.6	– 97.5	20.0	– 91.5
Offsetting	– 18.3	18.3	– 16.5	16.5
Deferred tax assets/liabilities	**5.3**	**– 79.2**	**3.5**	**– 75.0**

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 2010	Non capitalized 2010	Total 2010	Total 2009
Expiry in				
1 to 3 years	0.2	1.8	2.0	4.8
3 to 7 years	0.8	26.7	27.5	15.8
7 or more years	1.7	182.8	184.5	211.5
Total	**2.7**	**211.3**	**214.0**	**232.1**

The unused tax losses for which no deferred tax asset has been recognized originate primarily from countries with a tax rate between 22% and 40%.

11 Research and development

In 2010, 93.9 million CHF was spent on research and development (98.7 million CHF in 2009).

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

Development cost must meet various criteria to be recognized as an intangible asset. As such the technical and financial resources must be available to complete the development and it must be possible to measure reliably the expenditures attributable to the development. Although these criteria were met in 2010 by all material development projects and the management in charge confirmed the intention and ability to complete the projects, no development costs were recognized as intangible assets in 2010 and 2009, as the future economic benefits could not be sufficiently demonstrated as required by IAS 38.57d due to the fast technological change and strong economic fluctuations in both businesses.

12 Tangible fixed assets

CHF million	Land and buildings	Machinery, equipment and tools	Data processing equipment	Vehicles and furniture	Tangible fixed assets under construction	Total tangible fixed assets
Net book value at January 1, 2009	**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**
Reclassification	0.2	20.6	0.1	– 1.0	– 19.9	0.0
Additions	11.2	36.3	2.1	1.8	46.8	98.2
Disposals by divestments	0.0	– 1.8	– 0.1	– 0.1	0.0	– 2.0
Other disposals	– 3.8	– 2.2	0.0	– 0.1	– 0.1	– 6.2
Depreciation	– 14.7	– 96.4	– 3.3	– 3.5	0.0	– 117.9
Currency effects	– 24.6	– 31.1	– 0.4	– 1.0	– 4.9	– 62.0
Net book value at December 31, 2010	**232.4**	**296.7**	**4.6**	**6.8**	**65.6**	**606.1**
Cost at December 31, 2010	495.6	1 370.6	48.3	56.8	65.6	2 036.9
Accumulated depreciation at December 31, 2010	– 263.2	– 1 073.9	– 43.7	– 50.0	0.0	– 1 430.8
Net book value at December 31, 2010	**232.4**	**296.7**	**4.6**	**6.8**	**65.6**	**606.1**

The book value of tangible assets held under finance leases was 3.2 million CHF (4.3 million CHF in 2009). 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	2010	2009
Land in operational use	49.8	56.2
Buildings in operational use	182.6	207.9
Total	**232.4**	**264.1**

Buildings were insured at the replacement value of 1 024.2 million CHF at balance sheet date (1 353.4 million CHF in 2009).

Non-operational property

CHF million	2010	2009
Net book value at January 1	0.0	18.4
Additions	0.0	0.0
Disposals	0.0	– 18.3
Depreciation	0.0	– 0.1
Net book value at December 31	**0.0**	**0.0**
Market value at December 31	**0.0**	**0.0**

In 2009 all non-operational property was sold.

13 Intangible assets

CHF million	Patents/ trademarks	Other intangible assets	Total intangible assets
Net book value at January 1, 2009	**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**
Amortization	– 6.4	– 0.5	– 6.9
Currency effects	– 0.9	0.0	– 0.9
Net book value at December 31, 2010	**13.3**	**1.9**	**15.2**
Cost at December 31, 2010	47.1	4.9	52.0
Accumulated amortization at December 31, 2010	– 33.8	– 3.0	– 36.8
Net book value at December 31, 2010	**13.3**	**1.9**	**15.2**

In 2010 and 2009, no intangible assets with undefined useful life were recognized in the balance sheet.

14 Other non-current assets

CHF million	2010	2009
Investments in non-consolidated companies	83.8	70.1
Long-term interest-bearing receivables	4.8	4.2
Other long-term receivables and pension funds	87.0	89.7
Total	**175.6**	**164.0**

Prepaid contributions and overfunding of personnel pension plans have been accrued up to the expected future benefit and amount to 60 million CHF.

15 Inventories

CHF million	2010	2009
Raw materials and consumables	88.9	74.0
Purchased parts and goods for resale	72.5	57.3
Semi-finished and finished goods	99.8	91.4
Work in progress	111.0	99.8
Allowance	– 43.8	– 56.5
Total	**328.4**	**266.0**

The following summarizes the movement in the allowance for inventories:

CHF million	2010	2009
Allowance at January 1	– 56.5	– 46.7
Utilization	2.7	0.7
Additions, net	5.2	– 10.6
Currency effects	4.8	0.1
Allowance at December 31	**– 43.8**	**– 56.5**

16 Trade receivables

CHF million	2010	2009
Trade receivables	409.4	358.7
Allowance for doubtful receivables	– 27.9	– 27.2
Total	**381.5**	**331.5**

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

CHF million	2010	2009
Allowance for doubtful receivables at January 1	– 27.2	– 23.1
Increase charged to income statement	– 11.8	– 9.8
Utilization or reversal	8.3	5.6
Currency effects	2.8	0.1
Allowance for doubtful receivables at December 31	**– 27.9**	**– 27.2**

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	2010	2009
CHF	81.0	33.5
EUR	197.5	213.8
USD	36.7	41.1
CNY	23.3	10.8
Other	43.0	32.3
Total	**381.5**	**331.5**

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	2010	2009
Not due	369.7	300.4
Past due less than 3 months	29.5	48.8
Past due 3 to 6 months	2.1	3.4
Past due 6 months to 1 year	1.3	4.2
Past due 1 to 5 years	5.5	0.0
Past due 5 or more years	1.3	1.9
Trade receivables	409.4	358.7
Allowance for doubtful receivables	– 27.9	– 27.2
Total	**381.5**	**331.5**

17 Other receivables

CHF million	2010	2009
Prepaid expenses and deferred charges	11.8	18.8
Advance payments to suppliers	18.1	13.0
Positive replacement values of derivative financial instruments	6.5	2.3
Other short-term receivables	61.6	58.3
Total	**98.0**	**92.4**

18 Marketable securities and time depostits

CHF million	2010	2009
Securities available for sale	4.2	2.0
Time deposits with original maturities between 3 and 12 months	2.9	11.0
Total	**7.1**	**13.0**

19 Cash and cash equivalents

CHF million	2010	2009
Cash and banks	323.3	179.8
Time deposits with original maturities up to 3 months	28.6	37.9
Total	**351.9**	**217.7**

20 Share capital

		31.12.2010	31.12.2009
Shares issued	Number of shares	4 672 363	4 672 363
Treasury shares	Number of shares	53 494	27 628
Shares outstanding	**Number of shares**	**4 618 869**	**4 644 735**
Nominal value per share	CHF	5.00	5.00
Share capital	**CHF**	**23 361 815**	**23 361 815**

21 Non-controlling interests

The main non-controlling interests 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 non-controlling interest there is a put and a call option. The non-controlling shareholders are entitled to sell their share in four years at an agreed minimum price. In 2009 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 in six years (call option).

22 Financial debt

CHF million	Fixed-rate bond	Bank debt	Finance leasing obligations	Other financial debt	Total 2010	Total 2009
Duration						
less than 1 year	0.0	63.3	0.8	2.1	66.2	81.7
1 to 5 years	247.6	15.6	2.3	30.3	295.8	139.2
5 or more years	0.0	0.0	0.3	0.2	0.5	1.5
Total	**247.6**	**78.9**	**3.4**	**32.6**	**362.5**	**222.4**

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	2010	2009
CHF	276.4	119.9
EUR	27.8	50.8
USD	14.2	9.7
Other	44.1	42.0
Total	**362.5**	**222.4**

23 Provisions

CHF million	Restructuring provisions	Pension provisions	Guarantee and warranty provisions	Environment provisions	Other provisions	Total provisions
Provisions at December 31, 2009	**132.5**	**80.7**	**43.2**	**11.0**	**89.1**	**356.5**
Reclassification	– 4.8	4.8	0.5	0.3	– 0.8	0.0
Disposals by divestments	– 12.8	– 2.5	– 0.2	0.0	3.6	– 11.9
Utilization	– 54.2	– 3.7	– 17.3	– 0.5	– 22.6	– 98.3
Release	0.0	0.0	– 0.1	– 2.5	– 10.1	– 12.7
Additions	0.0	2.7	20.0	0.2	42.9	65.8
Currency effects	– 11.9	– 10.8	– 1.5	0.0	– 5.5	– 29.7
Provisions at December 31, 2010	**48.8**	**71.2**	**44.6**	**8.5**	**96.6**	**269.7**
Thereof non-current	22.6	70.3	35.1	8.3	44.4	180.7
Thereof current	26.2	0.9	9.5	0.2	52.2	89.0

Restructuring provisions cover the legal and constructive obligations in connection with the restructuring program initiated in 2008. Until the end of 2010, 21 units or plants were closed or sold as part of this program. In 2010 the closing of a plant in North America led to a reclassification of 4.8 million CHF from restructuring provisions to pension provisions. The divestment of non-core activities (Idea Group, see note 30) resulted in a decrease of the restructuring provisions by 12.8 million CHF. 54.2 million CHF were utilized for structural and capacity adjustment projects, mainly in North America and Western Europe. The faster than expected recovery of the markets in both divisions necessitated an adjustment of the timing of some restructuring projects. Consequently, some current restructuring provision had to be reclassified to non-current. Non current restructuring provisions will lead to an expected utilization of 14.3 million CHF in 2012 and 8.3 million CHF in 2013.

Pension provisions include the liabilities in connection with defined benefit plans (see note 29) 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. The additions of 20.0 million CHF were mainly driven by the significant sales increase of Rieter Textile Systems. The non-current guarantee and warranty provisions of 35.1 Mio CHF are expected to result partly in a cash outflow in one or two years on average, i.e. in 2012 and 2013.

Environment provisions cover the expected remediation costs related to operations in previous years. In connection with the progressing restructuring program future remediation costs were reassessed in 2010, resulting in a release of part of the provision by 2.5 million CHF. The non-current environment provisions are expected to be utilized mainly in the years 2012 and 2013.

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. As of 31 December 2009 this category included also provisions in the amount of 5.0 million CHF in connection with firm purchase commitments, which had not been adhered to. Thanks to the pleasant increase of volumes in both divisions the provisions could be released in 2010. The other releases in this category relate to a number of individual issues which could be solved in 2010 without cash outflow. The additions in this category are mainly due to an increase of obligations in line with the increase of volumes, provisions for personnel premiums and the recognition of a liability in connection with a government grant in Asia. Non-current other provisions are expected to be utilized mainly in the years 2012 and 2013.

24 Other current liabilities

CHF million	2010	2009
Accrued holidays	19.0	18.9
Accrued sales commissions	21.5	15.3
Other accrued expenses	63.8	68.1
Negative replacement values of derivative financial instruments	1.0	0.5
Other short-term liabilities	71.2	74.5
Total	**176.5**	**177.3**

25 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	2010	2009
Cash compensation	3.3	2.4
Employee benefit contributions	0.1	0.1
Social security	0.0	0.0
Share-based compensation	0.5	0.6
Other long-term benefits	0.0	0.0
Total	**3.9**	**3.1**

The remuneration report and the compensation of the Board of Directors and the Group Executive Committee in compliance with Swiss law are disclosed in the financial statements of Rieter Holding Ltd. on pages 89 to 91.

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.

26 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	2010	2009
Cash (excluding time deposits)	**323.3**	**179.8**
Securities held for trading[1]	0.0	0.0
Positive replacement values of derivative financial instruments[2]	6.5	2.3
Investments in non-consolidated companies[2]	2.3	1.8
Total financial assets at fair value through profit and loss	**8.8**	**4.1**
Time deposits with original maturities up to 3 months	28.6	37.9
Time deposits with original maturities between 3 and 12 months	2.9	11.0
Trade receivables	381.5	331.5
Other short-term receivables	61.6	58.3
Long-term interest-bearing receivables	4.8	4.2
Total loans and receivables	**479.4**	**442.9**
Securities available for sale[1]	4.2	2.0
Investments in non-consolidated companies[2]	81.5	68.3
Total available for sale financial assets	**85.7**	**70.3**
Total financial assets and derivatives	**897.2**	**697.1**

CHF million	2010	2009
Short-term financial debt	66.2	81.7
Long-term financial debt (without put option non controlling interests)	269.4	116.2
Put option non controlling interests[3]	26.9	24.5
Negative replacement values of derivative financial instruments[2]	1.0	0.5
Total financial debt and derivatives	**363.5**	**222.9**

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 2010 the financial debt was increased by 2.4 million CHF (1.6 million CHF in 2009) by debiting interest expenses. If the value of the put option had been discounted by 8.4% the recognized financial debt would have been 0.8 million CHF higher.

27 Other commitments

Some Group companies lease factory and office space under operating lease agreements. The lease expenditure charged to the income statement was 32.0 million CHF (35.7 million CHF in 2009). The leases have varying terms, escalation clauses and renewal rights.

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

CHF million	2010	2009
Up to 1 year	14.6	12.4
1 to 5 years	24.4	25.0
5 or more years	5.7	3.9
Total	**44.7**	**41.3**

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

28 Assets and liabilities from disposal groups

At the end of December 2010 no assets and liabilities were classified as a disposal group.

As of 31 December 2009, the assets and liabilities of the nonwovens activities of Division Textile Systems were classified as a disposal group in accordance with IFRS 5 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**

The contract was closed on March 9, 2010 (see note 30).

29 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 (5.0 million CHF in 2009).

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	2010	2009
Actuarial present value of defined benefit obligation		
• unfunded plans	– 33.1	– 43.9
• funded plans	– 1 091.6	– 1 048.3
Defined benefit obligation at December 31	**– 1 124.7**	**– 1 092.2**
Fair value of plan assets	1 214.2	1 145.4
Surplus at December 31	**89.5**	**53.2**
Unrecognized actuarial gains and losses	20.1	15.1
Unrecognizable assets of pension plans (due to limit of IAS 19.58)	– 84.9	– 54.2
Net asset at December 31	**24.7**	**14.1**
Recognized in the balance sheet		
• as assets	69.4	70.7
• as pension provisions	– 44.7	– 56.6

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

CHF million	2010	2009
Defined benefit obligation at January 1	**1 092.2**	**1 035.4**
Reductions due to divestments	– 2.3	0.0
Current service cost	13.8	12.8
Interest cost	36.2	37.3
Employee contributions	10.4	9.9
Actuarial gains/losses	44.1	78.5
Past service cost	0.0	0.8
Benefits paid	– 57.3	– 83.7
Currency effects	– 12.4	1.2
Defined benefit obligation at December 31	**1 124.7**	**1 092.2**

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

CHF million	2010	2009
Fair value of plan assets at January 1	**1 145.4**	**1 010.4**
Expected return on plan assets	46.9	41.6
Actuarial gains/losses	55.4	144.2
Employer contributions	17.4	21.2
Employee contributions	10.4	9.9
Benefits paid	– 57.3	– 83.7
Currency effects	– 4.0	1.8
Fair value of plan assets at December 31	**1 214.2**	**1 145.4**

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

in %	2010	2009
Equity	58	61
Debt	13	11
Real estate	22	24
Other	7	4

In 2010 pension plan assets included Rieter bonds with a market value of 2.1 million CHF. In 2009 plan assets included 22 614 Rieter shares with a market value of 5.3 million CHF.

Pension costs of defined benefit plans

CHF million	2010	2009
Current service cost	13.8	12.8
Interest cost	36.2	37.3
Expected return on plan assets	– 46.9	– 41.6
Recognized actuarial gains/losses	– 17.8	– 22.4
Past service cost	0	0.8
Impact of limit of IAS 19.58	30.6	33.9
Pension costs of defined benefit plans	**15.9**	**20.8**

The Group expects to contribute 20 million CHF to its defined benefit pension plans in 2011. The actual return on plan assets was 102.3 million CHF (185.8 million CHF in 2009).

Actuarial assumptions

Weighted average in %	2010	2009
Discount rate	3.2	3.5
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	2010	2009	2008	2007	2006
Defined benefit obligation	– 1 124.7	– 1 092.2	– 1 035.4	– 1 294.1	– 1 184.8
Plan assets	1 214.2	1 145.4	1 010.4	1 474.4	1 443.7
Surplus/deficit	**89.5**	**53.2**	**– 25.0**	**180.3**	**258.9**
Experience adjustment on plan liabilities	2.6	34.3	– 17.3	117.6	34.5
Experience adjustment on plan assets	55.4	144.2	– 482.4	26.8	174.5

30 Divestments

On March 9, 2010 Rieter sold the non-wovens activities, which were part of segment Textile Systems. In accordance with IFRS 5 the concerned assets and liabilities were classified as a disposal group in the balance sheet as of December 31, 2009. The resulting divestment gain was recognized in other operating income. In 2010 the non-wovens activities generated sales of 5.0 million CHF prior to their sale.

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

CHF million	**2010**
Non-current assets	0.4
Current assets (without cash and cash equivalents)	5.8
Liabilities	– 11.5
Net disposed assets and liabilities	**– 5.3**
Gain on divestments	4.5
Cash flow	**– 0.8**

On June 30, 2010 Rieter sold Idea Group, which was part of Division Automotive Systems. There was no significant divestment loss. In 2010 Idea Group generated sales of 10.1 million CHF prior to its sale.

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

CHF million	**2010**
Non-current assets	2.4
Current assets (without cash and cash equivalents)	13.2
Liabilities	– 20.0
Net disposed assets and liabilities	**– 4.4**
Loss on divestments	0.0
Cash flow	**– 4.4**

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 the divestment 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**
Gain on divestments	4.5
Cash flow	**22.1**

31 Share-based compensation

Rieter has established a share purchase plan for its senior management. Between May 3 and June 14, 2010, 43 participants purchased 11 342 shares at a price of 222.00 CHF per share (33 524 shares at 97.00 CHF in 2009). The average market value of shares granted was 274.46 CHF (144.39 CHF in 2009). 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 273.00 CHF (136.90 CHF in 2009). There are no vesting conditions.

In 2010 the costs resulting from the share purchase plan amounted to 0.6 million CHF (1.6 million CHF in 2009). The costs resulting from the share option plan amounted to 0.1 million CHF (0.2 million CHF in 2009).

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 2010 is 76.93 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	273.50
Exercise price	CHF	273.00
Expected volatility (based on historical data)	%	43.01
Option life	Years	5
Risk-free interest rate	%	0.963
Dividend yield	%	1.025

Change in options granted

	Number of options 2010	Weighted average exercise price in CHF 2010	Number of options 2009	Weighted average exercise price in CHF 2009
Outstanding at January 1	**18 169**	**352.78**	**11 041**	**492.15**
Granted	1 445	273.00	7 128	136.90
Exercised	– 3 202	136.90	0	0.00
Outstanding at December 31	**16 412**	**387.90**	**18 169**	**352.78**
Exercisable at December 31	**11 041**	**492.15**	**6 736**	**577.25**

No options expired in 2010 and 2009.

The share options outstanding at December 31, 2010, had an exercise price between 136.90 CHF and 654.00 CHF and a weighted average contractual life of 2.28 years.

32 Cash flow

CHF million	2010	2009
Net result	41.6	– 217.5
Depreciation and amortization of tangible and intangible assets	124.8	140.9
Gains on divestments	– 4.5	– 4.5
Other non-cash income and expenses	8.4	– 11.9
Cash flow	**170.3**	**– 93.0**
Change in non-current provisions	17.6	– 50.3
Net cash flow	**187.9**	**– 143.3**
Change in net working capital	– 81.8	141.7
Capital expenditure on tangible and intangible assets, net	– 92.1	– 45.4
Change in other non-current assets, net	0.1	– 4.3
Sale/purchase of marketable securities and time deposits	4.7	– 5.6
Divestments of businesses	– 5.2	22.1
Free cash flow	**13.6**	**– 34.8**

33 Net liquidity

Net liquidity at December 31 was as follows:

CHF million	2010	2009
Cash and cash equivalents (without disposal group)	351.9	217.7
Cash and cash equivalents disposal group	0.0	2.1
Marketable securities and time deposits	7.1	13.0
Short-term financial debt	– 66.2	– 81.7
Long-term financial debt	– 296.3	– 140.7
Net liquidity	**– 3.5**	**10.4**

34 Exchange rates for currency translation

		Average annual rates		Year-end rates	
CHF million		2010	2009	2010	2009
Argentina	1 ARS	0.27	0.29	0.24	0.27
Brazil	1 BRL	0.59	0.55	0.56	0.59
Canada	1 CAD	1.01	0.95	0.94	0.98
China	100 CNY	15.40	15.88	14.20	15.22
Czech Republic	100 CZK	5.46	5.72	4.99	5.61
Euro countries	1 EUR	1.38	1.51	1.24	1.48
Great Britain	1 GBP	1.61	1.70	1.44	1.67
Hong Kong	100 HKD	13.42	14.00	12.04	13.31
India	100 INR	2.28	2.24	2.09	2.21
Poland	100 PLN	34.60	35.00	31.32	36.15
Taiwan	100 TWD	3.31	3.28	3.21	3.25
USA	1 USD	1.04	1.09	0.94	1.03

35 Events after balance sheet date

On March 21, 2011 the Board of Directors of Rieter Holding Ltd. resolved to propose to the Annual General Meeting to split the Rieter Group and to operate the Rieter Textile Systems division and Rieter Automotive Systems division as separate, listed entities.

Accordingly, the Board of Directors proposes the distribution of a special dividend to the shareholders of Rieter Holding Ltd., in the form of one registered share in Unikeller Holding Ltd. (to be renamed "Autoneum Holding Ltd." on March 22, 2011) per existing share in Rieter Holding Ltd. Autoneum Holding Ltd. is a group company of Rieter Holding Ltd. and is the parent company of all legal entities belonging to Rieter Automotive Systems.

In the context of this transaction Rieter Holding Ltd. will waive a claim against Autoneum Holding Ltd. of 55 million CHF arising from an existing loan agreement.

The registered shares of Autoneum Holding Ltd. shall be listed on the SIX Swiss Exchange.

36 Approval for publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Board of Directors on March 21, 2011. They are also subject to approval by the Annual General Meeting of shareholders. No events have occurred up to March 21, 2011, 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, 2010

			Capital	Group interest	Research & development	Sales/trading	Production	Services/financing
Argentina	Rieter Automotive Argentina S.A., Córdoba	ARS	15 643 600	100%		•	•	
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	10 000 000	100%			•	
	Rieter Textile Systems (Shanghai) Co. Ltd., Shanghai	USD	200 000	100%		•		
	Rieter Asia (Hong Kong) Ltd., Hongkong	HKD	1 000	100%		•		
	Rieter Automotive (Chongqing) Sound-Proof Parts Co. Ltd., Chongqing	CHF	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%	•	•	•	•
	Rieter Automotive CZ s.r.o, Chocen	CZK	206 200 000	100%	•	•	•	
	Novibra Boskovice s.r.o., Boskovice	CZK	40 000 000	100%	•	•	•	
France	Rieter France SAS, Lyon	EUR	39 843 540	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., Stoko-on-Trent	GBP	5 818 000	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%		•	•	

			Capital	Group interest	Research & development	Sales/trading	Production	Services/financing
Italy	Rieter Automotive Fimit S.p.A., Turin	EUR	8 400 000	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%				•
	Unikeller Holding AG, Winterthur	CHF	233 618	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	Rieter Saifa S.A., Terrassa	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., Esenler	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 46 to 81), for the year ended December 31, 2010.

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, 2010 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 21, 2011

Income statement of Rieter Holding Ltd.

for the financial year from January 1 to December 31

CHF million	Notes	2010	2009
Income			
Income from investments	(1)	205.8	48.8
Income from marketable securities and interest income	(2)	– 1.9	12.4
Other income	(3)	7.3	4.8
Total income		**211.2**	**66.0**
Expenses			
Financial expenses	(4)	20.4	20.6
Administration expenses		5.8	4.8
Value adjustments, provisions	(5)	41.9	39.6
Total expenses		**68.1**	**65.0**
Net profit		**143.1**	**1.0**

Balance sheet of Rieter Holding Ltd.

at December 31, before appropriation of profit

CHF million	Notes	2010	2009
Assets			
Investments in and loans to subsidiaries	(6)	641.5	553.9
Non-current assets		**641.5**	**553.9**
Accrued income and prepayments	(7)	9.7	8.4
Receivables	(8)	106.7	139.9
Liquid funds	(9)	151.8	76.2
Current assets		**268.2**	**224.5**
Total assets		**909.7**	**778.4**
Shareholders' equity and liabilities			
Share capital		23.4	23.4
Legal reserves			
• General reserve	(10)	27.5	27.5
• Reserve for own shares	(11)	15.5	6.4
• Reserve from paid-in capital	(12)	130.6	0.0
Other reserves	(12)	139.6	279.3
Retained earnings	(13)		
• Balance brought forward		44.7	43.7
• Net profit for the year		143.1	1.0
Shareholders' equity		**524.4**	**381.3**
Long-term financial debt	(14)	250.0	250.0
Provisions	(15)	11.3	11.3
Non-current liabilities		**261.3**	**261.3**
Short-term liabilities	(16)	112.7	133.3
Accrued liabilities		11.3	2.5
Current liabilities		**124.0**	**135.8**
Liabilities		**385.3**	**397.1**
Total shareholders' equity and liabilities		**909.7**	**778.4**

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.

2 Income from marketable securities and interest income

This includes income from marketable securities, interest income as well as the foreign exchange result. There was a foreign exchange loss on Group loans.

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 the fixed-rate bond, on bank debt and liabilities to Group companies.

5 Value adjustments, provisions

The value adjustment for general business risks was increased by 41.9 million CHF and deducted from investments in and loans to subsidiaries.

6 Investments in and loans to subsidiaries

CHF million	2010	2009
Investments in subsidiaries	526.6	215.3
Loans to subsidiaries	114.9	338.6
Total	**641.5**	**553.9**

The changes in investments in and loans to subsidiaries are due to the incorporation of Unikeller Holding AG. The main subsidiaries and associated companies are listed on pages 80 and 81. 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	2010	2009
Receivables from third parties	1.4	0.7
Receivables from subsidiaries	105.3	139.2
Total	**106.7**	**139.9**

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	2010	2009
Cash and cash equivalents	140.1	74.5
Marketable securities[1]	11.7	1.7
Total	**151.8**	**76.2**

1. Incl. own shares.

10 General reserve

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

11 Reserve for own shares

Shares held by all Group companies

	Number
Registered shares held at January 1, 2010	27 628
Purchases January to December 2010 (average price 317.78 CHF)	42 560
Sales January to December 2010 (average price 247.84 CHF)	16 694
Registered shares held at December 31, 2010	53 494

A reserve for own shares has been made at an acquisition cost of 15.5 million CHF. This amount was deducted from other reserves.

12 Other reserves

CHF million	2010	2009
Opening balance	279.3	86.0
Transfer to reserve for own shares	– 9.1	116.4
Transfer to reserve from paid-in capital[1]	–130.6	0.0
Premium received on shares issued	0.0	76.9
Total	**139.6**	**279.3**

1. Disclosure according to circular No. 29 from the Swiss Federal Tax Administration.

13 Retained earnings

Including the balance brought forward and before the reversal of reserves, the Annual General Meeting has a total of 187.8 million CHF at its disposal (44.7 million CHF in 2009).

14 Long-term financial debt

CHF million	2010	2009
Fixed-rate bond	250.0	0.0
Financial debt third	0.0	100.0
Loans from subsidiaries	0.0	150.0
Total	**250.0**	**250.0**

On March 30, 2010 Rieter Holding AG issued a fixed-rate bond of 250 million CHF. The issue has a five-year maturity and a fixed coupon of 4.5%. Yearly coupon date is at April 30, final-maturity is at April 30, 2015. The issue enabled Rieter to repay long-term bank debts of 100 million CHF. By compensation with dividend payments, loans from subsidiaries could be reduced to zero.

15 Provisions

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

16 Short-term liabilities

CHF million	2010	2009
Liabilities to Group companies	111.9	132.9
Liabilities to third parties	0.8	0.4
Total	**112.7**	**133.3**

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

17 Guarantees to third parties

CHF million	2010	2009
Guarantees	45.9	42.1

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

18 Shareholders

Major groups of shareholders with holdings exceeding 3% of total voting rights (pursuant to Art. 663c of the Swiss Code of Obligations) at December 31, 2010:

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

According to the notifications on August 27, 2009 and on July 1, 2010, the investment group Artemis Beteiligungen I 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, Delaware, USA, held 183 274 shares.

According to the notification on June 3, 2010, Sparinvest Holding, Randers, Denmark, held 201 724 shares.

19 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 55 to 58.

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

Content and process for specifying remuneration and equity participation programs

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

Remuneration of the Board of Directors

Members of the Board of Directors can choose whether to receive remuneration as cash or to take up shares. Cash remunerations is paid in December of the reporting year. 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 the allocation date (13.4.2011). The remuneration of Erwin Stoller, Executive Chairman, comprises a fixed cash component, a share component, and a performance-related cash component based on the operational and strategic targets set by the Board. His remuneration is disclosed separately and included in the total remuneration of the Board of Directors. A reasonable split of his tasks within the Board of Directors and the Group Executive Committee can not be done.

Remuneration of the Group Executive Committee

The remuneration of the Group Executive Committee consists of a basic salary, a performance related component, 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 markets relevant for Rieter (machine manufacturing and automotive component suppliers). In 2010 members of the Group Executive Committee were entitled to performance-related compensation in case Rieter Group achieves a positive net result and reaches its Free-Cash Flow-Targets set in budget. The performance related component amounts to no more than 53% 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 purchase price of the 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 variable discount. Up to 50% of the basic salary can be drawn in discounted shares. The level of discount is based on targets set in advance (on net result and free cash flow). 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 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 2010 compensation to the members of the Board of Directors and the Group Executive Committee

CHF	Cash compensation Fixed net	Variable net	Shares Number	Value	Options Number	Value	Contribution to pension plans	Total
This E. Schneider, Vice-Chairman	0	0	126	40 000[1]	0	0	0	40 000
Dr. Jakob Baer	0	0	236	75 000[1]	0	0	0	75 000
Michael W. Pieper	0	0	126	40 000[1]	0	0	0	40 000
Hans-Peter Schwald	0	0	173	55 000[1]	0	0	0	55 000
Dr. Dieter Spälti	55 000	0	0	0[1]	0	0	0	55 000
Peter Spuhler	0	0	126	40 000[1]	0	0	0	40 000
Non-executive members of the Board of Directors	**55 000**	**0**	**787**	**250 000[1]**	**0**	**0**	**0**	**305 000**
Erwin Stoller, Executive Chairman of the Board of Directors	550 000	285 000	314	100 000[1]	0	0	36 000	971 000
Members Board of Directors	**605 000**	**285 000**	**1 101**	**350 000[1]**	**0**	**0**	**36 000**	**1 276 000**
Members Group Executive Committee	**1 550 000**	**830 000**	**1 716**	**30 111[2]**	**1 445**	**111 164[3]**	**88 400**	**2 609 675**

1. For the purpose of inclusion in the total compensation, the shares are valued at 318 CHF (average trading price 20 days prior to the March 2011 Board meeting [= 379 CHF] less a 16% discount for the three-year restriction on sale).
2. The shares are valued at 17.55 CHF (average trading price 20 days prior to the March 2010 Board meeting [=222 CHF] less a 16% discount for the three-year restriction on sale [=239.55 CHF]).
3. One option entitles the holder to purchase one Rieter share at the exercise price of 273 CHF. The awarded options are valued according to the Black-Scholes formula at 76.93 CHF per option.

Total 2009 compensation to the members of the Board of Directors and the Group Executive Committee

CHF	Cash compensation Fixed net	Variable net	Shares Number	Value	Options Number	Value	Contribution to pension plans	Total
Erwin Stoller, Chairman, since 4.8.2009 Executive Chairman	392 500	0	180	41 760[2]	0	0	11 200	445 460
Dr. Ulrich Dätwyler, Vice-Chairman, until 30.4.2009	35 596	0	248	25 296[1]	0	0	0	60 892
Dr. Jakob Baer	42 000	0	177	41 064[2]	0	0	0	83 064
Dr. Rainer Hahn, until 30.4.2009	23 197	0	186	18 972[1]	0	0	0	42 169
Michael Pieper, since 1.5.2009	0	0	117	27 144[2]	0	0	0	27 144
Hans-Peter Schwald, since 1.5.2009	0	0	160	37 120[2]	0	0	0	37 120
This E. Schneider, Vice-Chairman, since 1.5.2009	0	0	117	27 144[2]	0	0	0	27 144
Dr. Dieter Spälti	37 000	0	172	39 904[2]	0	0	0	76 904
Peter Spuhler, since 1.5.2009	0	0	117	27 144[2]	0	0	0	27 144
Dr. Peter Wirth, until 30.4.2009	23 197	0	186	18 972[1]	0	0	0	42 169
Members Board of Directors	**553 490**	**0**	**1 660**	**304 520**	**0**	**0**	**11 200**	**869 210**
Members Group Executive Committee	**1 805 650**	**0**	**7 128**	**35 640**	**7 128**	**228 096**	**138 064**	**2 207 450**
Thereof Hartmut Reuter, Chief Executive Officer, until 31.7.2009	419 150	0	3 202	16 010[3]	3 202	102 464	49 664	587 288

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).
3. 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 and the Group Executive Committee

No remuneration was disbursed to former members of the Board of Directors.

At the beginning of 2010 the contract of employment with Hartmut Reuter was terminated prematurely, giving rise to an entitlement to compensation on the part of Hartmut Reuter totalling some 1.1 million CHF. This payment was disbursed in 2010. 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.

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 2010, nor were severance payments disbursed to any member of the Board of Directors or the Group Executive Committee in 2010.

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, 2010 (Art. 663c, Swiss Code of Obligations)

	Shares	Options				
		Expiry date 2011	Expiry date 2012	Expiry date 2013	Expiry date 2014	Expiry date 2015
Erwin Stoller, Chairman	9 172	599	475	784	0	0
Dr. Jakob Baer	748	118	145	0	0	0
Michael Pieper[1]	538 061	0	0	0	0	0
Hans-Peter Schwald	2 340	0	0	0	0	0
This E. Schneider[1]	116	0	0	0	0	0
Dr. Dieter Spälti	1 243	157	145	0	0	0
Peter Spuhler	894 339	0	0	0	0	0
Total Board of Directors	**1 446 019**	**874**	**765**	**784**	**0**	**0**

1. Excluding 139 074 shares held by Forbo International SA.

	Shares	Options				
		Expiry date 2011	Expiry date 2012	Expiry date 2013	Expiry date 2014	Expiry date 2015
Wolfgang Drees	302	0	0	302	0	0
Peter Gnägi	4 720	450	396	856	2 066	903
Urs Leinhäuser	4 787	400	506	868	1 860	542
Total Group Executive Committee	**9 809**	**850**	**902**	**2 026**	**3 926**	**1 445**

Disclosure of the equity holdings of the Board of Directors and the Group Executive Committee (including related persons) 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	Expiry date 2015
Erwin Stoller, Chairman	8 993	599	475	784	0	0
Dr. Jakob Baer	572	118	145	0	0	0
Michael Pieper[1]	249 154	0	0	0	0	0
Hans-Peter Schwald	2 181	0	0	0	0	0
This E. Schneider[1]	0	0	0	0	0	0
Dr. Dieter Spälti	1 071	157	145	0	0	0
Peter Spuhler	894 223	0	0	0	0	0
Total Board of Directors	**1 156 194**	**874**	**765**	**784**	**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	Expiry date 2015
Wolfgang Drees	302	0	0	302	0	0
Peter Gnägi	5 502	450	396	856	2 066	0
Urs Leinhäuser	3 974	400	506	868	1 860	0
Total Group Executive Committee	**9 778**	**850**	**902**	**2 026**	**3 926**	**0**

Proposal of the Board of Directors

for the appropriation of profit (2010 financial year)

CHF	2010
Net profit for the year	143 066 578
Retained earnings brought forward from previous year	44 690 831
Reversal of reserves from paid-in capital	233 618
Reversal of free reserves	139 643 388
At the disposal of the Annual General Meeting	**327 634 415**
Proposal	
Distribution of a special dividend	325 067 219
Carried forward to new account	2 567 196
	327 634 415

The Board of Directors proposes the distribution of a special dividend of one registered share in Unikeller Holding Ltd. (to be renamed “Autoneum Holding Ltd.” on March 22, 2011) with a nominal value of CHF 0.05 and a book value of CHF 69.57 per registered share for each registered share in Rieter Holding Ltd. (a total of 4 672 363 registered shares in Unikeller Holding Ltd. with an aggregate book value of CHF 325 067 219).

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 84 to 93 and pages 80 and 81), for the year ended December 31, 2010.

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, 2010 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 21, 2011

Review 2006 to 2010

Consolidated income statement		2010	2009	2008	2007	2006
Sales	CHF million	2 585.8	1 956.3	3 142.5	3 930.1	3 579.9
• Europe	CHF million	1 040	901	1 450	1 728	1 598
• Asia[1]	CHF million	704	405	791	1 206	1 003
• North America	CHF million	584	433	589	715	726
• Latin America	CHF million	219	182	257	204	172
• Africa	CHF million	39	36	56	77	81
Corporate output	CHF million	2 525.5	1 846.5	2 971.7	3 822.8	3 447.5
Operating result before interest, taxes, depreciation and amortization (EBITDA)	CHF million	222.8	– 45.7	– 52.6	437.0	325.6
• in % of corporate output		8.8	– 2.5	– 1.8	11.4	9.4
Operating result before interest and taxes (EBIT)	CHF million	98.0	– 186.6	– 312.1	278.7	180.6
• in % of corporate output		3.9	– 10.1	– 10.5	7.3	5.2
Net result[2]	CHF million	41.6	– 217.5	– 396.7	211.5	157.4
• in % of corporate output		1.6	– 11.8	– 13.3	5.5	4.6
Return on net assets (RONA) in %		7.0	– 19.5	– 28.1	13.8	10.8
Consolidated balance sheet						
Non-current assets	CHF million	802.2	886.5	929.3	1 192.0	1 152.0
Current assets	CHF million	1 166.9	927.6	1 159.6	1 655.4	1 732.6
Equity attributable to Rieter shareholders	CHF million	556.9	587.2	689.9	1 309.4	1 320.5
Equity attributable to non controlling interests	CHF million	70.7	68.7	56.3	60.1	54.9
Non-current liabilities	CHF million	557.1	399.3	418.9	321.6	318.1
Current liabilities	CHF million	784.4	759.0	923.8	1 156.3	1 191.1
Total assets	CHF million	1 969.1	1 814.1	2 088.9	2 847.4	2 884.6
Shareholders' equity in % of total assets		31.9	36.2	35.7	48.1	47.7
Consolidated statement of cash flows						
Net cash from operating activities	CHF million	106.1	– 1.6	57.2	394.9	252.6
Net cash used for investing activities	CHF million	– 92.5	– 33.2	– 35.8	– 118.5	– 84.9
Net cash from financing activities	CHF million	129.3	– 27.8	8.8	– 309.5	– 67.5
Net liquidity	CHF million	**– 3.5**	**10.4**	**– 36.8**	**144.5**	**147.3**
Number of employees at year-end		**12 804**	**12 761**	**14 183**	**15 506**	**14 826**

1. Including Turkey.
2. Net result before deduction of non controlling interests.

Information for investors

		2010	2009	2008	2007	2006
Share capital	CHF million	23.4	23.4	21.4	22.3	22.3
Net profit of Rieter Holding Ltd.	CHF million	143.1	1.0	2.9	67.4	63.4
Gross distribution	CHF million	[1]	0.0	0.0	62.8	62.1
Payout ratio (in % of net profit)[2]	in %	[1]	0	0	32	42
Market capitalization (December 31)	CHF million	1 566	1 085	651	1 966	2 661
Market capitalization in % of						
• sales	in %	61	55	21	50	74
• equity attributable to Rieter shareholders	in %	281	185	94	150	202

1. See proposal of the Board of Directors on page 93.
2. Net profit after deduction of non controlling interests.

Data per share (RIEN)

			2010	2009	2008	2007	2006
Share prices on the SIX Swiss Exchange	high	CHF	343	270	505	717	641
	low	CHF	244	95	151	478	387
Price/earnings ratio	high		60.0	– 5.3	– 4.8	14.9	18.0
	low		42.7	– 1.9	– 1.4	9.9	10.9
Shareholders' equity (Group) per registered share		CHF	120.57	126.42	181.25	332.86	316.34
Tax value per registered share		CHF	339.00	233.50	171.00	500.00	637.50
Gross distribution per registered share		CHF	[1]	0.00	0.00	15.00	15.00
Gross yield on registered shares	high	in %	[1]	0.0	0.0	2.1	2.3
	low	in %	[1]	0.0	0.0	3.1	3.9
Earnings per share		CHF	5.72	– 50.96	– 106.18	48.19	35.53

1. See proposal of the Board of Directors on page 93.

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

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