Focus on systems and components

Annual Report 2011

Important dates:

- Annual General Meeting 2012: April 18, 2012
- Semi-Annual Report 2012: July 25, 2012
- Publication of sales 2012: February 5, 2013
- Deadline for proposals regarding the agenda of the Annual General Meeting: February 25, 2013
- Results press conference 2013: March 21, 2013
- Annual General Meeting 2013: April 18, 2013

The Rieter Group

Rieter is a leading supplier on the world market for textile machinery and components used in short staple fiber spinning. Based in Winterthur (Switzerland), the company develops and manufactures systems, machinery and technology components used to convert natural and manmade fibers and their blends into yarns. Rieter is the only supplier worldwide to cover spinning preparation processes as well as all four final spinning processes currently established on the market. With 18 manufacturing locations in 9 countries, the company employs a global workforce of some 4 700, about 28% of whom are based in Switzerland.

Rieter is a strong brand with a long tradition. Since it was established in 1795, Rieter's innovative momentum has been a powerful driving force for industrial progress. Products and solutions are ideally tailored to its customers' needs and are increasingly also produced in customers' markets. With a global sales and service organization and a strong presence in the emerging markets of China and India, Rieter fulfills important prerequisites for achieving future growth. For the benefit of shareholders, customers and employees, Rieter aspires to achieve sustained growth in enterprise value. With this in mind, Rieter aims continuously to increase sales and profitability, primarily through organic growth, but also through cooperation and acquisition.

The company consists of two business groups: Spun Yarn Systems and Premium Textile Components.

Spun Yarn Systems
Spun Yarn Systems develops and manufactures machinery and systems used to convert natural and manmade fibers and their blends into yarns. The business group generated sales of 861.7 million CHF in the 2011 financial year and accounted for 81% of Rieter's total sales with 3 594 employees.

Premium Textile Components
Premium Textile Components provides technology components and service facilities both for spinning mills and for machinery manufacturers. The business group is represented on the market through four brands: Bräcker, Graf, Novibra and Suessen. In the year under review it employed a workforce of 1 075 and accounted for 199.1 million CHF (19%) of Rieter's total sales.

Financial highlights

CHF million		2011	2010	Change in %
Rieter				
Orders received		958.3	1 454.6	– 34
Sales		1 060.8	870.4	22
Corporate output[1]		1 042.5	841.4	24
Operating result before interest and taxes (EBIT)[2]		112.6	75.7	49
• in % of corporate output		10.8	9.0	
Net profit[3]		119.0	82.9	
• in % of corporate output		11.4	9.9	
Investments in tangible fixed assets and intangible assets		57.3	25.8	122
Total assets		1 111.4	1 969.1	– 44
Shareholders' equity before appropriation of profit		387.7	627.6	– 38
Number of employees at year-end[4]		4 695	4 395	7
Business Group Spun Yarn Systems				
Orders received		775.0	1 217.9	– 36
Sales		861.7	674.0	28
Corporate output[1]		866.3	669.4	29
Operating result before interest and taxes (EBIT)		81.2	42.4	92
• in % of corporate output		9.4	6.3	48
Business Group Premium Textile Components				
Orders received		183.3	235.2	– 22
Sales		199.1	190.6	4
Corporate output[1]		272.6	237.2	15
Operating result before interest and taxes (EBIT)		35.1	29.6	19
• in % of corporate output		12.9	12.5	3
Rieter Holding AG				
Share capital		23.4	23.4	
Net profit		28.7	143.1	– 80
Gross distribution		28.0[5]	–[6]	
Number of registered shares, paid-in		4 672 363	4 672 363	
Average number of registered shares outstanding		4 625 281	4 640 220	
Price share (high / low)	CHF	267/133[7]	343/244[7]	
Number of registered shareholders on December 31		7 262	8 415	– 14
Market capitalization on December 31		653.2	1 565.8	– 58
Data per registered share				
Earnings per share[3]	CHF	25.86	17.81	45
Equity (group)[8]	CHF	81.92	120.57	– 32
Gross distribution (Rieter Holding Ltd.)	CHF	6.00[5]	–[6]	

1. Sales, adjustments for sales deductions and own work capitalized and changes in inventories of products manufactured by the company (cf. page 32).
2. This includes in 2011 costs of projects for the expansion in Asia of about 10 million CHF as well as projects for process improvements of about 10 million CHF, mainly in the second half year.
3. From continuing operations (2011 incl. disposal gain).
4. Excluding apprentices and temporary employees.
5. See proposal of the Board of Directors on page 80.
6. Special dividend of one registered share of Autoneum Holding AG.
7. Source: Bloomberg.
8. Shareholders' equity attributable to shareholders of Rieter Holding Ltd. per share outstanding at December 31.

2011 financial year: striking sales growth – significant increase in profitability

The Rieter Group reached a historical turning point in spring 2011. Shareholders adopted the proposal by the Board of Directors to separate the group and for its two divisions – Textile Systems and Automotive Systems – to operate in future as independent companies, each with its own stock market listing. Following the completion of this separation, Rieter is an industrially focused supplier of machinery and components for staple fiber spinning mills. It conducts the business of the former Rieter Textile Systems Division in two business groups, Spun Yarn Systems (machinery business) and Premium Textile Components (components business). Rieter is reporting results to December 31, 2011, for the first time in respect of a full financial year in this new structure.

The 2011 financial year as a whole was encouraging for Rieter. The company again reported striking sales growth and a significant increase in the operating result and net profit. Orders received were 34% lower than in the extraordinarily strong preceding year, achieving a good level of 958.3 million CHF. Rieter therefore still has a healthy level of orders in hand. Sales increased by 22% to 1 060.8 million CHF. The increase in local currencies amounted to 27%. Rieter posted a disproportionately strong increase in the operating result, which rose by 49% from 75.7 million CHF to 112.6 million CHF. This is equivalent to 10.8% of corporate output. Net profit increased to 119.0 million CHF, equivalent to 11.4% of corporate output (82.9 million CHF and 9.9% in 2010). The Board of Directors is proposing that a dividend of 6.00 CHF be paid for the 2011 financial year out of the reserve from capital contributions. Rieter expanded its market position in the year under review and has a strong balance sheet. On this sound basis Rieter intensified its investment activities in 2011, especially in the large Asian growth markets and the development of products to meet the needs of specific markets. Rieter will continue intensified investment activity through the 2012 financial year to lay the foundations for further profitable growth.

Dear shareholder

In 2011 the disruption on the financial markets, the currency crisis in Europe and the resulting strength of the Swiss franc created the most dramatic situation for the Swiss economy since the 1970s. Rieter held its own well overall in this difficult environment. The company has systematically assumed a global focus since the 1990s. By transferring manufacturing operations to customers' markets, in particular to India and China, and also through existing facilities in European countries, Rieter is exploiting the cost benefits of these locations and at the same time limiting currency risks.

The boom in demand on the world market for textile machinery and components experienced in 2010 continued in the first quarter of 2011. The investment climate started to cool off as of the second quarter. The high cost of cotton and declining yarn prices intensified pressure on spinning mills' margins and liquidity. The second half of the year was also dominated by uncertainty due to the trend in raw material prices and prospects for the global economy. As of the second quarter the market retreated to a lower level compared with the previous year. Demand for yarns also declined in 2011. However, spinning mills were able to reduce yarn inventories to some extent again in the second half of the year.

Orders received and sales

Rieter's order intake of 958.3 million CHF in 2011 was 34% lower than the very high figure (1 454.6 million CHF) recorded in the previous year. In local currencies the decline amounted to 31%. This downturn was particularly apparent as of the second quarter and affected both business groups. However, the slowdown had less of an impact on the components business (Premium Textile Components Business Group) than the machinery business (Spun Yarn Systems Business Group). Some customers postponed or canceled orders as a consequence of the disruption on the raw material and yarn markets. Cancelations affected orders placed in the peak year of 2010 in particular. Rieter therefore adjusted its order book by a total of 112.6 million CHF in the second half of 2011. Excluding cancelations, orders received in the second half of the year amounted to 399.6 million CHF. Orders in hand at year-end were slightly over 600 million CHF. China, Turkey and India were the sources of the largest volume of orders. South Korea, Indonesia, the USA, Brazil, Pakistan and Bangladesh were also important markets. All in all Rieter further expanded its market position worldwide in the year under review and gained market share with attractive products. In China and India, Rieter strengthened its market position with a specific offering for the local markets. This shows that Rieter has positioned itself well and made the right investment decisions in earlier years.

The 2011 financial year shows that Rieter has positioned itself well and made the right investment decisions in earlier years

The high level of orders in hand from the previous year, which had continued to grow in the first quarter of 2011, utilized Rieter's production capacity to its limits, resulting in long delivery lead times. The situation eased in the course of 2011 and Rieter was able to supply customers faster again. Sales rose by 22% compared with the previous year, to 1 060.8 million CHF (870.4 million CHF in 2010).

On December 31, 2011, Rieter employed a workforce of 4 695, compared with 4 395 a year earlier. Rieter engaged additional temporary personnel, also at its plants in China and India, in order to cope with the high level of orders in hand. At year-end these totaled 1 157 employees, equivalent to 20% of the entire workforce.

Operating result and net profit

Rieter achieved disproportionately strong growth in profitability through high capacity utilization and attractive products. The operating result before interest and taxes (EBIT) increased from 75.7 million CHF to 112.6 million CHF, corresponding to growth of 49%. The operating margin rose to 10.8% of corporate output, compared to 9.0% in the previous year. Lower sales by the Premium Textile Components Business Group, increased pressure on margins in business invoiced in Swiss francs and higher capital spending on innovations and projects to expand capacity in China and India and for innovation and process improvements resulted in a lower operating margin in the second six months of the year.

Rieter's net profit also increased significantly in the year under review, although the financial result was depressed by exchange losses and impairment of financial assets. The higher operating result and a capital gain contributed to this outcome. Net profit amounted to 119.0 million CHF or 11.4% of corporate output (82.9 million CHF and 9.9% in 2010). The capital gain of 47.3 million CHF arose from the reduction in Rieter's equity interest in Lakshmi Machine Works in India, which was announced on April 1, 2011. Earnings per share on continuing operations therefore amounted to 25.86 CHF (15.63 CHF excluding the capital gain). The return on net assets (RONA) since the separation thus amounts to 19.8% (13.1% excluding capital gains).

Dividend

Rieter Holding Ltd. posted a net profit of 28.7 million CHF for the 2011 financial year (143.1 million CHF in 2010). The Board of Directors will propose to the Annual General Meeting on April 18, 2012, that a dividend of 6.00 CHF be paid for the 2011 financial year out of the reserve from capital contributions. In the previous year Rieter shareholders received a special dividend in the form of registered shares of Autoneum Holding Ltd., which has been listed on the SIX Swiss Exchange since May 13, 2011, and operates Rieter's former automotive components supply business. Following the separation of the group, Rieter is aiming for a distribution ratio of about 30%, taking into consideration various factors such as the trend of business, liquidity needs and market prospects.

Spun Yarn Systems Business Group
Order intake of 775.0 million CHF by the Spun Yarn Systems Business Group in 2011 was 36% lower than a year earlier (1 217.9 million CHF). Sales by Spun Yarn Systems were 28% higher at 861.7 million CHF. Due to the high production volumes and good capacity utilization, the operating result before interest and taxes at Spun Yarn Systems almost doubled, rising from 42.4 million CHF to 81.2 million CHF. This is equivalent to an operating margin of 9.4% of corporate output (6.3% in 2010).

Strong free cash flow, a sound balance sheet and financial stability form the basis for long-term corporate development.

Premium Textile Components Business Group
Order intake by the Premium Textile Components Business Group declined by 22% to 183.3 million CHF in the year under review (235.2 million CHF in 2010). Generally speaking, the components business is less subject to market cycles than the machinery business. It therefore contributes to a more stable business trend for Rieter as a whole. Premium Textile Components posted a 4% increase in sales to 199.1 million CHF in the year under review. The operating result before interest and taxes rose from 29.6 million CHF to 35.1 million CHF. The operating margin of 12.9% of corporate output exceeded the previous year’s figure (12.5%).

Sound balance sheet and finances
Even after the separation of the Rieter Group and the establishment of the Automotive Systems Division as an independent company through distribution of a special dividend, Rieter still has a sound balance sheet with an equity ratio of 35% (32% in 2010).

Despite the substantial increase in capital expenditure compared with the previous year, especially for expansion in China and India, Rieter generated strong free cash flow of 79.5 million CHF. Net liquidity therefore improved further to 159.0 million CHF (-3.5 million CHF in 2010).

Rieter’s financial stability is additionally ensured by a 250 million CHF bond issue. On May 10, 2011, bondholders agreed that these bonds should remain in issue until 2015. This assures Rieter of strategic flexibility and the long-term financing of the company’s development.

Separation of the Rieter Group completed
The separation of the group into two independent companies focusing on the textile machinery and automotive component supply business respectively, as announced on March 22, 2011, and approved by the Annual General Meeting on April 13, 2011, was completed as planned. Rieter’s former automotive component supply business has been listed on the SIX Swiss Exchange as Autoneum Holding Ltd. since May 13, 2011. The former Rieter Automotive Systems Division features in the 2011 Annual Report as discontinued operations and appears as a separate item in the income statement. The special effects arising from revaluations included in this are of a technical nature and are non-recurring.

By focusing on the textile machinery business, Rieter can position itself more clearly and operate with greater strategic flexibility. Reporting in the two segments of Spun Yarn Systems and Premium Textile Components creates greater transparency and visibility for shareholders.

Systematic implementation of the strategy for long-term development of the business
On the basis of sound finances and a strong market position, Rieter intensified investment activity in 2011 in order to press on toward the achievement of its strategic goals and lay the foundations for further profitable growth. Investments in tangible assets were increased from 25.8 million CHF to 57.3

million CHF. Both business groups expanded manufacturing capacity in the large growth markets of China and India. By offering specific products, Rieter was increasingly successful in gaining customers who manufacture yarns for the domestic market in both countries. These markets continue to offer considerable growth potential with the increasing prosperity of the population.

Alongside this, in the year under review Rieter also invested in projects and programs to improve global processes and transfer production know-how, which will enhance flexibility, productivity and efficiency worldwide. Rieter will continue to pursue these investment projects in the years to come.

Rieter increased capital spending in order to lay the foundations for further profitable growth

Rieter also accelerated innovation activity at both business groups. In 2011 Rieter increased research and development spending by 21% to 39.5 million CHF (32.6 million CHF in 2010) or 3.8% of corporate output. At the ITMA, the industry's most important trade show worldwide, which was held in Barcelona in September 2011, Rieter presented an updated product portfolio featuring innovations in spinning preparation and all final spinning technologies, in both the machinery and the components segment. Rieter seeks through innovation to strengthen its customers' competitive position. Important objectives include novel types of yarn, improved utilization of raw material, lower operating costs and energy savings in spinning mills. Rieter is also continuously improving the price/performance ratio of its products.

Expertise in the textile value chain – a competitive advantage

Continuous innovative steps in components and machines are crucial to Rieter's long-term success. Together with its recognized expertise in the textile value chain and the ability to manufacture high-precision components in volume, innovations secure Rieter's strong global competitive position. The company is well placed to continue to maintain and extend its technological and innovation lead in the years to come. Rieter has a global customer base and presence and covers all four final spinning technologies as well as the relevant spinning preparation. Rieter is therefore able to optimize the spinning process as a whole.

Strong brands with an international impact

With its long industrial experience, its strong brands in the components business (Bräcker, Graf, Novibra and Suessen) and its extensive expertise in the textile value chain from raw materials to end products, the Rieter company enjoys global recognition. Rieter's specialists attended not only the ITMA, but a large number of other important trade fairs and symposia in specific markets in 2011. Rieter makes a major contribution to developing know-how throughout the industry through the presentation of research and development results.

Rieter diligently protects know-how of vital business importance through patents and by other means.

Increased flexibility

In 2011 Rieter took a number of steps to position itself more effectively in the marketplace and gain further flexibility. In India Rieter sold its interest in the Rieter-LMW Machinery Ltd. joint venture, which had been formed in 1994. This transaction was announced on April 1 and concluded at the beginning of July 2011. Rieter also reduced its holding in former joint venture partner Lakshmi Machine Works (LMW) from 13% to approximately 3%. Rieter thus responded to changes in the market environment and gained freedom of maneuver to expand its own presence in India, thus enabling Rieter to produce machinery and components for the Indian domestic market.

As announced on October 26, 2011, Rieter signed a contract of sale for two manufacturing facilities in the Czech Republic. This move gives Rieter additional manufacturing flexibility and at the same time creates optimal development prospects for these units. This transaction was concluded as planned after balance sheet date.

Board of Directors and Annual General Meeting
Shareholders elected Erwin Stoller to the Board of Directors for a further three-year term of office at the Annual General Meeting held on April 13, 2011. Erwin Stoller continues to chair this body.

Dr. Jakob Baer, Michael Pieper, This E. Schneider, Hans-Peter Schwald and Peter Spuhler are standing for re-election for a further three-year term of office at the Annual General Meeting to be held on April 18, 2012.

Apart from a dividend payment of 6.00 CHF per share out of the reserve from capital contributions, the Board of Directors will additionally propose to the Annual General Meeting that new authorized capital be created to the amount of 500 000 registered shares. This measure will provide Rieter with greater flexibility for financing external growth.

Outlook
Rieter will continue intensified investment activity through the 2012 financial year to lay the foundations for further profitable growth. To accelerate expansion in Asia and product innovation, Rieter plans investment activities totaling around 90 million CHF in 2012 and 2013, about half of which due in 2012. Investments totaling around 50 million CHF are planned in 2012/2013 for further improving global processes, just over half of which in the financial year 2012.

Rieter business activities are broadly based worldwide. Heterogeneous market development is expected for 2012. Due among other reasons to uncertain economic policies in major national markets, it is difficult to forecast textile machinery industry developments for the current year. Further trends depend on various factors including currency exchange rate developments, consumer sentiment in Europe and North America, fiber consumption growth in Asia, and raw material prices.

Against this background Rieter currently reckons for this business year with a sales decline in the high single-digit percentage range compared with prior year and a weaker trend in the first semester. The planned investment activity in growth projects will impact operating margin (EBIT) for 2012 and 2013 by about 1 percentage point, while investment activities in process improvement projects will reduce operating margin in these two years by about another two percentage points. Disregarding these projects, Rieter expects volume-dependent profitability around the prior year level.

Thanks
Coping with the exceptionally high order levels in the previous year and the first quarter of 2011, and at the same time the changes arising from the new focus on Asia represented a major challenge for Rieter employees and managers. The Board of Directors and the Executive Committee wish to thank the workforce and employee representatives for their efforts and their flexibility.

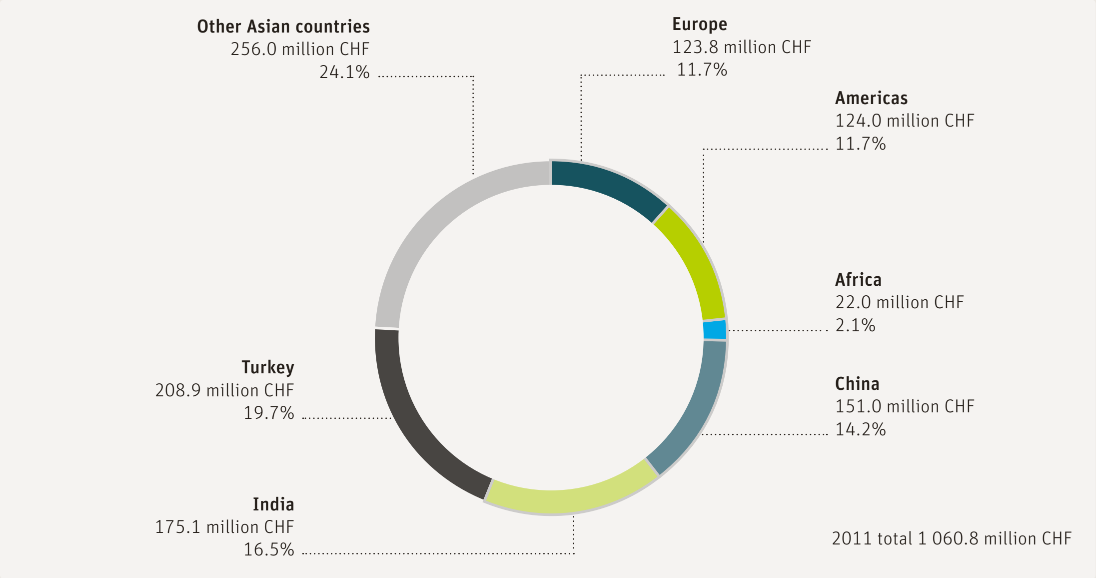
Special thanks are due to all those who contributed to the preparations for the separation of the Rieter Group into the two separate, publicly listed companies of Autoneum and Rieter. Rieter wishes to thank customers, suppliers and other business partners for their loyalty, and its shareholders for their continued confidence.

Winterthur, March 20, 2012

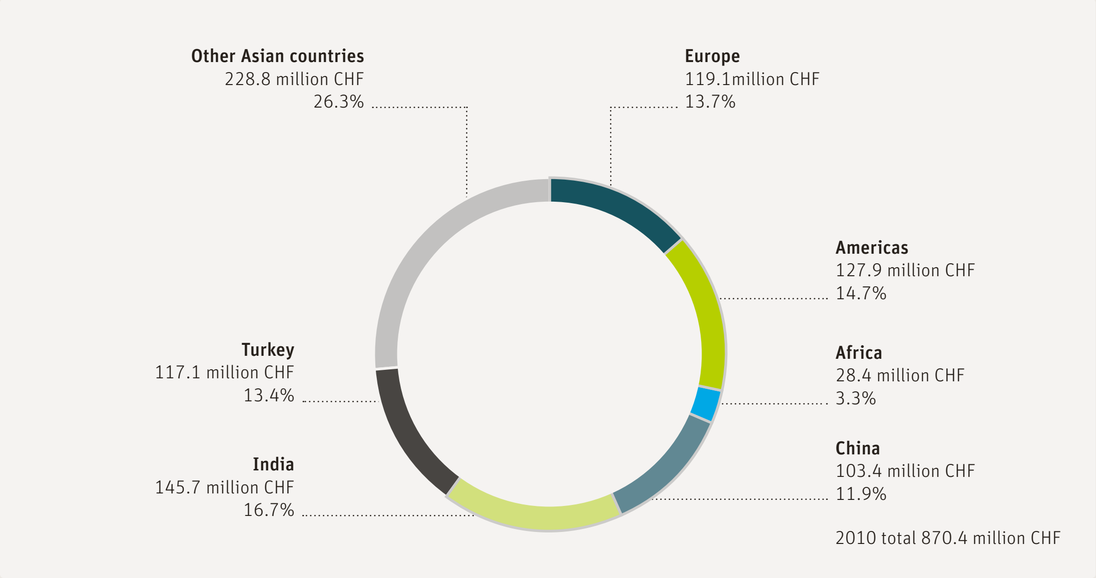
Erwin Stoller	This E. Schneider
Chairman of the Board of Directors	Vice-Chairman of the Board of Directors

Sales by geographical region

Rieter 2011



Rieter 2010



Business Group Spun Yarn Systems

Orders received
775.0 (1 217.9)
million CHF

Sales
861.7 (674.0)
million CHF

Corporate output
866.3 (669.4)
million CHF

Operating result before interest and taxes
81.2 (42.4)
million CHF

Number of employees at year-end
3 594 (3 434)

Capital expenditure of tangible fixed assets
47.3 (21.3)
million CHF

Products
Machines and systems for producing yarns from natural and man-made fibers and their blends

(Previous year's figures are in brackets.)

The Spun Yarn Systems Business Group (machinery, spare parts and service business) posted a striking increase in sales and profitability in the 2011 financial year. Spun Yarn Systems unveiled a number of important innovations at the ITMA textile machinery exhibition in Barcelona.

The boom in demand experienced by Spun Yarn Systems in 2010 continued in the first quarter of 2011. Market disruptions curbed demand for machinery as of the second quarter. Nevertheless, order intake in the year under review was at a healthy level, since Spun Yarn Systems succeeded in increasing market share. Compared to the exceptionally high figure in the previous year, orders received were 36% lower (-34% in local currencies), totaling 775.0 million CHF (1 217.9 million CHF in 2010).

Demand was broad-based across market regions. Customers in more than 45 countries ordered integrated installations or single machines. Spun Yarn Systems has a product range that is unique worldwide and a strong sales and service organization. Both the company's own units and its agents are firmly established in the individual countries. The main markets were China, Turkey and India. Substantial orders were also received from other Asian countries as well as from Brazil and the USA. Spun Yarn Systems scored a particular success with the C 70 card and with products that had been developed specifically to meet the needs of the large Asian markets. These include the G 32 ring spinning machine, the R 923 semi-automatic rotor spinning machine and the RSB D 22 drawframe, with which Rieter also successfully prevailed over local competitors.

High inventory levels, flagging sales and declining yarn prices, and also the political upheavals in the Arab countries unsettled customers in the second six months, and this resulted in order postponements and cancelations. On the other hand, Spun Yarn Systems was able to work off its very full order books and shorten delivery terms, which had lengthened enormously during the boom in 2010, to a normal level. Spun Yarn Systems still had a healthy level of orders in hand at the end of 2011.

In the year under review Spun Yarn Systems posted a 28% increase in sales (to 861.7 million CHF) compared to 2010 on the back of the high level of orders in hand. The increase amounted to 32% in local currencies. Spun Yarn Systems limited the negative impact of the strong Swiss franc by transferring some manufacturing operations to the company's main sales markets of China and India, purchasing in the eurozone, and also by virtue of the plants operating in Germany and the Czech Republic.

The business group substantially increased its output in the year under review and reported disproportionately strong growth in profitability. Good capacity utilization and continuous improvements in manufacturing costs enabled Spun Yarn Systems to almost double the operating result before interest and taxes in the year under review from 42.4 million CHF to 81.2 million CHF. This is equivalent to an operating margin of 9.4% of corporate output (6.3% in 2010). The operating margin was lower in the second half of the year than in the first six months, since selling prices increasingly came under currency-related pressure and Spun Yarn Systems increased expenditure on the expansion of operations in China and India as well as on projects aimed at global process improvements and the further development of products.

Innovations to meet specific market needs

Spun Yarn Systems presented an innovative product portfolio at the ITMA textile machinery exhibition in Barcelona, featuring a series of new products that are very important for the spinning process. These included the Varioline blowroom line, the C 70 card, the RSB-D 45 drawframe, the R 60 fully automated rotor spinning machine and sensors developed in-house for quality assurance of the yarns. The J 20 airjet spinning machine, the production series of which was launched at the ITMA, attracted particular attention. The airjet spinning process enables high productivity to be combined with low yarn manufacturing costs with good quality and novel yarn properties. These open up a wide range of possibilities in downstream processing and for end products.

Spun Yarn Systems is developing products with a good price/performance ratio combined with good quality of the yarns produced in order to meet the needs of the large domestic markets in China and India. However, the familiar strengths of the Rieter brand with its long tradition are also increasingly in demand in these markets. These include low energy consumption, good raw material utilization and reliable automation of the machines, which enable customers in China and India to counteract the growing shortage of skilled spinning mill personnel.

The launch of the production series of the J 20 airjet spinning machine reinforces the globally unique product range of Spun Yarn Systems.

Spun Yarn Systems' product pipeline is well filled and ensures that important innovations will continue to come to market in years to come. In the field of fundamental development Rieter cooperates worldwide with universities, research institutions, strategic partners and key suppliers.

Expanding global presence and improving processes

In the year under review Spun Yarn Systems systematically pursued the localization of products and the alignment of its organization to the needs of the major markets. This included the construction of another facility in Changzhou (China) and the expansion of the Wing and Koregaon Bhima sites in India. In both China and India Spun Yarn Systems implemented additional process improvements and systematically further expanded the development, manufacturing and sales organization. This included recruiting local personnel for key positions. Rieter also has a good reputation as an employer at its Asian locations.

Spun Yarn Systems also invested in the Winterthur Machine Works and the Czech facility to increase productivity.

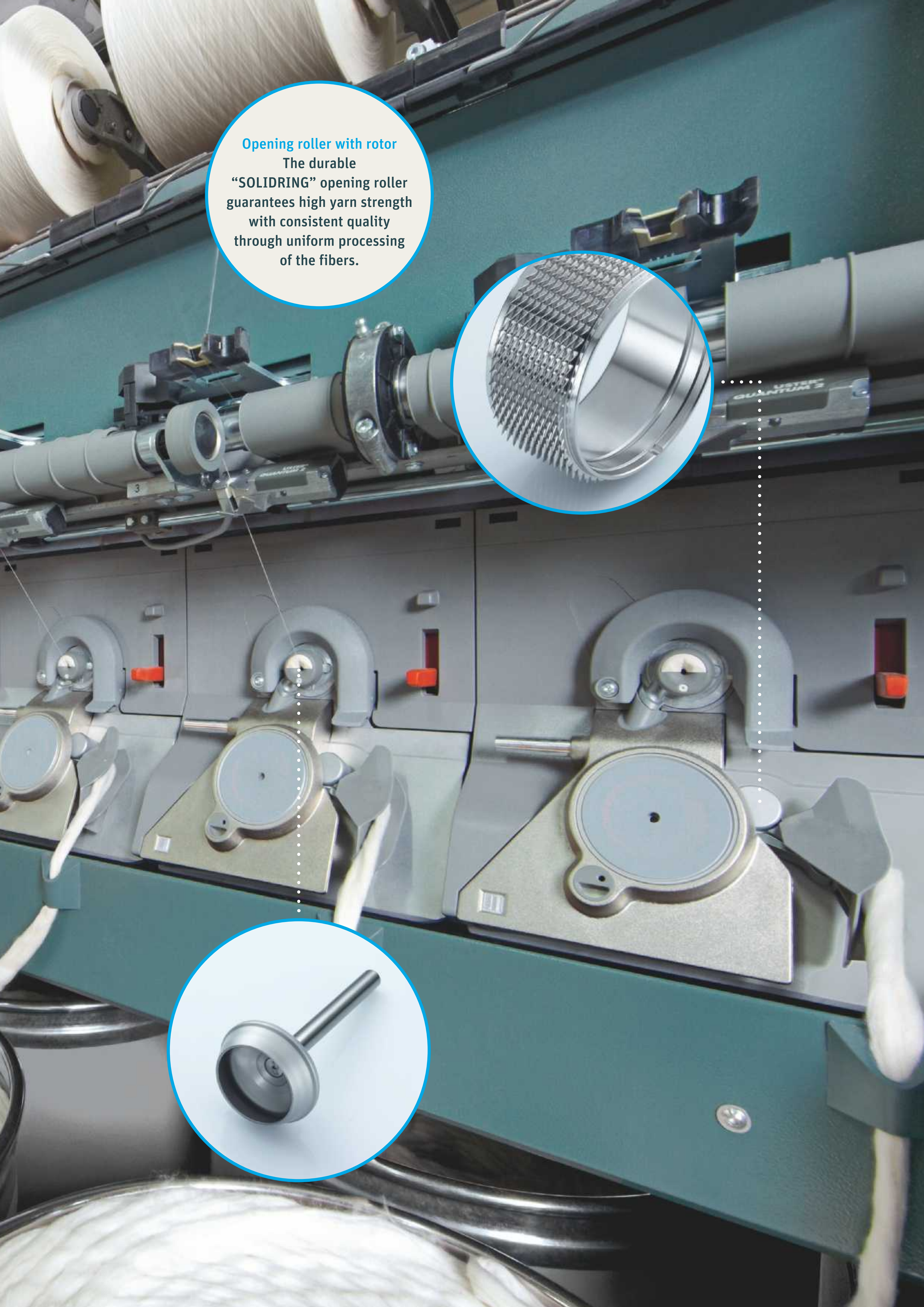
Marketing and communication

Customer loyalty and customer satisfaction are a crucial success factor for Rieter. The Spun Yarn Systems Business Group conducts semi-annual customer surveys, achieving a good response rate and frank feedback. Spun Yarn Systems identifies and rectifies weaknesses on the basis of critical comments.

In addition to the ITMA, Spun Yarn Systems also attended other trade fairs in about ten countries in the year under review and organized a large number of in-house symposia and events attended by many customers. Rieter's ability to offer products from bale to yarn using all four spinning processes, and its expertise throughout the textile value chain from raw material to end product have earned the company a high reputation worldwide. This enables Rieter to cooperate with the most competent partners in all fields.

It takes little more than 5 hours for an R 60 rotor spinning machine to produce enough yarn to pass once around the globe. The average working speed of the rotor corresponds to the speed of a passenger airplane: 750 km/h.

R 60 rotor spinning machine
The energy-efficient R 60 rotor spinning machine with its 540 spinning positions offers customers high productivity and great flexibility through rapid replacement of the spinning elements.



Opening roller with rotor
The durable "SOLIDRING" opening roller guarantees high yarn strength with consistent quality through uniform processing of the fibers.

5 million T-shirts can be produced from the fibers that are processed by a set of card clothing during its life cycle. The carding operation is at the heart of the spinning mill. It creates the preconditions for good, consistent yarn quality on all four spinning systems supplied by Rieter.

C 70 card
At a throughput rate of 220 kg/h, it separates slivers into individual fibers and extracts trash. The C 70 model is already the second generation of high-performance cards produced by Rieter.

Flexible flats with card clothing
High-quality yarns are manufactured economically with this high-performance card clothing.

Business Group Premium Textile Components

Orders received
183.3 (235.2)
million CHF

Sales
199.1 (190.6)
million CHF

Corporate output
272.6 (237.2)
million CHF

Operating result before interest and taxes
35.1 (29.6)
million CHF

Number of employees at year-end
1 075 (924)

Capital expenditure of tangible fixed assets
9.8 (4.5) million CHF

Products
Premium Textile Components is one of the world's largest suppliers of components for short staple spinning mills.

(Previous year's figures are in brackets)

The Premium Textile Components Business Group (the components business) reported higher sales and an increase in profitability in 2011. All four brands marketed by the business group continued their successful development.

The Premium Textile Components Business Group experienced two different half-year periods in 2011. Following the upswing in the previous year, order intake at Premium Textile Components continued to grow in the first three months of 2011. As of the second quarter, disruption on the raw materials markets and government intervention in major sales markets inhibited demand for technology components used in staple fiber machinery. Toward year-end there was a decline in the market worldwide, but it remained at a significantly higher level than during the downturn in 2008/09.

Generally speaking, the components business is less subject than the machinery business to the demand cycles typical of the industry. It therefore contributes to a more stable business trend for Rieter as a whole. Order intake by the Premium Textile Components Business Group declined by 22% (17% in local currencies) to 183.3 million CHF in 2011 (235.2 million CHF in 2010). Premium Textile Components was successful throughout the year under review with all four of its brands (Bräcker, Graf, Novibra and Suessen). In India and China, demand was inhibited by government intervention, i.e. restrictions on the availability of credit, but these countries remained Premium Textile Components' largest markets alongside Turkey. In both countries the business group serves customers who supply the growing domestic market. Rising labor costs in China and India are resulting in some transfers of textile industry activities to other Asian countries, such as Indonesia, Vietnam, Pakistan and Bangladesh. Premium Textile Components is also well placed in these markets. The Turkish market continued its positive development in 2011. Demand in Europe, the USA and South America declined slightly compared with the previous year.

Premium Textile Components posted sales of 199.1 million CHF and corporate output of 272.6 million CHF in the year under review, equivalent to increases of 4% and 15%, respectively. In local currencies sales increased by 11 %. Despite the strength of the Swiss franc versus the euro and the US dollar, Premium Textile Components gained market share in the 2011 financial year. The companies in the business group have several manufacturing sites in the eurozone, one plant in Brazil and a large facility in the Czech Republic. Premium Textile Components worked intensively on enhancing productivity at all its locations.

In line with the increase in corporate output, the operating margin before interest and taxes rose from 29.6 million CHF to 35.1 million CHF. Premium Textile Components' operating margin increased slightly compared with the previous year to 12.9% of corporate output (12.5% on 2010). Profitability was lower in the second half of the year than in the first six months due to the slowdown in demand as of the second quarter and the resulting decline in sales revenues, together with projects to expand capacity, especially in China and India.

Innovations to meet specific market needs
Through its Premium Textile Components Business Group the Rieter company is one of the world's largest suppliers of components for short-staple spinning mills. Premium Textile Components supplies technology components both to spinning mills and to various machinery manufacturers, including Rieter. All four of the business group's brands launched important new products in the year under review. At the ITMA in Barcelona, Premium Textile Components exhibited a wide range of new components for all three established spinning processes – ring, rotor and compact spinning. They attracted considerable interest from customers in all segments served by Rieter. New products were developed both for customers in the premium quality segment and also to meet the needs of the domestic markets in China and India. Suessen branded components for the Indian market were an especially successful example.

All four units of the business group aim through their innovations to develop new yarn properties, achieve improved utilization of raw material and provide cost-efficient retrofits for customers' spinning installations. With a strong market presence and a well-filled product pipeline, Premium Textile Components seeks to continue to extend its lead worldwide in the years to come.

Premium Textile Components is one of the world's largest suppliers of components for short staple spinning mills.

Global expansion of manufacturing capacity
Premium Textile Components aims to increase the proportion of direct business with spinning mills further, since this is less subject to market fluctuations than the business with textile machinery manufacturers. Demand for high-quality yarns is also growing in the large new domestic markets in China and India, and spinning mills need to equip their installations accordingly. This is a major driver of Premium Textile Components' business. In order to be able to supply customers faster and to prepare for the planned growth in market share and the implementation of future projects, Premium Textile Components invested worldwide in the expansion of manufacturing and logistics capacity in the year under review.

The crucial competitive advantage of the Premium Textile Components Business Group is its expertise in producing technology components with the highest precision and in very large volumes. In some cases Premium Textile Components' companies use machinery developed in-house to manufacture components; the relevant manufacturing technologies are proprietary. The plants have comprehensive manufacturing know-how and highly qualified personnel with many years of experience and loyalty to the company. All crucial production processes are performed in-house. This ensures top quality, also in large volumes, as well as quality consistency, process control and optimal protection of valuable know-how. Premium Textile Components develops products for China and India which are tailored to local market needs. These are also manufactured for the most part in highly specialized production facilities 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 company'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. The sustainability report can be found on the website at www.rieter.com under the heading of «Sustainability».

The environment

Rieter makes considerable efforts to ensure that the environmental impact of the products manufactured by the company throughout their life cycle is as small as possible. For this purpose Rieter also develops production processes that enable more effective and efficient utilization of the raw materials used. An important priority in the development of new machines is the reduction of energy consumption. In 2011 Rieter launched a new concept for blowroom machinery which enabled energy consumption to be reduced by 37% compared with the predecessor model. The new R 60 rotor spinning machine consumes 10% less energy than its predecessor.

Personnel

Corporate health management

In the year under review Rieter launched various initiatives in the field of corporate health management. Rieter intends to continue its policy of fostering employee health and well-being at the workplace with short-, medium- and long-term measures.

Industrial safety

Rieter continued to hold training courses in industrial safety in 2011. Action taken in the areas of accident prevention, risk awareness and occupational safety has had a positive impact: the number of operationally related accidents was further reduced at Rieter.

Code of Conduct

Rieter has adopted a comprehensive Code of Conduct which is mandatory for all directors, officers and employees. Rieter also addresses the topic of whistle-blowing in the context of the Code of Conduct. The Code of Conduct is expounded to managers as part of in-house management training. Familiarity with the Code of Conduct is also regularly tested by means of an e-learning program. In this way Rieter ensures that all those in positions of leadership are familiar with the principles of conduct and communicate them to their employees accordingly. The Code of Conduct can be found on the Rieter website at www. rieter.com/en/rieter/about-rieter-group.

Personnel development/Change management

Following the division of the Rieter Group and the focus on the textile machinery business, Rieter revamped the development programs for employees and management and aligned them with the company's new needs. Concepts have therefore been brought into being for three different management levels. The focus in 2011/12 is on the lower management level. There is a great need for further training for this target group in the growth markets of China and India in particular. In 2011 Rieter offered all employees a wide-ranging program of in-house and external further training opportunities. These courses cover all areas of activity and functions within Rieter. Two sessions of the “Project Implementation Acceleration – PIA” project management course were again held in 2011. These globally organized courses in the field of project management are key to the sustained application and systematic implementation of specific methods at Rieter.

In 2011 Rieter also launched a global “Operational Excellence” program. This is intended to boost manufacturing flexibility, productivity and efficiency significantly, and at the same time improve transparency. “Operational Excellence” fosters the worldwide transfer of production and manufacturing know-how between the company’s operating units. In 2011 Rieter started to reorganize the first plant in Changzhou, China, based on this philosophy. In order to ensure the methodical implementation of the “Operational Excellence” program, Rieter conducted a series of local workshops for the managers and employees directly involved. Rieter intends to transfer the experience gained from this to all other manufacturing sites in Asia and Europe in 2012.

Vocational training

In order to enable customers’ high expectations with regard to the quality of Rieter products also to be met in future, Rieter continues to invest heavily in vocational training. This commitment encompasses various vocations and locations in different countries.

In addition to apprentice-run company Creative Solutions, which celebrates its 10th anniversary in 2012, and annual training days, trainees in Switzerland are increasingly being offered the opportunity to work in China and India. Here these young people can gain initial experience in Rieter’s major markets immediately after completing their training. In China, Rieter launched an initiative in the year under review to establish basic training facilities based on vocational apprenticeships in Switzerland and aimed at ensuring ongoing training for manufacturing and assembly operations.

In India, about 10 employees successfully completed the VET (Vocational Education and Training) concept in 2011. This concept was initiated by the Swiss Federal Office for Vocational Training and Technology and the Swiss-Indian Chamber of Commerce with the active cooperation of Rieter. VET is being continued and expanded in 2012.

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. Reporting by Rieter 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, 2011. All information is updated regularly on the website at www.rieter.com/investors. Some data refer to the financial section of this Annual Report. The compensation report can be found on page 75 ff. of the financial report.

1 Group structure and shareholders

Group structure

Rieter Holding Ltd. is a company incorporated under Swiss law, with registered office in Winterthur, and as a holding company directly or indirectly controls all companies which are members of the Rieter Group. Some 40 companies worldwide belonged to the Rieter Group as of December 31, 2011. A list of the main companies can be found on page 67. The management organization of the Rieter Group is independent of the legal structure of the group and the individual companies.

Significant shareholdings

As of December 31, 2011, Rieter was aware of the following shareholders with more than 3% of all voting rights in the company:

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

Refer to page 75 for details of these holdings.

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_en.html.

Cross-holdings

There are no cross-holdings in which the capital or voting interests exceed the 3% limit.

2 Capital structure

Share capital
On December 31, 2011, 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 SIX Swiss Exchange (securities code 367144; ISIN CH0003671440; Investdata RIEN). Rieter's market capitalization on December 31, 2011, was 653.2 million CHF. Each share entitles the holder to one vote at general meetings of shareholders.

Contingent and authorized share capital
Rieter Holding Ltd. had neither authorized nor contingent share capital outstanding on December 31, 2011.

Changes in share capital
On May 5, 2009, Rieter allotted to shareholders one shareholders' 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.

The Annual General Meeting held on April 13, 2011, approved the demerger of the Rieter Group into the Textile Systems and Automotive Systems units. Each Rieter shareholder received an Autoneum share for each Rieter share held, as a special dividend.

Convertible bonds and options
Rieter Holding Ltd. has no convertible bonds or shareholder's options outstanding.

Participation certificates and dividend-right certificates
Rieter Holding Ltd. has neither participation certificates nor dividend-right certificates in issue.

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 2011 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.

Group Secretary
Thomas Anwander, lic. iur., Head of Legal Services, 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 13, 2011, elected Erwin Stoller to the Board of Directors for a further three-year term of office.

The term of office of Dr. Jakob Baer, Michael Pieper, This E. Schneider, Hans-Peter Schwald und Peter Spuhler expires at the Annual General Meeting to be held on April 18, 2012. All five are 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)** Director Swiss national
First election to Board	Director and Chairman since 2008, Executive Chairman since 2009	Board member and Vice Chairman (Lead Director) since 2009	Director since 2001
Term of office expires in	2014	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 the Textile Systems Division from 1992 to 2002, Head of the Automotive Systems Division from 2002 to 2007, withdrew from operating management at Rieter as of end-2007.	Lic.oec. HSG; Chairman and CEO of 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; Executive Chairman and CEO of the Selecta Group, from 1997 to 2002; Executive Chairman and CEO, 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	None.	Director: Galenica SA, Berne; Autoneum Holding AG, Winterthur.	Director: IHAG Holding AG, Zurich; 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)
Director
Swiss national

Director since 2006

2012

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

Director: Adecco S.A., Chéserex (until April 24, 2012); 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)
Director
Swiss national

Director 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; Director: Berenberg Bank (Schweiz) AG, Zurich; Hero AG, Lenzburg; Forbo Holding AG, Baar; Adval Tech Holding AG, Niederwangen; Autoneum Holding AG, Winterthur.

Non-executive

Hans-Peter Schwald (1959)
Director
Swiss national

Director 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, Autoneum Holding AG, Winterthur; Vice Chairman of the Board, Stadler Rail AG, Bussnang; and Ruag Holding AG, Berne; Chairman, AVIA Association of Independent Importers of Petroleum Products, Zurich; Director of other Swiss private stock companies.

Member of the audit and of the nomination and compensation committee

Non-executive

Peter Spuhler (1959)
Director
Swiss national

Director 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; Director, Walo Bertschinger Central AG, Zurich and Autoneum Holding AG, Winterthur. 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 focus 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 the 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 market 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 to act as 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 deputizes 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 nominations 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 2011 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 of Directors usually makes an annual visit to one group location. In the year under review the Board of Directors visited Rieter's manufacturing sites in the Czech Republic. 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 2011 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 statutory 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 audit reports and the Management Letter 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, and 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 2011. 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

Internal Audit, headed by Martin R. Strub, Certified Auditor, is organizationally independent and reports to the audit committee. At the administrative level, Internal Audit reports to the CFO. Audits are performed on the basis of an audit schedule approved by the audit committee. 10 regular audits and one special audit have been performed since June 2011. The checkpoints defined within the scope of the internal controlling system were examined in particular in the context of the audits. Internal auditing also includes various compliance audits associated with these processes. Finally, additional risks and controls in connection with the above-mentioned business processes were examined. Each audit performed also includes verification of the implementation of recommendations from previous audits.

The implementation and reliability of the controls introduced in connection with the ICS were verified in the context of self-assessments to ensure that variances were identified and appropriate corrective action was taken. The members of the audit committee, the Executive Chairman, the members of the Group Executive Committee and the relevant members of management receive the internal audit reports.

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 2011. The committee 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 senior management at the Rieter Group, especially bonus programs and share purchase plans. The nomination and compensation committee also draws up succession plans for the Board of Directors and the Group Executive Committee and is informed about succession plans for senior management and the associated development steps.

The committee met for five 3-hour meetings in 2011 and also held a telephone conference. All committee members attended these meetings.

Allocation of authority

The Board of Directors assigns operational management of the business to the Executive Chairman. 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 Business Groups 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 together 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 in the group and changes in personnel at management level. He is obliged to inform the Board of Directors immediately about business transactions of fundamental importance occurring outside the scope of periodic reporting.

Information and control instruments vis-à-vis 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 Business Groups 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 forecasts. If the Board of Directors has to rule on major projects, a written request is submitted to directors prior to the meeting. 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 budget for the group and the Business Groups. Financial statements for publication are drawn up twice a year.

Risk management

The description of the risk management process and statements on financial risks can be found on pages 42 to 45 of the Annual Report.

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. Centralized regular coaching is also provided for members of management in the form of an e-learning program. Compliance with the Code of Conduct is regularly verified in the context of internal audits and by additional audits.
This code can be accessed on the Internet at www.rieter.com/about-rieter-group.

4 Group Executive Committee as of December 31, 2011

Since the election of Board Chairman Erwin Stoller as Executive Chairman on August 4, 2009, the members of the Group Executive Committee have reported directly to Erwin Stoller. Following the separation of the group, Erwin Stoller has concentrated particularly on establishing the new Group Executive Committee and the strategic thrust of Rieter Holding Ltd. as an industrially focused supplier of machinery and components to short-staple spinning mills. After completion of this, he will hand over operative leadership to a CEO. 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

Peter Gnägi (1954)
Head of the Spun Yarn Systems Business Group;
Swiss national

Member of the Group Executive Committee since 2002

Educational and professional background
Dipl. Masch. Ing. ETH Zurich. Alusuisse AG, Zurich, from 1979 to 1982; Mettler Instrumente AG, Stäfa, from 1982 to 1990, finally as Head of the Operational Equipment Business Group; with Rieter since 1990, Head of the Spun Yarn Systems Business Group from 1998 to 2002, Head of the Textile Systems Division from 2002 to 2011, member of Rieter's Group Executive Committee since 2002; in his present function since 2011

Other activities and interests
Member of the Executive Committee, Swissmem.

Werner Strasser (1954)
Head of the Premium Textile Components Business Group;
Swiss national

Member of the Group Executive Committee since 2011

Educational and professional background
Dipl. Masch.-Ing. FH. Videlec, Hong Kong, from 1981 to 1985; Fritz Gegauf AG, 1985 to 1989, Far East Delegate; Fritz Gegauf AG, Switzerland, from 1989 to 1994; with Rieter since 1994, Head of Technology Components and Conversions from 2002 to 2011; member of the Group Executive Committee since 2011; in his present position since 2011

Other activities and interests
None.

Joris Gröflin (1977)
Chief Financial Officer (CFO);
Swiss/Dutch national

Member of the Group Executive Committee since 2011

Educational and professional background
lic. oec.HSG, CEMS Master; A.T. Kearney (Int.) AG, Zurich, from 2001 to 2006; with Rieter since 2006; Head of Corporate Controlling from 2009 to 2011; member of the Group Executive Committee since 2011; in his present position since 2011.

Other activities and interests
None.

Thomas Anwander (1960)
General Counsel, Company Secretary and Head of Legal Services;
Swiss national

Member of the Group Executive Committee since 2011

Educational and professional background
lic.iur. HSG, lawyer; Winterthur Life, Winterthur, 1988; with Rieter since 1989, Company Secretary and Head of Legal Services at Rieter Holding Ltd. from 1993 to 2011; member of the Group Executive Committee since 2011; in his present position since 2011.

Other activities and interests
Chairman of the Board of Directors, Auwiesen Immobilien AG, Winterthur; Director, Gesellschaft für die Erstellung billiger Wohnhäuser, Winterthur; Chairman of the Chamber of Commerce and Employers' Federation, Winterthur.

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 on page 75 ff.

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

Entries in the shareholders' register

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

7 Change of control and defensive measures

Obligation to submit an offer

The legal provisions in terms of Art. 22 BEHG (Bundesgesetz über die Börsen und den Effektenhandel – Swiss Exchanges and Securities Trading Act) are applicable. This states that a shareholder or a group of shareholders acting in concert who hold more than 33⅓% 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, shares blocked in the context of the share purchase plan can be released.

8 Statutory auditors

Duration of mandate and term of office of the auditor in charge

PricewaterhouseCoopers AG, Zurich (PwC), have been the statutory auditors of Rieter Holding Ltd. and the Rieter Group since 1984. Urs Honegger has officiated as auditor in charge of the Rieter mandate at PwC since 2009. The statutory auditors are elected for a term of one year.

Audit fees

PwC and other auditors charged the Rieter Group approximately 0.9 million CHF in the 2011 financial year for services in connection with auditing the annual financial statements of the group companies and Rieter's consolidated accounts.

Additional fees

Additional consultancy fees invoiced by the statutory auditors in 2011 amounted to 0.5 million CHF. These mainly concerned tax consulting and services in connection with the separation from the Automotive Division (now Autoneum).

Supervisory and monitoring instruments vis-à-vis the auditors

The audit committee of the Board of Directors makes an annual assessment of the performance, fees and independence of the statutory 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 Chapter 3.

9 Information policy

Rieter maintains regular, transparent communication with the company's shareholders and the capital market. Shareholders entered in the shareholders' register 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 SIX Swiss Exchange. 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.

Anyone interested in receiving press releases automatically can register 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 2012	April 18, 2012
Semi-Annual Report 2012	July 25, 2012
Publication of sales 2012	February 5, 2013
Deadline for proposals for inclusion on the agenda of the Annual General Meeting	February 25, 2013
Results press conference 2013	March 21, 2013
Annual General Meeting 2013	April 18, 2013

Contacts for queries regarding Rieter:

for investors and financial analysts:
Joris Gröflin, CFO,
Phone +41 52 208 70 15
Fax +41 52 208 70 60, investor@rieter.com

for the media:
Barbara Rösch, Corporate Communications,
Phone +41 52 208 70 32
Fax +41 52 208 70 60, media@rieter.com

Financial report

Consolidated financial statements

Financial statements of Rieter Holding Ltd.

Appendix

Consolidated income statement

CHF million	Notes	2011	%*	2010	%*
Sales	(4)	**1 060.8**		**870.4**	
Sales deductions		– 60.1		– 58.3	
Net sales		**1 000.7**		**812.1**	
Change in semi-finished and finished goods		36.4		27.7	
Own work capitalized		5.4		1.6	
Corporate output		**1 042.5**	**100.0**	**841.4**	**100.0**
Material costs		– 497.8	– 47.8	– 384.4	– 45.7
Employee costs	(5)	– 302.3	– 29.0	– 275.8	– 32.8
Other operating expenses	(6)	– 124.7	– 12.0	– 96.9	– 11.5
Other operating income		28.8	2.8	31.3	3.7
Depreciation and amortization	(7)	– 33.9	– 3.2	– 39.9	– 4.7
Operating result before interest and taxes (EBIT)		**112.6**	**10.8**	**75.7**	**9.0**
Share of profit of associated companies	(34)	0.8		– 0.2	
Gain on sale of investments	(8)	50.3		0.0	
Financial income	(9)	8.1		31.0	
Financial expenses	(10)	– 33.8		– 16.1	
Profit before taxes		**138.0**	**13.2**	**90.4**	**10.7**
Income taxes	(11)	– 19.0		– 7.5	
Net profit[1]		**119.0**	**11.4**	**82.9**	**9.9**
Result of discontinued operations	(32)	151.0		– 41.3	
Net profit (incl. discontinued operations)		**270.0**		**41.6**	
Attributable to shareholders of Rieter Holding Ltd.		267.2		26.5	
Attributable to non-controlling interests		2.8		15.1	
Earnings per share in CHF					
Continuing operations	(13)	25.86		17.81	
Discontinued operations	(13)	31.91		– 12.09	
Total		**57.77**		**5.72**	
Diluted earnings per share in CHF					
Continuing operations	(13)	25.86		17.80	
Discontinued operations	(13)	31.91		– 12.09	
Total		**57.77**		**5.71**	

* In % of corporate output.
1. Continuing operations.
The notes on pages 37 to 67 are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

CHF million	Notes	2011	2010
Net profit (incl. discontinued operations)		**270.0**	**41.6**
Currency effects		– 30.0	– 62.3
Financial instruments available for sale:			
Change in fair value		– 17.1	15.0
Income taxes on change in fair value		13.9	– 5.9
Realized results through income statement	(8)	– 50.3	0.0
Realized impairment through income statement	(10)	2.9	0.0
Realized income taxes through income statement		9.0	0.0
Transfer of currency effects to income statement:			
Separation Automotive Systems	(32)	91.7	0.0
Others (net investments in foreign operations)	(10)	7.3	0.0
Total other comprehensive income		**27.4**	**– 53.2**
Total comprehensive income		**297.4**	**– 11.6**
Attributable to shareholders of Rieter Holding Ltd.		301.0	– 20.5
Attributable to non-controlling interests		– 3.6	8.9

The notes on pages 37 to 67 are an integral part of the consolidated financial statements.

Consolidated balance sheet

CHF million	Notes	December 31, 2011	December 31, 2010[1]
Assets			
Tangible fixed assets	(14)	227.6	606.1
Intangible assets	(15)	9.5	15.2
Investments in associates	(34)	2.3	1.5
Other non-current assets	(16)	76.1	174.1
Deferred tax assets	(11)	6.5	5.3
Non-current assets		**322.0**	**802.2**
Inventories	(17)	234.8	328.4
Trade receivables	(18)	84.1	381.5
Other receivables	(19)	44.1	98.0
Assets of disposal groups	(31)	10.8	0.0
Marketable securities and time deposits	(20)	7.3	7.1
Cash and cash equivalents	(21)	408.3	351.9
Current assets		**789.4**	**1 166.9**
Assets		**1 111.4**	**1 969.1**
Shareholders' equity and liabilities			
Share capital	(22)	23.4	23.4
General legal reserve		27.5	27.5
Group reserves		328.4	506.0
Equity attributable to shareholders of Rieter Holding Ltd.		**379.3**	**556.9**
Equity attributable to non-controlling interests	(23)	8.4	70.7
Total shareholders' equity		**387.7**	**627.6**
Long-term financial debt	(24)	253.5	296.3
Deferred tax liabilities	(11)	42.1	79.2
Provisions	(25)	104.3	180.7
Other non-current liabilities		0.2	0.9
Non-current liabilities		**400.1**	**557.1**
Trade payables		86.4	315.8
Advance payments by customers		89.8	110.9
Short-term financial debt	(24)	3.1	66.2
Current tax liabilities		14.4	26.0
Provisions	(25)	38.6	89.0
Other current liabilities	(26)	91.3	176.5
Current liabilities		**323.6**	**784.4**
Liabilities		**723.7**	**1 341.5**
Shareholders' equity and liabilities		**1 111.4**	**1 969.1**

1. Including discontinued operations Automotive Systems.

The notes on pages 37 to 67 are an integral part of the consolidated financial statements.

Changes in consolidated equity

CHF million	Notes	Share capital	Own shares	General legal reserve	Valuation reserves	Retained earnings	Total attributable to Rieter share-holders	Attribut-able to non-con-trolling interests	Total con-solidated equity
At January 1, 2010		**23.4**	**– 0.1**	**27.5**	**236.6**	**299.8**	**587.2**	**68.6**	**655.8**
Net profit		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
Total contributions by and distributions to owners of the company		**0.0**	**– 0.1**	**0.0**	**0.0**	**– 9.7**	**– 9.8**	**– 6.8**	**– 16.6**
At December 31, 2010		**23.4**	**– 0.2**	**27.5**	**189.6**	**316.6**	**556.9**	**70.7**	**627.6**
Net profit		0.0	0.0	0.0	0.0	267.2	267.2	2.8	270.0
Total other comprehensive income		0.0	0.0	0.0	33.8	0.0	33.8	– 6.4	27.4
Total comprehensive income		**0.0**	**0.0**	**0.0**	**33.8**	**267.2**	**301.0**	**– 3.6**	**297.4**
Distribution of shares of Autoneum Holding Ltd. as special dividend:									
Fair value of distributed assets	(32)	0.0	0.0	0.0	0.0	– 486.9	– 486.9	0.0	– 486.9
Derecognition of non-controlling interests	(32)	0.0	0.0	0.0	0.0	0.0	0.0	– 45.9	– 45.9
Special dividend on own shares		0.0	0.0	0.0	0.0	5.2	5.2	0.0	5.2
Dividend to non-controlling interests		0.0	0.0	0.0	0.0	0.0	0.0	– 8.5	– 8.5
Non-controlling interests in divested businesses	(30)	0.0	0.0	0.0	0.0	0.0	0.0	– 4.3	– 4.3
Share-based compensation		0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1
Change in holding of own shares		0.0	0.0	0.0	0.0	3.0	3.0	0.0	3.0
Total contributions by and distributions to owners of the company		**0.0**	**0.0**	**0.0**	**0.0**	**– 478.6**	**– 478.6**	**– 58.7**	**– 537.3**
At December 31, 2011		**23.4**	**– 0.2**	**27.5**	**223.4**	**105.2**	**379.3**	**8.4**	**387.7**

Valuation reserves include cumulative translation effects and after-tax valuation gains of 3.6 million CHF (45.3 million CHF in 2010) on financial instruments available for sale.

Dividend to non-controlling interests in 2011 and 2010 relate to the discontinued operations Automotive Systems.

The notes on pages 37 to 67 are an integral part of the consolidated financial statements.

Consolidated statement of cash flow

CHF million	Notes	2011	2010
Net profit[1]		**119.0**	**82.9**
Interest income	(9)	– 6.9	– 30.2
Interest expenses	(10)	17.1	19.5
Income taxes	(11)	19.0	7.5
Depreciation and amortization of tangible and intangible fixed assets	(7)	33.9	39.9
Gains on divestments	(30)	– 3.2	– 4.5
Other non-cash income and expenses		– 50.3	– 1.0
Change in inventories		– 55.2	– 86.2
Change in receivables		35.5	– 73.1
Change in provisions		1.9	62.2
Change in trade payables		– 15.0	72.6
Change in advance payments by customers and other liabilities		15.3	– 9.0
Dividends received		0.4	0.8
Interest received		6.9	30.2
Interest paid		– 14.6	– 6.4
Taxes paid		– 23.4	– 6.0
Net cash from operating activities[1]		**80.4**	**99.2**
Net cash from operating activities of discontinued operations		– 70.3	6.9
Total net cash from operating activities (incl. discontinued operations)		**10.1**	**106.1**
Capital expenditure on tangible and intangible assets	(14/15)	– 57.3	– 25.8
Proceeds from disposals of tangible and intangible assets		3.7	0.0
Proceeds from sale of investment (after local taxes)		47.3	0.0
Investments in other non-current assets		– 0.7	– 9.4
Proceeds from disposals of other non-current assets		0.6	9.9
Sale / purchase of marketable securities and time deposits		0.6	5.6
Divestments of businesses	(30)	4.9	– 0.8
Net cash used for investing activities[1]		**– 0.9**	**– 20.5**
Net cash from investing activities of discontinued operations		– 20.6	– 72.0
Total net cash from investing activities (incl. discontinued operations)		**– 21.5**	**– 92.5**
Sale / purchase of own shares		1.1	– 9.8
Proceeds from short-term financial debt		0.3	1.7
Proceeds from long-term financial debt		0.1	252.5
Repayments of long-term financial debt		– 26.6	– 104.2
Net cash from financing activities[1]		**– 25.1**	**140.2**
Net cash from financing activities of discontinued operations		3.5	– 10.9
Repayment of Group liabilities by Autoneum		193.1	0.0
Cash balance of Autoneum at date of distribution as special dividend	(32)	– 100.3	0.0
Net cash from financing activities (incl. discontinued operations)		**71.2**	**129.3**
Currency effects		– 3.4	– 8.7
Change in cash and cash equivalents		**56.4**	**134.2**
Cash and cash equivalents at beginning of the year	(21)	**351.9**	**217.7**
Cash and cash equivalents at end of the year	(21)	**408.3**	**351.9**

1. Continuing operations.
The notes on pages 37 to 67 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, 2011, the following new or amended standards and interpretations became operative: IAS 24 (revised) "Related Party Disclosures", IAS 32 (revised) "Financial Instruments: Presentation", IFRIC 14 (revised) "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", "Improvements to IFRSs 2010". 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, inventories, 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. 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 and legal cases 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. 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 page 67.

Changes in the scope of consolidation
The separation of the Group and the sale of a subsidiary changed the scope of consolidation in the year under review significantly. The impact of these transactions on the consolidated financial statements is shown in notes 30 and 32 (pages 61 and 62).

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.

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 2011.

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 recognized in other comprehensive income prior to sale, and transferred to 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. 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 or other comprehensive income.

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, 2012. Rieter has not adopted any of these new regulations early: IFRS 9 "Financial Instruments", IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements", IFRS 12 "Disclosure of Interests in Other Entities", IFRS 13 "Fair Value Measurement", changes to IFRS 7 "Financial Instruments: Disclosures – Transfer of Financial Assets", changes to IAS 1 "Presentation of Items of Other Comprehensive Income", IAS 19 (revised) "Employee Benefits", IAS 27 (revised) "Separate Financial Statements", IAS 28 (revised) "Investments in Associates and Joint Ventures".

Rieter is currently assessing the potential impact of these new and revised standards. Except for the revisions of IAS 19, based on the analysis to date, no material impact on the financial statement is expected. Amongst other matters the revised version of IAS 19 "Employee Benefits" includes the elimination of the option to defer the recognition of actuarial gains and losses from defined benefit pension plans, known as the "corridor method".

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.

Within the scope of an annual workshop with the management under the direction of the General Counsel the identified risks are reviewed regarding their probability and relevance for the Group. In addition, the required risk management activities are assessed.

Market and business risks resulting from developments in the relevant markets and of the products offered therein are additionally assessed as part of the strategic planning process. On the other hand, these risks, as well as operational risks, are also regularly dealt with at the monthly meetings within the Business Groups 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, implement and monitor the necessary 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 meetings of the Group Executive Committee 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 Business Group Spun Yarn Systems, 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, contracted usually with corporate headquarters. The net position in each foreign currency is then subsequently managed through currency contracts with third parties.

The Rieter Group is primarily exposed to foreign exchange risks versus the Euro and the US dollar. Assuming that the Euro had been 5% stronger versus the Swiss franc at December 31, 2011, with all other variables held constant, the Group's after-tax result and retained earnings would have been 3.8 million CHF higher (0.4 million CHF higher in 2010). Assuming that the US dollar had been 5% stronger versus the Swiss franc at December 31, 2011, with all other variables held constant, the Group's after-tax result and retained earnings would have been 0.1 million CHF lower (0.2 million CHF higher in 2010). If the reverse had been the case, the Group's after-tax result and retained earnings would have been the same amount lower and higher, respectively. 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 0.4 million CHF (0.9 million CHF in 2010).

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 exposes Rieter to a risk of price fluctuation. Price fluctuations would result in proportional changes of the book values. The Group has no material securities at the end of 2011.

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 Business Group Spun Yarn Systems credit risks on trade receivables are usually hedged by means of insurance, advance payments, letters of credit or other instruments. In Business Group Premium Textile Components credit risks are limited due to the large number and wide geographic spread of customers.

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.

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

Financial liabilities December 31, 2011	**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	223.3	10.1	255.4	0.0	265.5
Bank debt	2.6	2.9	0.0	0.0	2.9
Other financial debt	30.7	0.0	36.0	0.2	36.2
Negative replacement values of derivative financial instruments	0.2	0.2	0.0	0.0	0.2
Trade payables	86.4	86.4	0.0	0.0	86.4

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	32.6	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

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 35%. As an industrial Group, Rieter strives to have a strong balance sheet with an equity ratio of about 35%. Since May 13, 2011, there are no externally imposed minimum requirements regarding equity. In order to maintain or change the capital structure the Group may adjust dividend payments to shareholders, return capital to shareholders, issue new shares or dispose of assets in order to reduce debt.

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 up to the level of EBIT. The Chief Operating Decision Maker of Rieter is the Board of Directors of Rieter Holding AG. Segment accounting is based on the same accounting policies as the consolidated financial statements. The Group consists of the two reportable segments Spun Yarn Systems and Premium Textile Components. There is no aggregation of operating segments. Spun Yarn Systems develops and manufactures machinery and systems for processing natural and man-made fibers and their blends into yarns. Premium Textile Components supplies technology components and service offerings to spinning mills and also to machinery manufacturers.

Segment information 2011

CHF million	Spun Yarn Systems	Premium Textile Components	Total reportable segments
Sales to third parties	861.7	199.1	1 060.8
Inter-segment sales	0.0	64.8	64.8
Net sales to third parties	819.5	181.2	1 000.7
Corporate output	866.3	272.6	1 138.9
Operating result before interest and taxes (EBIT)	81.2	35.1	116.3
Operating assets December 31, 2011[1]	452.5	167.6	620.1
Operating liabilities December 31, 2011[1]	319.9	59.9	379.8
Net operating assets December 31, 2011[1]	132.6	107.7	240.3
Capital expenditures on tangible and intangible assets	47.3	9.8	57.1
Depreciation and amortization	17.4	16.3	33.7
Number of employees[2]	3 594	1 075	4 669

Segment information 2010

CHF million	Spun Yarn Systems	Premium Textile Components	Total reportable segments
Sales to third parties	674.0	190.6	864.6
Inter-segment sales	0.0	47.2	47.2
Net sales to third parties	632.4	174.0	806.4
Corporate output	669.4	237.2	906.6
Operating result before interest and taxes (EBIT)	42.4	29.6	72.0
Operating assets December 31, 2010[1]	448.4	167.9	616.3
Operating liabilities December 31, 2010[1]	325.5	63.8	389.3
Net operating assets December 31, 2010[1]	122.9	104.1	227.0
Capital expenditures on tangible and intangible assets	21.3	4.5	25.8
Depreciation and amortization	21.0	18.7	39.7
Number of employees[2]	3 434	924	4 358

1. Segment assets and liabilities excluding financial and income tax related items.
2. At year-end (excluding apprentices and temporary employees), in full-time equivalents.

Reconciliation of segment results

CHF million	2011	2010
Operating result before interest and taxes (EBIT) reportable segments	116.3	72.0
Non-reportable segments (non-wovens)	2.4	5.2
Elimination of unrealized inter-segment profits	– 0.5	0.0
Cost allocation discontinued operations	3.4	8.7
Other companies (Rieter Holding Ltd, central units)	– 9.0	– 10.2
Operating result before interest and taxes (EBIT) Group	**112.6**	**75.7**
Result of associated companies	0.8	– 0.2
Gain on sale of investments	50.3	0.0
Financial income	8.1	31.0
Financial expenses	– 33.8	– 16.1
Result before taxes	**138.0**	**90.4**

Sales and non-current assets by countries

CHF million	Sales 2011[1]	Sales 2010[1]	Non-current assets 2011[2]	Non-current assets 2010[2]
Switzerland (domicile of Rieter Holding Ltd.)	63.6	64.4	70.4	79.1
Foreign countries	997.2	806.0	166.7	153.9
Total Group	**1 060.8**	**870.4**	**237.1**	**233.0**
The following countries accounted for more than 10% of sales or non-current assets:				
Switzerland (domicile of Rieter Holding Ltd.)	63.6	64.4	70.4	79.1
India	175.1	145.7	54.0	50.2
Turkey	208.9	117.1	–	–
China	151.0	103.4	34.8	22.1
Czech Republic	–	–	30.2	35.1

1. By location of customer.
2. Tangible and intangible fixed assets by country of location (continuing operations).

No individual customer accounted for more than 10% of consolidated sales in 2011 and 2010. Sales by product group are not available.

4 Sales

Change in sales

CHF million	2011	2010
Change in sales due to volume and price, Spun Yarn Systems	217.0	286.7
Change in sales due to volume and price, Premium Textile Components	21.3	70.9
Impact of divestments	– 5.8	– 3.6
Currency effects	– 42.1	– 15.6
Total change in sales	**190.4**	**338.4**

5 Employee costs

CHF million	2011	2010
Wages and salaries	244.2	218.7
Social security and other personnel expenses	58.1	57.1
Total	**302.3**	**275.8**

6 Other operating expenses

CHF million	2011	2010
Energy and operating material	33.7	29.7
Maintenance and repair	20.7	15.3
External services	7.6	8.7
Other operating expenses	62.7	43.2
Total	**124.7**	**96.9**

7 Depreciation and amortization

CHF million	2011	2010
Tangible fixed assets	28.3	32.9
Intangible assets	5.6	7.0
Total	**33.9**	**39.9**

8 Gain on sale of investments

In 2011, Rieter reduced its shareholding in Lakshmi Machine Works Ltd., India, from 13% to approximately 3% realizing a pre-tax gain of 50.3 million CHF (47.3 million CHF after local taxes).

9 Financial income

CHF million	2011	2010
Interest income from third parties	2.7	1.8
Interest income from discontinuing operations	4.2	28.4
Other financial income	1.2	0.8
Total	**8.1**	**31.0**

10 Financial expenses

CHF million	2011	2010
Interest cost to third parties	17.0	19.2
Interest cost to discontinued operations	0.1	0.3
Loss on repurchase of own debt instruments	1.6	0.0
Impairment of available for sale financial assets	2.9	0.0
Transfer of currency effects from other comprehensive income	7.3	0.0
Other financial expenses and foreign exchange differences, net	4.9	– 3.4
Total	**33.8**	**16.1**

Currency effects transferred from other comprehensive income relate to net investments in foreign operations.

11 Income taxes

CHF million	2011	2010
Current income tax expense	28.5	8.4
Deferred income tax expense	– 9.5	– 0.9
Total	**19.0**	**7.5**

Reconciliation of expected and actual tax expense:

CHF million	2011	2010
Expected tax expense on pre-tax profit of continuing operations of 138.0 million CHF (90.4 million CHF in 2010) at an average rate of 22.6% (19.4% in 2010)	31.2	17.5
Impact of costs / income, taxed at different rates	– 8.4	– 0.9
Impact of losses and loss carry-forwards	– 3.6	– 8.6
Impact of changes in tax rates and tax legislation	– 0.1	0.0
Other effects	– 0.1	– 0.5
Total	**19.0**	**7.5**

The increase in the expected weighted average tax rate by 3.2%-points resulted from changes in the profitability of some group companies and changes of tax rates in certain countries.

Deferred income taxes

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

CHF million	Deferred tax assets 2011	Deferred tax liabilities 2011	Deferred tax assets 2010	Deferred tax liabilities 2010
Tangible fixed assets	1.1	– 10.3	7.0	– 22.5
Inventories	4.7	– 7.6	5.1	– 8.0
Other assets	2.6	– 25.8	7.6	– 61.5
Provisions	4.9	– 1.5	10.2	– 2.6
Other liabilities	1.7	– 0.2	8.3	– 2.9
Valuation adjustments on deferred tax assets	– 7.4	0.0	– 17.3	0.0
Tax loss carry-forwards and tax credits	2.2	0.0	2.7	0.0
Total	9.8	– 45.4	23.6	– 97.5
Offsetting	– 3.3	3.3	– 18.3	18.3
Deferred tax assets / liabilities	**6.5**	**– 42.1**	**5.3**	**– 79.2**

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 2011	Non capitalized 2011	Total 2011	Total 2010
Expiry in				
1 to 3 years	0.0	0.3	0.3	2.0
3 to 7 years	0.0	0.5	0.5	27.5
7 or more years	2.2	29.5	31.7	184.5
Total	**2.2**	**30.3**	**32.5**	**214.0**

The unused tax losses for which no deferred tax asset has been recognized originate primarily from countries with a tax rate between 17% and 37%.

12 Research and development

39.5 million CHF was spent on research and development in 2011 (32.6 million CHF in 2010).

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 2011 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 2011 and 2010, 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 the industry.

13 Earnings per share

Earnings per share are calculated by dividing net profit attributable to Rieter shareholders by the average number of shares outstanding. Diluted earnings per share in addition take into account the potential dilution effects which would result if all issued share options were exercized.

CHF million	2011	2010
Net profit continuing operations (CHF million)[1]	**119.6**	**82.6**
Result discontined operations (CHF million)[1]	147.6	– 56.1
Average number of shares outstanding (non diluted)	4 625 281	4 640 220
Average number of shares outstanding (diluted)	4 625 281	4 642 437
Earnings per share continuing operations (CHF)	**25.86**	**17.81**
Earnings per share discontinuing operations (CHF)	31.91	– 12.09
Diluted earnings per share continuing operations (CHF)	**25.86**	**17.80**
Diluted earnings per share discontinuing operations (CHF)	31.91	– 12.09

1. Attributable to shareholders of Rieter Holding Ltd.

14 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, 2010	**264.1**	**371.3**	**6.2**	**10.7**	**43.7**	**696.0**
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
Reclassification	0.2	20.6	0.1	– 1.0	– 19.9	0.0
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**
Deconsolidation Automotive Systems[1]	– 117.5	– 209.5	– 1.9	– 2.7	– 56.8	– 388.4
Additions	18.2	13.4	4.1	3.6	18.0	57.3
Disposals by divestments	– 1.7	– 3.3	– 0.1	– 0.1	0.0	– 5.2
Other disposals	– 0.1	– 0.1	– 0.1	0.0	– 0.2	– 0.5
Depreciation	– 4.9	– 19.9	– 1.7	– 1.8	0.0	– 28.3
Reclassification to disposal group	– 3.1	– 1.0	0.0	– 0.1	0.0	– 4.2
Other reclassification	– 0.1	5.1	0.2	0.1	– 5.3	0.0
Currency effects	– 4.6	– 3.4	– 0.1	– 0.1	– 1.0	– 9.2
Net book value at December 31, 2011	**118.6**	**78.0**	**5.0**	**5.7**	**20.3**	**227.6**
Cost at December 31, 2011	257.0	391.7	27.0	33.8	20.5	730.0
Accumulated depreciation at December 31, 2011	– 138.4	– 313.7	– 22.0	– 28.1	– 0.2	– 502.4
Net book value at December 31, 2011	**118.6**	**78.0**	**5.0**	**5.7**	**20.3**	**227.6**

1. See note 32.

No tangible assets are held under finance leases (3.2 million CHF in 2010) and no land and buildings are pledged for financial debt. No borrowing costs were capitalized in 2011 and 2010.

Buildings were insured at the replacement value of 539.8 million CHF at balance sheet date (1 024.2 million CHF in 2010).

15 Intangible assets

CHF million	Patents/ trademarks	Other intangible assets	Total intangible assets
Net book value at January 1, 2010	**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	– 34.0	– 2.8	– 36.8
Net book value at December 31, 2010	**13.1**	**2.1**	**15.2**
Amortization	– 5.2	– 0.4	– 5.6
Currency effects	– 0.1	0.0	– 0.1
Net book value at December 31, 2011	**7.8**	**1.7**	**9.5**
Cost at December 31, 2011	41.5	3.6	45.1
Accumulated amortization at December 31, 2011	– 33.7	– 1.9	– 35.6
Net book value at December 31, 2011	**7.8**	**1.7**	**9.5**

In 2011 and 2010, there were no intangible assets with undefined useful lives.

16 Other non-current assets

CHF million	2011	2010
Investments in non-consolidated companies	12.1	82.3
Long-term interest-bearing receivables	3.7	4.8
Other long-term receivables and pension funds	60.3	87.0
Total	**76.1**	**174.1**

Prepaid contributions and overfunding of personnel pension plans have been accrued up to the expected future benefit and amount to 56.2 million CHF (60.0 million CHF in 2010).

17 Inventories

CHF million	2011	2010
Raw materials and consumables	56.0	88.9
Purchased parts and goods for resale	73.2	72.5
Semi-finished and finished goods	87.0	99.8
Work in progress	54.4	111.0
Allowance	– 35.8	– 43.8
Total	**234.8**	**328.4**

The following summarizes the movement in the allowance for inventories:

CHF million	2011	2010
Allowance at January 1	– 43.8	– 56.5
Deconsolidation Automotive Systems[1]	3.7	0.0
Utilization	1.4	2.7
Reversals / additions, net	0.6	5.2
Currency effects	2.3	4.8
Allowance at December 31	**– 35.8**	**– 43.8**

1. See note 32.

18 Trade receivables

CHF million	2011	2010
Trade receivables	103.8	409.4
Allowance for doubtful receivables	– 19.7	– 27.9
Total	**84.1**	**381.5**

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

CHF million	2011	2010
Allowance for doubtful receivables at January 1	– 27.9	– 27.2
Deconsolidation Automotive Systems[1]	5.1	0.0
Increase charged to income statement	– 3.5	– 11.8
Utilization or reversal	6.4	8.3
Currency effects	0.2	2.8
Allowance for doubtful receivables at December 31	**– 19.7**	**– 27.9**

1. See note 32.

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	2011	2010
CHF	38.2	81.0
EUR	32.4	197.5
USD	2.1	36.7
CNY	8.3	23.3
Other	3.1	43.0
Total	**84.1**	**381.5**

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

CHF million	2011	2010
Not due	79.0	369.7
Past due less than 3 months	14.3	29.5
Past due 3 to 6 months	3.3	2.1
Past due 6 months to 1 year	2.1	1.3
Past due 1 to 5 years	1.6	5.5
Past due 5 or more years	3.5	1.3
Trade receivables	103.8	409.4
Allowance for doubtful receivables	– 19.7	– 27.9
Total	**84.1**	**381.5**

19 Other receivables

CHF million	2011	2010
Prepaid expenses and deferred charges	5.7	11.8
Advance payments to suppliers	6.1	18.1
Positive replacement values of derivative financial instruments	0.6	6.5
Other short-term receivables	31.7	61.6
Total	**44.1**	**98.0**

20 Marketable securities and time deposits

CHF million	2011	2010
Securities available for sale	6.0	4.2
Time deposits with original maturities between 3 and 12 months	1.3	2.9
Total	**7.3**	**7.1**

21 Cash and cash equivalents

CHF million	2011	2010
Cash and banks	397.9	323.3
Time deposits with original maturities up to 3 months	10.4	28.6
Total	**408.3**	**351.9**

22 Share capital

		31.12.2011	31.12.2010
Shares issued	Number of shares	4 672 363	4 672 363
Treasury shares	Number of shares	43 028	53 494
Shares outstanding	**Number of shares**	**4 629 335**	**4 618 869**
Nominal value per share	CHF	5.00	5.00
Share capital	**CHF**	**23 361 815**	**23 361 815**

23 Non-controlling interests

For one non-controlling interest there is a put and a call option. As from March 2014 the non-controlling shareholders are entitled to sell their share 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. As from March 2016 Rieter is entitled to buy the shares at an agreed minimum price (call option).

24 Financial debt

CHF million	Fixed-rate bond	Bank debt	Other financial debt	Total 2011	Total 2010
Duration					
less than 1 year	0.0	2.6	0.5	3.1	66.2
1 to 5 years	223.3	0.0	30.0	253.3	295.8
5 or more years	0.0	0.0	0.2	0.2	0.5
Total	**223.3**	**2.6**	**30.7**	**256.6**	**362.5**

By currency, financial debt is divided up as follows:

CHF million	2011	2010
CHF	252.7	276.4
EUR	0.0	27.8
USD	0.0	14.2
Other	3.9	44.1
Total	**256.6**	**362.5**

The fixed-rate bond of 250 million CHF was issued by Rieter Holding Ltd. on March 30, 2010 and has a five-year maturity (final maturity: April 30, 2015). The issue has a fixed coupon of 4.5% and is listed on the SIX Swiss Exchange. The market value of the bond outstanding was 230.2 million CHF at December 31, 2011.

On May 10, 2011 the bondholders' meeting, which was held in connection with the distribution of a special dividend (see note 32), resolved that the outstanding bond issue will be upheld in full.

25 Provisions

CHF million	Restructuring provisions	Personnel provisions	Guarantee and warranty provisions	Environment provisions	Other provisions	Total provisions
Provisions at December 31, 2010[1]	**48.8**	**75.4**	**54.2**	**8.5**	**82.8**	**269.7**
Deconsolidation Automotive Systems[2]	– 34.0	– 32.0	– 6.3	– 8.5	– 33.9	– 114.7
Disposals by divestments	0.0	0.0	0.0	0.0	– 0.3	– 0.3
Utilization	– 1.3	– 2.0	– 13.8	0.0	– 15.2	– 32.3
Release	0.0	0.0	– 1.1	0.0	– 6.6	– 7.7
Additions	0.0	1.2	16.2	0.0	12.3	29.7
Currency effects	– 0.2	– 0.7	– 0.2	0.0	– 0.4	– 1.5
Provisions at December 31, 2011	**13.3**	**41.9**	**49.0**	**0.0**	**38.7**	**142.9**
Thereof non-current	10.2	39.8	38.1	0.0	16.2	104.3
Thereof current	3.1	2.1	10.9	0.0	22.5	38.6

1. After reclassification of 13.8 million CHF from other provisions to personnel provisions (4.2 million CHF) and guarantee and warranty provisions (9.6 million CHF).
2. See note 32.

Restructuring provisions cover the legal and constructive obligations in connection with the restructuring program initiated in 2008. The faster than expected recovery of the markets in 2010 necessitated an adjustment of the timing of some restructuring projects. Consequently, some current restructuring provision had to be reclassified in 2010 to non-current. 1.3 million CHF were utilized in 2011 for structural adjustment projects in India and Germany. The remaining restructuring provisions will lead to an expected utilization of 3.1 million CHF in 2012 and 10.2 million CHF in 2013 to 2015.

Personnel provisions include the obligations in connection with defined benefit plans (see note 27), provisions for old-age part-time arrangements, long-service awards 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. Due to the significant sales increase of Business Group Spun Yarn Systems the additions of 16.2 million CHF exceeded the actual utilization of 13.8 million CHF in 2011. The non-current guarantee and warranty provisions of 38.1 million CHF are expected to result partly in a cash outflow in one or two years on average, i.e. in 2013 and 2014.

Environment provisions related entirely to the discontinued operations Automotive Systems.

Other provisions are made for onerous contracts (where the unavoidable direct costs of performance exceed the expected financial benefit) and for obligations relating to ongoing tax and legal cases for which the amount can only be reliably estimated. Non-current other provisions are expected to be utilized mainly in the years 2013 and 2014.

26 Other current liabilities

CHF million	2011	2010
Accrued holidays	8.5	19.0
Accrued sales commissions	21.7	21.5
Other accrued expenses	33.9	63.8
Negative replacement values of derivative financial instruments	0.2	1.0
Other short-term liabilities	27.0	71.2
Total	**91.3**	**176.5**

27 Pension plans

The expense for pension plans is included in employee costs.

Defined contribution plans

The expense for defined contribution plans amounted to 2.5 million CHF (2.2 million CHF in 2010).

Defined benefit plans

Defined benefit plans in the sense of IAS 19 exist mainly in Switzerland and Germany.

Funded status of defined benefit plans

CHF million	**2011**	**2010**
Actuarial present value of defined benefit obligation		
• unfunded plans	– 20.8	– 33.1
• funded plans	– 921.4	– 1 091.6
Defined benefit obligation at December 31	**– 942.2**	**– 1 124.7**
Fair value of plan assets	981.3	1 214.2
Surplus at December 31	**39.1**	**89.5**
Unrecognized actuarial gains and losses	6.8	20.1
Unrecognizable assets of pension plans (due to limit of IAS 19.58)	– 19.7	– 84.9
Net asset at December 31	**26.2**	**24.7**
Recognized in the balance sheet		
• as assets	56.2	69.4
• as personnel provisions	– 30.0	– 44.7

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

CHF million	**2011**	**2010**
Defined benefit obligation at January 1	**1 124.7**	**1 092.2**
Deconsolidation Automotive Systems[1]	– 154.4	0.0
Reductions due to divestments	0.0	– 2.3
Current service cost	11.4	13.8
Interest cost	29.4	36.2
Employee contributions	8.3	10.4
Actuarial gains / losses	– 35.3	44.1
Benefits paid	– 41.4	– 57.3
Currency effects	– 0.5	– 12.4
Defined benefit obligation at December 31	**942.2**	**1 124.7**

1. See note 32.

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

CHF million	2011	2010
Fair value of plan assets at January 1	**1 214.2**	**1 145.4**
Deconsolidation Automotive Systems[1]	– 128.3	0.0
Expected return on plan assets	43.3	46.9
Actuarial gains / losses	– 125.7	55.4
Employer contributions	10.9	17.4
Employee contributions	8.3	10.4
Benefits paid	– 41.4	– 57.3
Currency effects	0.0	– 4.0
Fair value of plan assets at December 31	**981.3**	**1 214.2**

1. See note 32.

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

in %	2011	2010
Equity	56	58
Debt	11	13
Real estate	26	22
Other	7	7

Pension costs of defined benefit plans

CHF million	2011	2010[1]
Current service cost	11.4	13.8
Interest cost	29.4	36.2
Expected return on plan assets	– 43.3	– 46.9
Recognized actuarial gains / losses	79.0	– 17.8
Impact of limit of IAS 19.58	– 65.9	30.6
Pension costs of defined benefit plans	**10.6**	**15.9**

1. Including discontinued operations in 2010.

The Group expects to contribute 15 million CHF to its defined benefit pension plans in 2012. The actual return on plan assets was -82.4 million CHF (+102.3 million CHF in 2010).

Actuarial assumptions

Weighted average in %	2011	2010
Discount rate	2.8	3.2
Expected return on plan assets	3.9	4.1
Future wage growth	1.3	1.4
Future pension growth	1.0	0.9

Additional disclosure

CHF million	2011	2010	2009	2008	2007
Defined benefit obligation	– 942.2	– 1 124.7	– 1 092.2	– 1 035.4	– 1 294.1
Plan assets	981.3	1 214.2	1 145.4	1 010.4	1 474.4
Surplus / deficit	**39.1**	**89.5**	**53.2**	**– 25.0**	**180.3**
Experience adjustment on plan liabilities	– 71.9	2.6	34.3	– 17.3	117.6
Experience adjustment on plan assets	– 125.7	55.4	144.2	– 482.4	26.8

28 Financial instruments

The following tables summarize all financial instruments according to the categories of IAS 39. With the exception of the bond (see note 24) the book values correspond, approximately, to the fair values.

CHF million	2011	2010
Cash (excluding time deposits)	**397.9**	**323.3**
Positive replacement values of derivative financial instruments[2]	0.6	6.5
Investments in non-consolidated companies[2]	1.2	0.8
Total financial assets at fair value through profit and loss	**1.8**	**7.3**
Time deposits with original maturities up to 3 months	10.4	28.6
Time deposits with original maturities between 3 and 12 months	1.3	2.9
Trade receivables	84.1	381.5
Other short-term receivables	31.7	61.6
Long-term interest-bearing receivables	3.7	4.8
Total loans and receivables	**131.2**	**479.4**
Securities available for sale[1]	6.0	4.2
Investments in non-consolidated companies[2]	10.9	81.5
Total available for sale financial assets	**16.9**	**85.7**
Total financial assets and derivatives	**547.8**	**895.7**

CHF million	2011	2010
Short-term financial debt	3.1	66.2
Long-term financial debt (without put option non controlling interests)	224.1	269.4
Put option non controlling interests[3]	29.4	26.9
Negative replacement values of derivative financial instruments[2]	0.2	1.0
Total financial debt and derivatives	**256.8**	**363.5**

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

Financial instruments measured at level 3 (according to IFRS 7.27) concern the following item:

In 2009 a group of non-controlling shareholders acquired a non-controlling interest in a subsidiary together with a put option on such non-controlling interest. The valuation of this put option is based on the expected future earnings development of the concerned subsidiary up to the earliest possible execution date. The value of the put option was discounted by 9.4% and recognized as a financial debt of 22.9 million CHF. In

2011 the financial debt was increased by 2.5 million CHF (2.4 million CHF in 2010) by debiting interest expenses. If the value of the put option had been discounted by 8.4% the recognized financial debt would have been 0.6 million CHF higher.

29 Other commitments

Some Group companies lease factory and office space under operating lease agreements. The lease expenditure charged to the income statement was 3.0 million CHF (3.7 million CHF in 2010). The leases have varying terms, escalation clauses and renewal rights.

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

CHF million	2011	2010
Up to 1 year	0.9	14.6
1 to 5 years	0.6	24.4
5 or more years	0.0	5.7
Total	**1.5**	**44.7**

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

30 Divestments

On July 1, 2011 Rieter sold Rieter-LMW Machinery Ltd., which was part of segment Spun Yarn Systems. The resulting divestment gain of 3.2 million CHF was recognized in other operating income. Rieter-LMW Machinery Ltd. did not generate any material third party sales.

On March 9, 2010 Rieter sold the non-wovens activities, which were part of the former segment Textile Systems. The resulting divestment gain of 4.5 million CHF 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 divestments were as follows:

CHF million	2011	2010
Non-current assets	5.2	0.4
Current assets (without cash and cash equivalents)	8.4	5.8
Liabilities	– 7.6	– 11.5
Non-controlling interests	– 4.3	0.0
Net disposed assets and liabilities	**1.7**	**– 5.3**
Gain on divestments	3.2	4.5
Cash flow	**4.9**	**– 0.8**

Furthermore, on June 30, 2010 Rieter sold Idea Group, which was part of the discontinued operations. There was no significant divestment loss.

31 Assets of disposal groups

On October 26, 2011 Rieter signed a contract for the sale of two manufacturing facilities in the Czech Republic, which are part of segment Spun Yarn Systems. The contract was closed on January 1, 2012 (see note 37).

In accordance with IFRS 5 the concerned assets were classified as a disposal group in the balance sheet.

CHF million	**2011**
Tangible fixed assets	4.2
Inventories	6.6
Total assets	**10.8**

There were no disposal groups at the end of 2010.

32 Discontinued operations Automotive Systems

On April 13, 2011 the Annual General Meeting of shareholders of Rieter Holding Ltd. approved the proposal by the Board of Directors to split the Rieter Group and to operate Rieter's Textile Systems and Automotive Systems divisions as separate listed companies. In order to effect this separation the shares in Automeum Holding Ltd. were distributed to the shareholders of Rieter Holding Ltd. as a special dividend on May 12, 2011. Autoneum Holding Ltd. is the parent company of all legal entities belonging to the former Rieter Automotive Systems segment.

In accordance with the applicable IFRS rules the liability to distribute the special dividend was recognized at the fair value of the assets to be distributed. The fair value was measured based on the valuation of the business at the time of the Annual General Meeting on April 13, 2011 of 486.9 million CHF. This valuation was subject to reasonableness tests based on the market capitalization of Autoneum Holding Ltd. on the SIX Swiss Exchange between May 13 and June 30, 2011. The difference between the carrying value of the dividend payable and the carring value of the net assets of the discontinued segment Automotive Systems was recognized in the income statement as a gain of 251.9 million CHF.

Details of the net results of the discontinued segment Automotive Systems were as follows:

CHF million	January 1 - May 12, 2011	January 1 - December 31, 2010
Sales	658.9	1 715.4
Expenses	– 652.8	– 1 739.0
Result before taxes	**6.1**	**– 23.6**
Income tax	– 5.4	– 17.7
Result after taxes	**0.7**	**– 41.3**
Attributable to shareholders of Rieter Holding Ltd.	– 2.7	– 56.1
Attributable to non-controlling interests	3.4	14.8
Gain from differences between carrying values of dividend liability and net assets	251.9	0.0
Reclassification of other components of comprehensive income to the income statement	– 91.7	0.0
Transaction costs	– 9.9	0.0
Total net result from discontinued operations	**151.0**	**– 41.3**

At the date of the distribution of the special dividend the balance sheet of the discontinued segment Automotive Systems was as follows:

CHF million	May 12, 2011
Non-current assets	425.3
Current assets (without cash and cash equivalents)	536.9
Cash and cash equivalents	100.3
Total assets	**1 062.5**
Equity attributable to shareholders of Rieter Holding Ltd.	235.0
Equity attributable to non-controlling interests	45.9
Total shareholders' equity	**280.9**
Liabilities	781.6
Total shareholders' equity and liabilities	**1 062.5**

33 Share-based compensation

Rieter has established a share purchase plan for its senior management. Between June 14 and June 30, 2011, 14 participants purchased 3 995 shares at a price of 189 CHF per share (11 342 shares at 222 CHF in 2010). The average market value of shares granted was 212.89 CHF (274.46 CHF in 2010). The shares cannot be sold for three years. In 2011 the costs resulting from the share purchase plan amounted to 0.1 million CHF (0.6 million CHF in 2010). The shares for this program were taken from the holdings of Rieter Holding Ltd.

In 2010 and prior years, 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 entitled the holder to purchase a share after two years at a defined price. The possibility to receive share options was discontinued on May 13, 2011.

As a consequence of the separation of the Rieter Group the restriction on sale of all shares, which had been acquired within the share purchase plans of prior years, was cancelled on March 22, 2011. All options could be executed or sold to Rieter Holding Ltd. on March 22, 2011.

Change in options granted

	Number of options 2011	Weighted average exercise price in CHF 2011	Number of options 2010	Weighted average exercise price in CHF 2010
Outstanding at January 1	**16 412**	**387.90**	**18 169**	**352.78**
Granted	0	0.00	1 445	273.00
Exercised	– 5 371	173.52	– 3 202	136.90
Buy-back	– 11 041	492.15	0	
Expired	0		0	
Outstanding at December 31	**0**		**16 412**	**387.90**
Exercisable at December 31	**0**		**11 041**	**492.15**

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

34 Related parties

Related parties include associated companies, members of the Board of Directors and the Group Executive Committee, employee benefit plans as well as companies controlled by significant shareholders. Transactions with related parties are generally conducted at arms' length.

Prosino S.r.l. constitutes an associated company because Rieter holds a 49% stake. In 2011 Rieter bought products worth 6.5 million CHF (4.6 million CHF in 2010) from Prosino S.r.l.

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

CHF million	2011	2010
Cash compensation	5.0	3.3
Employee benefit contributions	0.1	0.1
Social security	0.0	0.0
Share-based compensation	0.8	0.5
Other long-term benefits	0.0	0.0
Total	**5.9**	**3.9**

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 75 to 78.

Apart from the above mentioned purchases from Prosino S.r.l., the 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.

35 Net liquidity

Net liquidity at December 31 was as follows:

CHF million	2011	2010
Cash and cash equivalents	408.3	351.9
Marketable securities and time deposits	7.3	7.1
Short-term financial debt	– 3.1	– 66.2
Long-term financial debt	– 253.5	– 296.3
Net liquidity	**159.0**	**– 3.5**

36 Exchange rates for currency translation

		Average annual rates		Year-end rates	
CHF million		2011	2010	2011	2010
Brazil	1 BRL	0.53	0.59	0.50	0.56
China	100 CNY	13.71	15.40	14.90	14.20
Czech Republic	100 CZK	5.02	5.46	4.71	4.99
Euro countries	1 EUR	1.23	1.38	1.22	1.24
Hong Kong	100 HKD	11.39	13.42	12.09	12.04
India	100 INR	1.91	2.28	1.77	2.09
Taiwan	100 TWD	3.02	3.31	3.12	3.21
USA	1 USD	0.89	1.04	0.94	0.94

37 Events after balance sheet date

The contract regarding the sale of two manufacturing facilities in the Czech Republic (see note 31), which was signed in October 2011, was closed on January 1, 2012.

38 Approval for publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Board of Directors on March 20, 2012. They are also subject to approval by the Annual General Meeting of shareholders. No events have occurred up to March 20, 2012, 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, 2011

Country	Company	Currency	Capital	Group interest	Research & development	Sales/trading/services	Production	Management/financing
Belgium	Gomitex S.A., Stembert	EUR	100 000	100%		•	•	
Brazil	Graf Máquinas Têxteis Indústria e Comércio Ltda., São Paulo	BRL	10 220 000	100%		•	•	
	Rieter South America Ltda., São Paulo	BRL	3 287 207	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., Hong Kong	HKD	1 000	100%		•		
	Graf Cardservices Far East Ltd., Hong Kong	HKD	30 000	100%		•		
Czech Republic	Rieter CZ a.s., Ústí nad Orlicí	CZK	316 378 000	100%	•	•	•	
	Novibra Boskovice s.r.o., Boskovice	CZK	40 000 000	100%	•	•	•	
France	Bräcker S.A.S, Wintzenheim	EUR	1 000 000	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%		•		
India	Rieter India Pvt. Ltd., Koregaon Bhima	IND	34 901 990	74%		•	•	
Italy	Prosino S.r.l., Borgosesia[1]	EUR	50 000	49%		•	•	
Liechtenstein	RiRe Ltd., Vaduz	CHF	4 800 000	100%				•
Netherlands	Graf Holland B.V., Enschede	EUR	113 500	100%		•	•	
Switzerland	Rieter Management AG, Winterthur	CHF	5 000 000	100%				•
	Tefina Holding-Gesellschaft AG, Zug	CHF	5 000 000	100%				•
	Maschinenfabrik Rieter AG, Winterthur	CHF	8 500 000	100%	•	•	•	•
	Schaltag AG, Effretikon	CHF	400 000	100%	•	•	•	
	Hogra Holding AG, Freienbach	CHF	1 000 000	100%				•
	Graf + Cie AG, Rapperswil	CHF	1 000 000	100%	•	•	•	•
	Bräcker AG, Pfäffikon	CHF	1 000 000	100%	•	•	•	•
Taiwan	Rieter Asia (Taiwan) Ltd., Taipeh	TWD	5 000 000	100%		•		
Turkey	Rieter Textile Machinery Trading & Services Ltd., Esenler	TRY	25 000	100%		•		
USA	Rieter Corporation, Spartanburg	USD	1 249	100%		•		
	Graf Metallic of America Inc., Spartanburg	USD	50 000	100%		•		
Uzbekistan	Rieter Uzbekistan FE LCC, Tashkent City	USD	2 650 000	100%		•	•	

1. Associated company.

Report of the statutory auditor on the consolidated financial statements

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

As statutory auditor, we have audited the consolidated financial statements of Rieter Holding Ltd., which comprise the income statement, statement of comprehensive income, balance sheet, statement of cash flows, statement of changes in equity and notes (pages 32 to 67), for the year ended December 31, 2011.

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, 2011 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	Nicolas Mayer
Audit expert	
Auditor in charge	

Zurich, March 20, 2012

Income statement of Rieter Holding Ltd.

for the financial year from January 1 to December 31

CHF million	Notes	2011	2010
Income			
Income from investments	(1)	118.4	205.8
Income from marketable securities and interest income	(2)	– 2.2	– 1.9
Other income	(3)	5.1	7.3
Total income		**121.3**	**211.2**
Expenses			
Financial expenses	(4)	16.1	20.4
Administration expenses	(5)	21.5	5.8
Value adjustments, provisions	(6)	55.0	41.9
Total expenses		**92.6**	**68.1**
Net profit		**28.7**	**143.1**

Balance sheet of Rieter Holding Ltd.

at December 31, before appropriation of profit

CHF million	Notes	2011	2010
Assets			
Investments in and loans to subsidiaries	(7)	259.6	641.5
Non-current assets		**259.6**	**641.5**
Accrued income and prepayments	(8)	3.6	9.7
Receivables	(9)	55.4	106.7
Liquid funds	(10)	362.8	151.8
Current assets		**421.8**	**268.2**
Total assets		**681.4**	**909.7**
Shareholders' equity and liabilities			
Share capital		23.4	23.4
Legal reserves			
• General reserve	(11)	27.5	27.5
• Reserve for own shares	(12)	9.8	15.5
Reserve from capital contributions	(13)	129.4	130.6
Other reserves	(14)	6.6	139.6
Retained earnings	(15)		
• Balance brought forward		2.6	44.7
• Net profit for the year		28.7	143.1
Shareholders' equity		**228.0**	**524.4**
Long-term financial debt	(16)	250.0	250.0
Provisions	(17)	11.3	11.3
Non-current liabilities		**261.3**	**261.3**
Short-term liabilities	(18)	180.8	112.7
Accrued liabilities		11.3	11.3
Current liabilities		**192.1**	**124.0**
Liabilities		**453.4**	**385.3**
Total shareholders' equity and liabilities		**681.4**	**909.7**

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. Negative currency effects occurred due to the strong Swiss franc.

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. Generally lower interest rates and on average lower liabilities reduced the financial expenses.

5 Administration expenses

All costs related to the separation from Autoneum Holding Ltd. were borne by Rieter Holding Ltd. and included in administration expenses.

6 Value adjustments, provisions

In connection with the separation of the Group, Rieter Holding Ltd. waived a claim of 55 million CHF against Autoneum Holding Ltd. in April 2011.

7 Investments in and loans to subsidiaries

CHF million	2011	2010
Investments in subsidiaries	198.5	526.6
Loans to subsidiaries	61.1	114.9
Total	**259.6**	**641.5**

The changes in investments in and loans to subsidiaries are due to the separation of the Group. The main subsidiaries and associated companies are listed on page 67. These investments are held directly or indirectly by Rieter Holding Ltd.

8 Accrued income and prepayments

Accrued income and prepayments consist mainly of accrued interest and accrued financing costs.

9 Receivables

CHF million	2011	2010
Receivables from third parties	0.8	1.4
Receivables from subsidiaries	54.6	105.3
Total	**55.4**	**106.7**

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

10 Liquid funds

CHF million	2011	2010
Cash and cash equivalents	331.8	140.1
Marketable securities[1]	31.0	11.7
Total	**362.8**	**151.8**

1. Incl. own shares and repurchased bonds.

11 General reserve

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

12 Reserve for own shares

Shares held by all Group companies

	Number
Registered shares held at January 1, 2011	53 494
Purchases January to December 2011 (average price 267.75 CHF)	631
Sales January to December 2011 (average price 171.75 CHF)	11 097
Registered shares held at December 31, 2011	43 028

The average share prices were adjusted to the split of the share at May 13, 2011 . The reserve for own shares has been made at the acquisition cost of 9.8 million CHF. This amount was deducted from other reserves.

13 Reserve from capital contributions

CHF million	2011	2010
Opening balance	130.6	0.0
Reversal for distribution	– 0.2	0.0
Transfer to/from other reserves	– 1.0	130.6
Total	**129.4**	**130.6**

At the Annual General Meeting held on April 13, 2011, the shareholders decided to transfer 130.6 million CHF from other reserves to reserve from capital contributions. Thereof, the Swiss Federal Tax Administration approved 129.6 million CHF. Consequently, 1.0 million CHF were retransferred to other reserves in 2011.

14 Other reserves

CHF million	2011	2010
Opening balance	139.6	279.3
Reversal for distribution	– 139.6	0.0
Transfer from/to reserve for own shares	5.6	– 9.1
Transfer from/to reserve from capital contributions[1]	1.0	– 130.6
Total	**6.6**	**139.6**

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

15 Retained earnings

Including the balance brought forward and before the reversal of reserves, the Annual General Meeting has a total of 31.3 million CHF at its disposal (187.8 million CHF in 2010).

16 Long-term financial debt

On March 30, 2010 Rieter Holding Ltd. 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.

17 Provisions

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

18 Short-term liabilities

CHF million	2011	2010
Liabilities to Group companies	180.3	111.9
Liabilities to third parties	0.5	0.8
Total	**180.8**	**112.7**

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

19 Guarantees to third parties

CHF million	2011	2010
Guarantees	19.5	45.9

Guarantees to third parties consist of sureties issued to financial institutions for loans granted.

20 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, 2011:

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

According to the notification on May 12, 2011, Artemis Beteiligungen I AG, Franke Artemis Holding AG and Artemis Holding AG, Hergiswil, Switzerland, held 538 087 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 A/S, Randers, Denmark, held 201 724 shares.

21 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 42 to 45.

22 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 for 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 and the share purchase 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. The Board of Directors has not engaged independent consultants for elaborating the salary policy or the compensation program.

Remuneration of the Board of Directors

Members of the Board of Directors can choose whether to receive remuneration as cash or to take up the equal amount in 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 (April 18, 2012).

The remuneration of Erwin Stoller, Executive Chairman, comprises a fixed cash component, a fixed component settled in shares (the number of shares is calculated the same way as for the other Board members) and a performance-related cash component based on the operational and strategic targets set by the Board. For 2011, the performance-related cash component amounts to a maximum of 250’000 CHF. Erwin Stoller’s 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 cannot be done.

Remuneration of the Group Executive Committee

The remuneration of the Group Executive Committee consists of a basic salary, a performance-related component, and the opportunity to participate in the share purchase plan. The basic salary is derived from salaries paid for comparable positions in the markets relevant for Rieter (machine manufacturing). If the Group generates a consolidated net profit, the members of the Group Executive Committee are entitled to a performance-related component, which does not exceed 80% of the basic salary. The size of the performance-related component is based on weighted targets set annually in advance (EBIT [60%], RONOA [30%] and Free Cash Flow [10%]). An upper and a lower threshold are defined for each target. If the lower threshold is not reached, no compensation is paid for the respective target. Within the defined thresholds the performance-related component is calculated on a straight-line basis.

If the Group reports a consolidated net profit, the members of the Group Executive Committee can purchase Rieter shares in the following year at a variable discount in the context of the share purchase plan. 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 were 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 (EBIT, RONOA and Free Cash Flow). An upper and a lower threshold are defined for each target. The maximum discount is 40% of the market value of the Rieter shares if all upper thresholds are achieved. For 2011 the actual discount is 30%. In order to foster long-term ties between management and the company, the shares acquired in this way cannot be sold for three years.

The subscription period of the share purchase plan starts after the Annual General Meeting. As participation is voluntary, the resulting monetary benefit can only be determined and disclosed in the remuneration report 2012.

Total 2011 compensation to the members of the Board of Directors and the Group Executive Committee

	Cash compensation		Additional compensation[3]	Shares			Total
CHF	Fixed net	Variable net		Number	Value	Contri-bution to pension plans	
This E. Schneider, Vice-Chairman	0	0	5 354	894	150 000[1]	0	155 354
Dr. Jakob Baer	75 000	0	9 330	455	75 000[1]	0	159 330
Michael Pieper	0	0	5 326	608	100 000[1]	0	105 326
Hans-Peter Schwald	150 000	0	7 386	0	0	0	157 386
Dr. Dieter Spälti	65 000	0	9 195	387	65 000[1]	0	139 195
Peter Spuhler	0	0	5 389	596	100 000[1]	0	105 389
Non-executive members of the Board of Directors	**290 000**	**0**	**41 980**	**2 940**	**490 000[1]**	**0**	**821 980**
Erwin Stoller, Executive Chairman of the Board of Directors	600 000	200 000	462 436	953	150 000[1]	44 000	1 456 436
Members Board of Directors	**890 000**	**200 000**	**504 416**	**3 893**	**640 000[1]**	**44 000**	**2 278 416**
Members Group Executive Committee[4]	**1 579 918**	**931 587**	**1 069 691**	**1 964**	**0[2]**	**67 973**	**3 649 169**

1. For the purpose of inclusion in the total compensation, the shares are valued at 157.51 CHF (average trading price 20 days prior to the March 2012 Board meeting [= 187.60 CHF] less a 16% discount for the three-year restriction on sale).
2. The shares are valued at 0 CHF (average trading price during subscription period [=189 CHF] less a 16% discount for the three-year restriction on sale [=185.06 CHF]).
3. Including the performance-based bonus for the successful listing of Autoneum shares at the SIX Swiss Exchange and monetary benefits in relation with the unlocking of all shares and options of prior share purchase plans (see additional fees and payments).
4. Including compensations during the corresponding period of office as well as compensations for former members of the Group Executive Committee, who left Rieter as a result of the separation as of May 13, 2011.

Total 2010 compensation to the members of the Board of Directors and the Group Executive Committee

	Cash compensation		Shares		Options			Total
CHF	Fixed net	Variable net	Number	Value	Number	Value	Contri-bution to pension plans	
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 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.

Additional fees and payments

The Annual General Meeting 2011 decided to separate Rieter's Textile Systems and Automotive System divisions into two independent companies. The legal and financial separation of the Group and the subsequent successful listing of the Autoneum share at the SIX Swiss Exchange within a very short time was only possible with a high personal engagement of all involved parties. In addition, the organizational separation necessitated the new staffing of various functions.

Therefore the Board of Directors set a performance-based bonus in 2011, which amounts to an average of 57% of the annual cash compensation for the Executive Chairman and the members of the Group Executive Committee. In order to ensure continuity of leadership on a mid-term basis in both companies, the bonus will only be paid in 2012 if the concerned employment contracts are not terminated.

In the context of the separation, all shares and options of prior share purchase plans were unlocked as at March 22, 2011. The monetary benefit of 0.2 million CHF derived from the difference between the market value at March 22, 2011 and the value discounted over the remaining period of sales restriction, is included in additional fees and payments.

Lawyer's office Staiger, Schwald & Partner Ltd. provided services in total of 0.3 million CHF in 2011. The services were invoiced at market conditions.

Remuneration of former members of the Board of Directors and the Group Executive Committee

In the context of the separation, all shares and options of prior share purchase plans were unlocked. This created a monetary benefit of 0.2 million CHF to former members of the Board of Directors and the Group Executive Committee, who had left Rieter before January 1, 2011.

There is an agreement with Hartmut Reuter, former CEO of Rieter, that 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. In 2011 the agreed conditions were met so that after publication of the annual report, 0.15 million CHF will be paid out.

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, 2011 (Art. 663c, Swiss Code of Obligations)

	Shares
Erwin Stoller, Chairman	10 086
Dr. Jakob Baer	984
Michael Pieper	538 187
This E. Schneider	1 142
Hans-Peter Schwald	3 513
Dr. Dieter Spälti	2 980
Peter Spuhler	895 965
Total Board of Directors	**1 452 857**

	Shares
Thomas Anwander	1 260
Peter Gnägi	4 617
Joris Gröflin	502
Werner Strasser	460
Total Group Executive Committee	**6 839**

In 2011 the Board of Directors decided to discontinue the option program. As of December 31, 2011 there were no options outstanding.

Disclosure of the equity holdings of the Board of Directors and the Group Executive Committee (including related persons) 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
This E. Schneider[1]	116	0	0	0	0	0
Hans-Peter Schwald	2 340	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**

Proposal of the Board of Directors

for the appropriation of profit and distribution of a dividend out of the reserve from capital contributions

CHF	2011
Net profit for the year	28 748 023
Retained earnings brought forward from previous year	2 567 196
Reversal of reserve from capital contributions	28 034 178
Retained earnings at the disposal of the Annual General Meeting	**59 349 397**
Proposal	
Distribution of a dividend	28 034 178
Carried forward to new account	31 315 219
	59 349 397

1. Shares held by Rieter Holding Ltd. at the time of distribution are not entitled to dividend. The amout distributed as well as the reversal of reserve from capital contributions will be reduced accordingly at the time of distribution.

The Board of Directors proposes that a dividend of 6.00 CHF be paid per registered share, this to be taken from the reserve from capital contributions. As a consequence, the dividend distribution is to be effected without deduction of 35% capital gains withholding tax (as provided for in Art. 5 section 1bis of the Swiss Federal Law on Withholding Tax (VStG)).

Report of the statutory auditor on the financial statements

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

As statutory auditor, we have audited the financial statements of Rieter Holding Ltd., which comprise the income statement, balance sheet and notes (pages 70 to 80 and page 67), for the year ended December 31, 2011.

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, 2011 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	Nicolas Mayer
Audit expert	
Auditor in charge	

Zurich, March 20, 2012

Review 2007 to 2011

Consolidated income statement

		2011	2010	2009	2008	2007
Sales	CHF million	1 060.8	870.4	1 956.3	3 142.5	3 930.1
• Europe	CHF million	124	119	–	–	–
• Asia	CHF million	791	595	–	–	–
thereof China	CHF million	151	103	–	–	–
thereof India	CHF million	175	146	–	–	–
thereof Turkey	CHF million	209	117	–	–	–
• Americas	CHF million	124	128	–	–	–
• Africa	CHF million	22	28	–	–	–
Corporate output	CHF million	1 042.5	841.4	1 846.5	2 971.7	3 822.8
Operating result before interest, taxes, depreciation and amortization (EBITDA)	CHF million	146.5	115.6	– 45.7	– 52.6	437.0
• in % of corporate output		14.1	13.7	– 2.5	– 1.8	11.4
Operating result before interest and taxes (EBIT)	CHF million	112.6	75.7	– 186.6	– 312.1	278.7
• in % of corporate output		10.8	9.0	– 10.1	– 10.5	7.3
Net result[1]	CHF million	119.0	82.9	– 217.5	– 396.7	211.5
• in % of corporate output		11.4	9.9	– 11.8	– 13.3	5.5
Return on net assets (RONA) in %		19.8	–	– 19.5	– 28.1	13.8

Consolidated statement of cash flows

		2011	2010	2009	2008	2007
Net cash from operating activities	CHF million	80.4	99.2	– 1.6	57.2	394.9
Net cash used for investing activities	CHF million	– 0.9	– 20.5	– 33.2	– 35.8	– 118.5
Net cash from financing activities	CHF million	– 25.1	140.2	– 27.8	8.8	– 309.5
Number of employees at year-end		**4 695**	**4 395**	**12 761**	**14 183**	**15 506**

As of 2010 without Automotive Systems.

Consolidated balance sheet

		2011	2010	2009	2008	2007
Non-current assets	CHF million	322.0	802.2	886.5	929.3	1 192.0
Current assets	CHF million	789.4	1 166.9	927.6	1 159.6	1 655.4
Equity attributable to Rieter shareholders	CHF million	379.3	556.9	587.2	689.9	1 309.4
Equity attributable to non-controlling interests	CHF million	8.4	70.7	68.7	56.3	60.1
Non-current liabilities	CHF million	400.1	557.1	399.3	418.9	321.6
Current liabilities	CHF million	323.6	784.4	759.0	923.8	1 156.3
Total assets	CHF million	1 111.4	1 969.1	1 814.1	2 088.9	2 847.4
Shareholders' equity in % of total assets		34.9	31.9	36.2	35.7	48.1
Net liquidity	CHF million	**159.0**	**– 3.5**	**10.4**	**– 36.8**	**144.5**

As of 2011 without Automotive Systems.

1. Net result before deduction of non-controlling interests.

Information for investors

		2011	2010	2009	2008	2007
Share capital	CHF million	23.4	23.4	23.4	21.4	22.3
Net profit of Rieter Holding Ltd.	CHF million	28.7	143.1	1.0	2.9	67.4
Gross distribution	CHF million	28.0[1]	0.0	0.0	0.0	62.8
Payout ratio (in % of net profit)[2]	in %	23	0	0	0	32
Market capitalization (December 31)	CHF million	653	1 566	1 085	651	1 966
Market capitalization in % of						
• sales	in %	62	61	55	21	50
• equity attributable to Rieter shareholders	in %	172	281	185	94	150

As of 2011 without Automotive Systems.

1. See proposal of the Board of Directors on page 80.
2. Net profit continuing operations after deduction of non-controlling interests.

Data per share (RIEN)

			2011	2010	2009	2008	2007
Share prices on the SIX Swiss Exchange	high	CHF	267[2]	343	270	505	717
	low	CHF	133	244	95	151	478
Price / earnings ratio	high		10.3	60.0	– 5.3	– 4.8	14.9
	low		5.1	42.7	– 1.9	– 1.4	9.9
Shareholders' equity (Group) per registered share		CHF	81.93	120.57	126.42	181.25	332.86
Tax value per registered share		CHF	141.10	339.00	233.50	171.00	500.00
Gross distribution per registered share		CHF	6.00[1]	0.00	0.00	0.00	15.00
Gross yield on registered shares	high	in %	2.2[1]	0.0	0.0	0.0	2.1
	low	in %	4.5[1]	0.0	0.0	0.0	3.1
Earnings per share		CHF	25.86	5.72	– 50.96	– 106.18	48.19

As of 2011 without Automotive Systems.

1. See proposal of the Board of Directors on page 80.
2. Source: Bloomberg (after separation).

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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Rainer Wolfsberger, Zurich

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Rieter Holding Ltd.
CH-8406 Winterthur
T +41 52 208 71 71
F +41 52 208 70 60

Corporate Communications
T +41 52 208 70 32
F +41 52 208 70 60
media@rieter.com

Investor Relations
T +41 52 208 70 15
F +41 52 208 70 60
investor@rieter.com

www.rieter.com