Setting a world in motion

Annual Report 2012

Important dates:

- Annual General Meeting 2013: April 18, 2013
- Semi-Annual Report 2013: July 25, 2013
- Publication of sales 2013: February 4, 2014
- Deadline for proposals regarding the agenda of the Annual General Meeting: February 21, 2014
- Results press conference 2014: March 21, 2014
- Annual General Meeting 2014: April 17, 2014

Group report

Financial report

Consolidated financial statements

Financial statements of Rieter Holding Ltd.

Appendix

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 10 countries, the company employs a global workforce of some 4 700, about 27% 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 727.6 million CHF in the 2012 financial year and accounted for 82% of Rieter's sales with 3 542 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 1 150 and accounted for 160.9 million CHF (18%) of Rieter's sales.

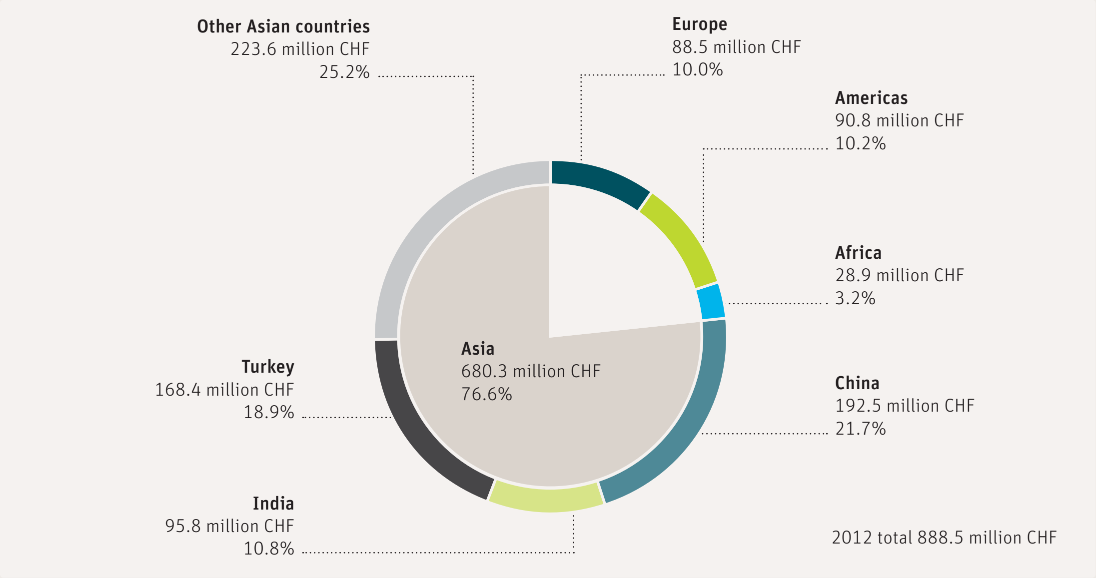
Financial highlights

CHF million		2012	2011	Change in %
Rieter				
Orders received		839.7	958.3	– 12
Sales		888.5	1 060.8	– 16
Operating result before strategic projects, interest and taxes		58.9	134.5	– 56
• in % of sales		6.6	12.7	
Operating result before interest and taxes (EBIT)		33.6	112.6	– 70
• in % of sales		3.8	10.6	
Net profit[1]		26.5	119.0	
• in % of sales		3.0	11.2	
Investments in tangible fixed assets and intangible assets		81.6	57.3	42
Total assets		1 070.1	1 111.4	– 4
Shareholders' equity before appropriation of profit		376.8	387.7	– 3
Number of employees at year-end[2]		4 720	4 695	1
Business Group Spun Yarn Systems				
Orders received		695.0	775.0	– 10
Sales		727.6	861.7	– 16
Operating result before interest and taxes (EBIT)		30.5	81.2	– 62
• in % of sales		4.2	9.4	
Business Group Premium Textile Components				
Orders received		144.7	183.3	– 21
Sales		160.9	199.1	– 19
Total segment sales		232.3	263.9	– 12
Operating result before interest and taxes (EBIT)		16.0	35.1	– 54
• in % of total segment sales		6.9	13.3	
Rieter Holding Ltd.				
Share capital		23.4	23.4	
Net profit		12.0	28.7	– 58
Dividend		11.7[3]	28.0	
Number of registered shares, paid-in		4 672 363	4 672 363	
Average number of registered shares outstanding		4 609 778	4 625 281	
Share price (high / low)[4]	CHF	198/123	267/133	
Number of registered shareholders on December 31		6 972	7 262	– 4
Market capitalization on December 31		736.7	653.2	13
Data per registered share				
Earnings per share[1]	CHF	6.40	25.86	– 75
Equity (group)[5]	CHF	80.45	81.93	– 2
Dividend (Rieter Holding Ltd.)	CHF	2.50[3]	6.00	

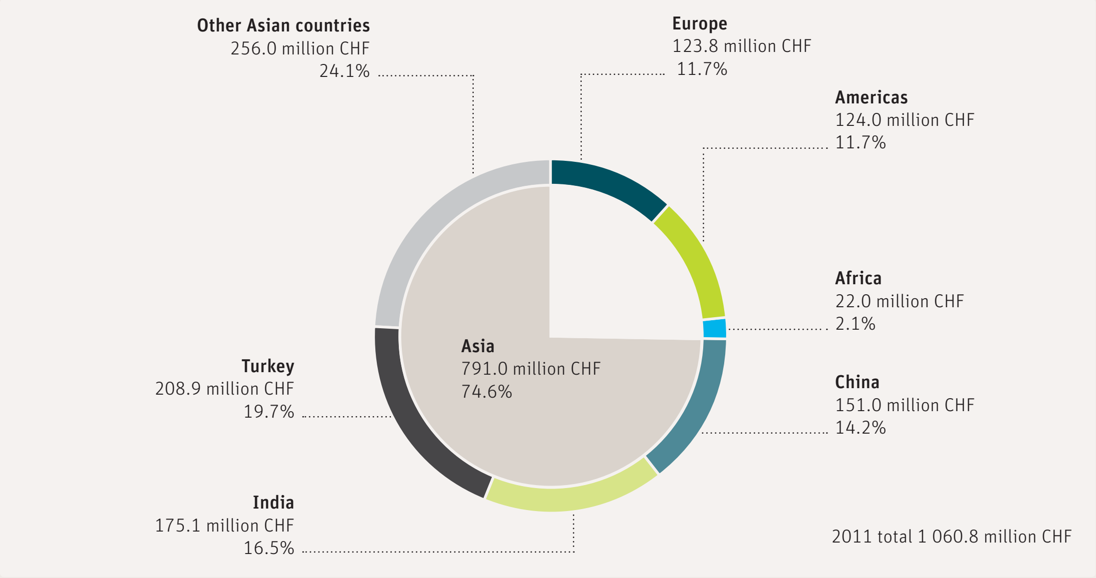
1. From continuing operations.
2. Excluding apprentices and temporary employees.
3. See proposal of the Board of Directors on page 84.
4. Source: Bloomberg.
5. Shareholders' equity attributable to shareholders of Rieter Holding Ltd. per share outstanding at December 31.

Sales by geographical region

Rieter 2012



Rieter 2011



Rieter business year 2012: stronger position in weaker market environment

The Rieter Group held its own in 2012 against difficult market conditions worldwide. Order intake for the year as a whole declined by 12% to 839.7 million CHF, although Rieter received more orders in the second half-year than in the first. As expected, sales totaling 888.5 million CHF were 16% lower than in 2011. Mainly due to lower sales and also the 2012/2013 investment program announced by Rieter in spring 2012, the operating result (EBIT) declined to 33.6 million CHF or 3.8% of sales (2011: 10.6% at 112.6 million CHF). Net profit was 26.5 million CHF or 3.0% of sales (2011: 11.2% at 119.0 million CHF). For the 2012 financial year the Board of Directors proposes a dividend of 2.50 CHF to be paid out of the reserves from capital contributions. Despite adverse economic conditions, Rieter strengthened its market position during the year under review and closed with a sound balance sheet. Rieter has reached its half-time goals in the investment program for further growth, and is well on course with the respective projects. In 2013, Rieter will focus all the more on greater profitability.

Dear shareholder

The business year 2012 was beset by uncertainties in all major economic regions worldwide. Textile machinery and component suppliers were faced with additional industry- and country-specific challenges in their main markets of China and India. Spinning mills in India were still affected during the first half of the year with the consequences of raw materials price distortions, but during the second half-year, demand started to improve particularly in northern India. In China the spinning mills suffered as a result of government regulated raw material prices. Overall, Rieter's spinning mill customers recorded a more stable trend of business in the second half of 2012 and operated profitably. The business environment in Rieter's yarn customer markets remained volatile, however, and the banks upheld their caution with regard to project financing.

It was clearly apparent in 2012 that in this unfavorable environment, Rieter is well positioned with the existing product range and is heading in the right direction with its innovation and expansion strategy focused on Asia. Today the company is considerably better off with market-specific products than during the economic slump of 2008/09. Rieter strengthened its overall market position in 2012. In the major markets of China and India, machinery and components offering higher productivity and quality, with lower energy consumption and with a higher degree of automation, are in greater demand than ever.

Orders received and sales

Order intake by the Rieter Group in the year under review declined by 12% to 839.7 million CHF. This was also due to cancellations of orders totaling about 60 million CHF. The second half-year nevertheless brought 435.6 million CHF order intake, 8% higher than in the first half of the year. The main reason for this positive development was market revival in India and a slightly increased demand in Turkey, in the South East Asian countries, and in North and South America. In China, Rieter attained a good level of order intake despite a more challenging environment. During this period several large orders for machine deliveries in the 2013 financial year were also received. Both business groups recorded lower order intake, but the decline was less pronounced with Spun Yarn Systems (machinery business) than with Premium Textile Components (components supply business). Rieter orders on hand per year-end totaled around 550 million CHF.

Rieter Group sales for 2012 totaled 888.5 million CHF, 16% less than in prior year. The downturn became more pronounced in the second half-year, when sales were 18% lower than in the first semester. This was due to weak order intake at the beginning of 2012, orders postponed by customers until the 2013 financial year, and weaker components supply business. Spun Yarn Systems business group sales declined by 16% to 727.6 million CHF despite substantially higher sales in China compared to the previous year. Premium Textile Components sales declined by 19% to 160.9 million CHF.

Asia accounted for 77% of Rieter sales in the 2012 financial year.

Per December 31, 2012 Rieter employed a workforce of 4 720, as against 4 695 one year earlier. There are mainly two reasons for this slight increase in the Rieter workforce despite declining business volume. On the one hand Rieter is expanding local presence in India and China, and on the other hand there has been an ongoing need for specialist personnel in Switzerland and Germany to provide strategic project support. Furthermore, Rieter also employed temporary personnel amounting per year-end to 985 employees or 17% of the total workforce.

Operating result and net profit

The Rieter operating result for 2012 before interest and taxes (EBIT) totaled 33.6 million CHF or 3.8% of sales (2011: 112.6 million CHF or 10.6% of sales). The difficult market environment and associated decline of business volume did not deter Rieter from continuing with its investment program. EBIT for the year under review included expenditures totaling 25.3 million CHF for the investment program 2012/2013 (see separate box page 11). These expenditures impacted the EBIT margin by less than 2.8 percentage points, well within expectations. EBIT prior to deductions for strategic projects therefore amounted to 58.9 million CHF, or 6.6% of sales. In addition to the decline of business volume, a less favorable product mix also impacted EBIT development. Components supply business contributed less to Rieter's sales than in prior year, and machinery sales margins declined. This was attributable on the one hand to the lower demand for high-margin products, and on the other hand to the cyclic and currency-related higher pressure on pricing. The operating result was enhanced by gains totaling 6.0 million CHF from the sale of Czech production plants in 2012, as announced in 2011.

Investments in tangible fixed assets and intangible assets totaled 81.6 million CHF, a good 51.6 million CHF of which in strategic projects. Regular investments of 30.0 million CHF in replacements and rationalization thus amounted to 3.4% of sales, in line with the long-term average. Rieter accelerated research and development with 42.7 million CHF or 4.8% of sales (2011: 39.5 million CHF).

Net profit for the year under review amounted to 26.5 million CHF or 3.0% of sales (2011: 11.2% of sales at 119.0 million CHF, of which 47.3 million CHF from reduction of Rieter's equity interest in Lakshmi Machine Works). This includes gains of 17.6 million CHF from sale of the residual equity interest in Lakshmi Machine Works and Lakshmi Ring Travellers. Earnings per share for 2012 thus amounted to 6.40 CHF. Return on net assets (RONA) was 6.7% (2011: 19.8%).

Dividend

Rieter Holding Ltd. posted a net profit of 12.0 million CHF for the 2012 financial year (28.7 million CHF in 2011). The Board of Directors will propose to the Annual General Meeting on April 18, 2013 that a dividend of 2.50 CHF be paid for the 2012 financial year out of the reserve from capital contributions (2011: 6.00 CHF). This corresponds to a distribution ratio of 39% of earnings per share. Rieter aims for an average distribution ratio of about 30% over the years, taking into consideration various factors such as the trend of business, liquidity needs and market prospects.

Spun Yarn Systems Business Group

Order intake of 695.0 million CHF by the Spun Yarn Systems Business Group in 2012 was 10% lower than a year earlier (2011: 775.0 million CHF). Sales by Spun Yarn Systems were 16% lower at 727.6 million CHF (2011: 861.7 million CHF), declining mainly in the second half-year. This is attributable on the one hand to low order intake in the first half of 2012, and on the other hand to some orders not being delivered until 2013 partly as a consequence of customer postponements.

The sound balance sheet enables Rieter to finance its 2012 / 2013 investment program from own resources.

The operating result (EBIT) of 81.2 million CHF (9.4% of sales) posted by Spun Yarn Systems for 2011 declined in 2012 to 30.5 million CHF (4.2% of sales). The lower profitability than in prior year is attributable to the lower business volumes, a less favorable product mix in machinery business, and lower spare parts sales. The cyclically lower demand for new machinery, resulting in more intense competition among manufacturers, has led to pricing pressure in particular on business invoiced in Swiss francs. This likewise led to a margin decline, which could only be compensated in part by the production costs savings realized. Furthermore, the majority of strategic project costs arising in connection with the 2012/2013 investment program were charged to Business Group Spun Yarn Systems, especially to locations in Switzerland.

Premium Textile Components Business Group
Order intake by the Premium Textile Components Business Group declined by 21% from prior year to 144.7 million CHF in 2012 (2011: 183.3 million CHF). This development is mainly attributable to weaker demand for deliveries to Chinese and Indian textile machinery manufacturers. Sales declined by 19% to 160.9 million CHF (2011: 199.1 million CHF), while segment sales – i.e. including internal deliveries to Spun Yarn Systems – declined less by 12% to 232.3 million CHF (2011: 263.9 million CHF).

Premium Textile Components‘ EBIT for the year under review amounted to 16.0 million CHF, corresponding to an operating margin of 6.9% of segment sales (2011: 35.1 million CHF or 13.3% of segment sales). Profitability declined mainly because of lower volumes, particularly in third-party business with textile machinery manufacturers and in spinning mill retrofit business.

Balance sheet and finances
Rieter has a sound balance sheet with an unchanged equity ratio of 35% (2011: 35%). In particular the high investment and project costs in connection with the 2012/2013 investment program, and a slight increase in net working capital, resulted in negative free cash flow of 32.3 million CHF. Due to postponements of orders in the second half-year, some machines completed by year-end were not yet delivered. In 2012 dividends totaling 27.7 million CHF were paid out of the reserve from capital contributions. Net liquidity had reduced per 31.12.2012 to 95.6 million CHF.

Rieter‘s financial stability is additionally ensured by a 250 million CHF bond issue until 2015. This assures Rieter of strategic flexibility and long-term financing of the company‘s development.

Progress with the 2012/2013 investment program
Although the substantial investment program announced early in 2012 (see box page 11) placed challenging demands on those involved, all half-time goals for the year were nevertheless reached. The overall program implementation is now going ahead and financially well on course. By year-end 2012 Rieter had taken the following important steps:

Expansion in Asia: Rieter made rapid progress with capacity expansion in its two key markets of China and India. In Changzhou, China, Rieter upgraded the existing plant and completed the first construction phase of a large second plant. This was inaugurated in June and is now fully operational. Both plants are at a high level of the operational excellence for which Rieter strives worldwide. In India, Rieter created additional capacity with an existing plant rebuild and a new plant building in Koregaon Bhima. The plant in Wing was optimized and has likewise made good progress in operational excellence. The expansion plan is scheduled for completion per year-end 2013.

Rieter has reached all intermediate goals of the 2012/2013 investment program.

Innovation: Rieter worked intensively on innovations in 2012 and launched new machines and technology components to improve yarn quality, increase productivity and enhance energy efficiency. Selective and controlled market launch of the J 20 airjet spinning machine went ahead, and a customer in China commissioned the first complete line of J 20 airjet spinning machines. Well received by customers were among others the E 80 comber and a wide range of new Bräcker, Graf, Novibra and Suessen brand technology components.

Process improvements: Rieter was also well on course with process improvement investment priorities per year end 2012. Apart from the projects for global standardization and IT support of business processes, Rieter made good progress with organizational realignment to a global working approach, in particular with regard also to manufacturing. By concentrating assembly work at the Winterthur location in Switzerland, and with projects in Germany and the Czech Republic, Rieter pushed forward operational excellence in Europe as well.

Expertise in the textile value chain – a competitive advantage

Ongoing innovations 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 competitive position globally. The company is well placed to uphold 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 international presence

With its long-standing industrial experience, its strong Rieter brands in the machinery business as well as in the components business with the brands 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. During 2012 Rieter's specialists attended not only the three large trade fairs ITM in Istanbul, ITMA Asia in Shanghai and ITME in Mumbai, but also several other important trade fairs and symposia in specific market areas. Rieter's development result presentations make a major contribution to improving know-how throughout the industry. In great demand are for example Rieter's seminars for yarn suppliers and designers to deepen their understanding of the four spinning systems and the resultant yarn properties. Rieter thereby meets a widespread customer need for know-how exchange along the entire value chain. This also results in valuable feedback to the Rieter product development.

Rieter's unique technology leadership in the spinning machinery market is unchallenged. This is clear from the high access rates to the Rikipedia online database for yarn production information, high readership of Rieter articles in the specialized media, Rieter's close contacts with universities, specialized institutes and leading fiber producers, and from the invitations received to presentations in all parts of the world.

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

Board of Directors and Annual General Meeting
Shareholders at the Annual General Meeting held on April 18, 2012 elected Dr. Jakob Baer, Michael Pieper, This E. Schneider, Hans-Peter Schwald and Peter Spuhler to the Board of Directors for a further three-year term of office. This E. Schneider continues as Vice-Chairman of the Board and Lead Director.

By approving an amendment to the articles of association, shareholders enabled the creation for two years of new authorized capital to the maximum amount of 2.5 million CHF in the form of up to 500 000 registered shares. This measure will provide Rieter with greater financial flexibility for exploiting strategic opportunities, such as acquisitions, without delay.

At the Annual General Meeting to be held on April 18, 2013, Dr. Dieter Spälti is standing for re-election to the Board of Directors for a further three-year term of office.

Focus on sustainable profitability improvement
The expansion of Rieter locations in China and India will be completed by the end of 2013 as announced. The projects for improving global processes are likewise well advanced. With completion of the 2012/2013 investment program and in order to improve the ability to respond to the market cycles typical in this industry, Rieter aims again to lower the break-even threshold in both business groups.

Rieter expects further market growth above all in Asia, and must therefore adjust capacities accordingly at the long-established locations. The expected consequence is personnel reductions totaling about 5% of the global workforce, both temporary and permanent, over a period of 24 months predominantly in Switzerland. Although this will be achieved in part through natural fluctuation, early retirements, and reduction of temporary personnel engaged specifically for the investment program, the remaining workforce will also be subject to adjustments. Consultations with the respective staff committees will be held at the appropriate time. Rieter is also focusing on margin improvement through production costs savings, optimal capacity management and greater price discipline, in order to reach the announced midterm goals.

Outlook
Rieter business activities are broadly based worldwide. Heterogeneous market development is expected for 2013. Market development depends amongst other factors also on currency exchange rate developments, consumer sentiment in Europe and North America, fiber consumption growth in Asia, and raw material prices. The slight improvement in market conditions in the second semester of 2012 continued in the first two months of 2013. Full-year sales for this financial year are expected to reach at least a similar level as in 2012. As a result, operating profit (EBIT) is expected around 2012 levels before disposal gains. This includes strategic project costs from the investment program 2012/2013 of about 20-25 million CHF. Operating profitability in the first semester 2013 is expected to be lower due to less attractive inherent margins in the current order backlog. Rieter expects a slightly positive net profit in 2013. Investment activity from the finalization of the investment program 2012/2013 will lead to capital expenditure of around 35-40 million CHF on top of ongoing replacement demand.

Thanks
In 2012 the implementation of our investment program placed heavy demands on the Rieter employees and management, who at the same time were challenged by economic downturn in our main markets. The Board of Directors and the Executive Committee pay tribute to our workforce and employee representatives for their efforts, commitment and flexibility. Rieter wishes to thank all customers, suppliers and other business partners for their loyalty, and its shareholders for their continued confidence.

Winterthur, March 20, 2013

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

Investment program 2012/2013 for further growth

Rieter expects that global demand for short staple fibers (natural fibers / staple man-made fibers) will grow by an average of 2.3% annually until 2030. The additional spinning capacity this will require, the replacement demand and the trend toward greater automation, especially in the Chinese and Indian markets, will have a positive impact on demand for spinning machinery and components.

Against this background Rieter is aiming for overall annual average growth of 5%, half of which should be organic. Rieter's strategic targets are to retain its leadership in the premium segment and also to expand its position in the local markets in China and India.

In the implementation Rieter is focusing on
Expansion in Asia: Further build-up of capacity in China and India;
Innovation: Increased focus on air-jet spinning, improvement of yarn quality, productivity and energy efficiency of machinery and components;
Process improvements: Operational excellence, global standardization and IT support of business processes.

Rieter plans investments totaling around 140 million CHF in 2012/2013 for rapid expansion in Asia, product innovations, and the further improvement of global processes. In 2012, 51.6 million CHF were invested, and another 25.3 million CHF impacted the result as strategic project costs (2.8% of sales). These investments were in addition to the regular investments for replacements.

Through this investment program, Rieter is seeking to achieve an EBIT margin of at least 9% over the demand cycles and greater than 12% in peak years.

Business Group Spun Yarn Systems

Orders received
695.0 (775.0)
million CHF

Sales
727.6 (861.7)
million CHF

Operating result before interest and taxes
30.5 (81.2)
million CHF

Number of employees at year-end
3 542 (3 594)

Capital expenditure
62.7 (47.3)
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 posted lower order intake for 2012, although the second half of the year brought a more positive trend. Spun Yarn Systems made great progress in building up local presence in China and India. The stronger market position of this business group in China puts Spun Yarn Systems in an excellent position for long-term growth.

Orders received by this business group declined by 10% in 2012 to 695.0 million CHF, (2011: 775.0 million CHF). After slow order intake early in the year due to unsatisfactory customer earnings, 11% more orders were received by Spun Yarn Systems in the second half-year than in the first six months.

Demand was broadly based worldwide. Rieter has long been well-anchored in all markets thanks to a strong sales organization and good representations. The majority of orders received by Spun Yarn Systems in 2012 were from China, followed by Turkey, India and other Asian countries. The Turkish market was still affected at the beginning of 2012 by restrained consumer spending in Europe, but the second half of the year brought a modest increase in demand. Despite a challenging environment and lower volumes in important markets in 2012, Spun Yarn Systems upheld its strong position and expanded particularly in the key market of China. This was not only thanks to systematic localization, but also because yarn quality, energy efficiency, raw material yield and automation play an increasingly important role today, also in China.

Spun Yarn Systems Business Group sales declined by 16% in the year under review to 727.6 million CHF (2011: 861.7 million CHF). This decline was mainly in the second half of the year, due on the one hand to lower order intake in the first half-year, and on the other hand to some orders not being delivered in 2012 because of postponements requested by customers. In general there was a significant increase in customer postponements and changes of order.

The Spun Yarn Systems operating result (EBIT) of 81.2 million CHF (9.4% of sales) in 2011 declined in 2012 to 30.5 million CHF (4.2% of sales). This lower profitability is attributable to the smaller business volume, a product mix with less favorable margins, and lower spare parts sales. Furthermore, the majority of Rieter's strategic project costs were charged to the Spun Yarn Systems business group.

Progress in investment program implementation
Funds allocated to the 2012/2013 investment program were mainly utilized for expansion in Asia and for improving business processes. The latter are being aligned to the global orientation of Spun Yarn Systems in order to enhance flexibility and transparency for the benefit of customers, reduce tied-up capital and throughput time, and save costs accordingly.

Expansion in Asia: The second Changzhou plant in China, inaugurated in June 2012, is not only the most modern, but also the flagship plant of this business group with regard to operational excellence. In 2012, the Rieter company in China was officially renamed "Rieter China" and is therefore of fully established repute throughout the country. Similarly, the new Koregaon Bhima plant in India will in future provide local customers with locally manufactured Spun Yarn Systems products. The foundations of success are built on global cooperation in all areas, including product development. While the principles are worked out in Europe, suitable adjustments have to be made locally. This enables a product portfolio that is adapted to the respective market but is nevertheless standardized.

Innovations: For final spinning processes, where most energy is consumed, the G 32 and G 35 ring-spinning machines, K 45 compact spinning machine and R 60 rotor spinning machine are energy-saving leaders. The E 80 comber launched in 2012 is the only such machine on the market that customers themselves can optimize for quality, productivity or material yield. With regard to automation, Spun Yarn Systems offers the fastest and most dependable ring-spinning doffer, the only automated comber, comprehensive transport automation solutions, and the “SPIDERweb” information system. Further development of the airjet spinning machine is aimed at a wider application range with regard to yarn count and raw material, thus exploiting greater market potential. The latest Spun Yarn Systems innovations are not restricted to machinery, but have also made their mark in spare parts business. All in all, this business group launched more than 30 new products in 2012 that offer significant customer benefit in terms of spinning process improvements. The well-filled Spun Yarn Systems product pipeline promises a good flow of important innovations for the years to come.

Rieter is world leader in energy-saving final spinning technology.

Process improvements: Spun Yarn Systems made good progress in 2012 with the worldwide Operational Excellence initiative. This promotes high quality standards, punctual and complete deliveries with no missing parts, shorter throughput times, discipline and good order. Product costs were continuously reduced during the year under review, and there is further savings potential for the years to come. The global business process standardization project is well on schedule.

Marketing and communication

The “Made by Rieter” campaign highlights Rieter’s global commitment to product quality and worldwide “Comfort of Competence” customer support, irrespective of product manufacturing or service location. The regular customer surveys conducted by Spun Yarn Systems showed a further increase in customer satisfaction during 2012.

The world keeps spinning.
With Rieter at the forefront.

With a heritage that is unparalleled, Rieter has been a key figure in Swiss industry for 218 years. And as the world's leading manufacturer of products for spinning processes, Rieter is taking another step forward with its investment program.

This investment program pursues three goals: drive expansion in Asia, launch product solutions that are innovative and customer-oriented, and optimize business processes. That's Rieter's response to markets and customer behavior patterns that are in constant motion: to change with the times and set new standards that continue to shape the world of textiles.

Moving forward. Understanding local needs.
Expansion in Asia

Rieter is expanding its presence in the growing markets of Asia by investing in local capacities in China and India. In doing so, Rieter is responding to a growing need for textiles and the demand for uncompromising quality. And is deepening its understanding of local markets while gaining significant ground in the dynamic, aspiring markets of Asia.

Grand opening in Changzhou
High-ranking politicians and representatives from the textiles industry in China and Switzerland were on hand to celebrate the opening of the new Rieter manufacturing site in Changzhou, China.

Greater capacity in Asia
Rieter is expanding its capacity for the production of spinning machines in India and China. At the heart of this expansion is the modern, efficient production of spinning boxes for semi-automatic rotor spinning machines at the Changzhou plant.

63 %

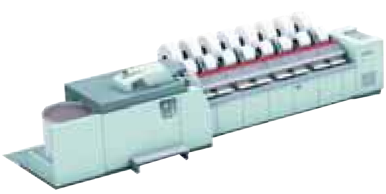
of global capacity

63 % of the world's spindle capacities are in India and China. With its investment program, Rieter is laying the foundation for strengthening its market position and increasing its profits.

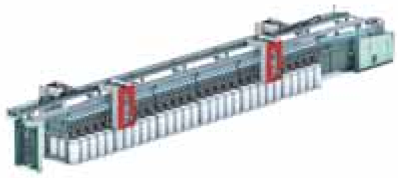
Inspiring customers. For a successful future.

Product innovation

Rieter is a mover in the world of textile industry – and thus in the world of its customers. At the core of its developments is not only a broad range of products, but also the flexibility and drive to understand and meet customer demands – and give them the products they require to meet the needs of the textile markets. That's the key to a successful future. With Rieter as a partner.



Leading combing technology
The E 80 comber sets new standards in the world of textiles. It meets the most stringent demands in productivity, quality, and economy – and combines low energy consumption with a production capacity of up to two tons per day.



Trend-setting spinning processes
With its optimized air-jet spinning process, Rieter delivers trailblazing manufacturing capacities of up to 450 meters per minute. Its new J 20 air-jet spinning machine has up to 120 spinning units, and enables the energy-efficient production of high-quality air-jet spun yarns.

10 %

less energy through new technology

For decades Rieter has focused on developing new products that save energy. One example of this is its E 80 comber, which uses 10 % less energy than its predecessor. Saving energy is not only good for the environment, but also an effective means of long-term cost reduction in the production of yarns. That translates into a tremendous advantage for every spinning mill that uses Rieter machines.

Perfecting workflows. Achieving potential.

Optimizing processes

Rieter is constantly striving to achieve optimal processes across all its sites – from product development to the commissioning of the spinning machines. This lays a lasting foundation of precision, quality, and durability for all its products worldwide. To make the best possible use of this potential, Rieter brings together international teams from all its sites around the world to work even more closely.

Working together – across the globe
Rieter's global network thrives on the close, solution-oriented teamwork of its people across all its sites. That's how Rieter ensures that local knowledge and know-how is shared around the world. And it's this global expertise that makes Rieter a strong global competitor.

Operational excellence
One key to the global optimization of all manufacturing sites is "operational excellence". Rieter is constantly working to streamline all its processes to achieve shorter lead times and greater flexibility in manufacturing. For example, seamless local processes have led to 33 % shorter lead times in the production of the J 20 air-jet spinning machine.

33 %

shorter lead times

All manufacturing sites around the world follow one common goal: to manufacture the highest quality spinning machines and components. The manufacturing network benefits from global production planning, sophisticated logistics, optimized manufacturing and procurement processes, and stringent quality management.

Business Group Premium Textile Components

Orders received
144.7 (183.3)
million CHF

Sales
160.9 (199.1)
million CHF

Segment sales
232.3 (263.9)
million CHF

Operating result before interest and taxes
16.0 (35.1)
million CHF

Number of employees at year-end
1 150 (1 075)

Capital expenditure
18.7 (9.8) 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)

Business Group Premium Textile Components (components supply business) posted a marked cyclic decline in sales for 2012 and significantly lower profitability accordingly. This particularly applied to business with machinery manufacturers in China and India.

The Premium Textile Components business group was confronted during the year under review with steeply declining demand in nearly all main markets. Premium Textile Components supplies machinery manufacturers, also including Rieter, and spinning mills with technology components for staple fiber machines. Both market segments were affected in 2012 by weak demand, which was particularly evident among machine manufacturers in China and India. Chinese spinning mills suffered above all from declining textile exports to Europe and the USA, while the investment climate in India was affected by power supply problems and economic policy interventions in raw materials prices.

Premium Textile Components upheld its market positioning in this difficult environment. The business group order intake declined in 2012 by 21% to 144.7 million CHF (2011: 183.3 million CHF). Particularly significant was the lower volume of orders from textile machinery manufacturers and for spinning mill retrofits. Business with wearing parts for spinning mills developed more dynamically on the whole.

Premium Textile Components enhanced its offering for spinning mill customers with long-life components ensuring constant yarn production quality. Thanks to its broadly based regional anchorage, Premium Textile Components was able to profit from Asia's emerging markets such as Pakistan, Vietnam and Bangladesh. This business group is well positioned globally for rapid response in new markets involving the spinning industry. Also in North and South America as well as Africa, Premium Textile Components won substantial orders during the year under review. By focusing in general on all countries with a spinning industry, Premium Textile Components is less dependent on individual markets.

Premium Textile Components also posted lower sales for the 2012 financial year: a 19% decline to 160.9 million CHF (2011: 199.1 million CHF). Segment sales – i.e. including internal deliveries to Spun Yarn Systems – declined less by 12% to 232.3 million CHF (2011: 263.9 million CHF).

The Premium Textile Components business group operating result for 2012 was 16.0 million CHF, corresponding to a margin of 6.9% of segment sales (2011: 35.1 million CHF or 13.3% of segment sales). Profitability declined mainly because of lower business volumes, the lower proportion of high-margin products, and to some extent due to strategic project costs.

Strategic priorities

Expansion in Asia: Premium Textile Components aims to further expand its spinning mill business, which is less affected by market cycles than business with textile machinery manufacturers. Also in the growing domestic markets of China and India, spinning mills are modernizing in order to meet the growing demand for high-quality yarns. This constitutes a driving factor for Premium Textile Components' business. In order to speed up customer deliveries, Premium Textile Components invested globally during the year under review in expanding its distribution, production and logistics capacities, particularly in Asia. In this connection Premium Textile Components set up a spinbox production line in Changzhou for R 923 semi-automatic rotor spinning machines. Furthermore, this business group has systematically expanded its supplier network with Chinese partners. And in order to further expedite business with Chinese spinning mills, Premium Textile Components merged all related activities into its own Chinese company in July 2012.

Innovation: With its Premium Textile Components business group, Rieter is one of the world's largest suppliers of components for short-staple spinning mills. In 2012, new products meeting important customer needs were launched under all four brands of this business group. Premium Textile Components innovations are launched to improve yarn properties and raw material utilization and to enable cost-efficient production in spinning mills. The Suessen S 60 spinbox, a key component of the Rieter R 60 rotor spinning machine, enables significantly greater productivity thanks to fundamental technical innovations. It furthermore ensures higher quality yarn properties and considerably reduces energy consumption. Innovative Graf brand products enable customers to increase their productivity with higher roving quality. The Novibra range of new spindles focuses mainly on lower energy consumption. During the year under review Bräcker launched some attractive new spinning ring and traveler products.

In 2012, Premium Textile Components launched market-specific innovations focusing on energy saving, greater productivity, and higher yarn quality.

Process improvements
During 2012 Premium Textile Components worked intensively and according to plan on standardizing business processes, particularly at locations in the Czech Republic and Germany, to ensure that customers worldwide, both external and internal, can be served efficiently.

Highly specialized production facilities – a competitive advantage
Apart from global marketing competence, the highly automated production of technology components to the greatest precision and in extremely large batches is a capability that constitutes the Premium Textile Components business group's decisive competitive advantage. In some cases the group companies develop their own machines for component production, using proprietary manufacturing technologies. Their production plants excel with comprehensive manufacturing know-how and a highly qualified workforce of long-standing specialists. The decisive production processes are carried out in-house to ensure consistently first-class quality however large the batch size, process security and the optimal protection of valuable know-how. For China and India Premium Textile Components develops products tailored to local market needs. These too are largely manufactured in the highly specialized European production facilities.

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 regulations governing the organization of the company. 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, 2012. 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 remuneration report can be found on page 79 ff. of the Annual 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. 36 companies worldwide were members of the Rieter Group as of December 31, 2012. A list of the main companies included in the scope of consolidation of Rieter Holding Ltd. can be found on page 71. 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, 2012, Rieter was aware of the following shareholders with more than 3% of all voting rights in the company:

- PCS Holding AG, Weiningen, Switzerland, with 19.14 %
- Artemis Beteiligungen I AG, Franke Artemis Holding AG and Artemis Holding AG, Hergiswil, Switzerland, with 11.52 %
- First Eagle Investment Management, LLC, Delaware, USA, with 3.92 %
- Sparinvest Holding A/S, Randers, Denmark, with 3.45%

Refer to page 79 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_de.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, 2012, 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, 2012, was 736.7 million CHF. Each share entitles the holder to one vote at general meetings of shareholders.

Contingent and authorized share capital

The Board of Directors is authorized to increase the share capital by up to 2 500 000 CHF through the issue of up to 500 000 fully paid registered shares with a par value of 5.00 CHF each at any time until April 18, 2014. Increases by parts of this amount are permitted. Subscriptions for and purchases of the new shares are subject to the restrictions in §4 of the Articles of Association.

The Board of Directors stipulates the amount of issue, the type of contribution, the date of issue, the conditions for exercising subscription rights and the start of dividend entitlement. The Board of Directors can also issue new shares by means of firm underwriting by a bank or a third party and subsequent offer to existing shareholders. The Board of Directors is then authorized to restrict or preclude trading in subscription rights. The Board of Directors can allow unexercised subscription rights to lapse, can place them or shares for which subscription rights have been granted but not exercised on market terms and conditions or otherwise utilize them in the interests of the company. The Board of Directors is also authorized to limit or cancel subscription rights of existing shareholders and allocate them to third parties in the event of their use a) for acquiring companies, parts of companies or investments in companies, or for financing or refinancing such transactions or financing new investment projects by the company; or b) for the purpose of broadening the shareholder structure in certain financial or investor markets, for the participation of strategic partners or in connection with the listing of the shares on domestic or foreign stock markets.

Rieter Holding Ltd. had no contingent share capital outstanding on December 31, 2012.

Changes in share capital

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 one 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.

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	2015	2013
Educational and professional background	Dipl. Masch.-Ing. ETH Zurich; with Rieter since 1978; 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; member of the Group Executive Committee of Rieter Holding Ltd., Winterthur since 1992; Executive Chairman of Rieter Holding Ltd., Winterthur since 2009.	Lic. oec. HSG; Chairman and CEO of listed company SAFAA, Paris, France, 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		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

2015

Dr. iur. University of Berne; lawyer; CEO of KPMG Switzerland until September 30, 2004; independent consultant since 2004.

Director and Chairman of the Board, Stäubli Holding AG, Pfäffikon, Schwyz SZ; Director: Adecco S.A., Chéserex, until April 24, 2012; Swiss Re, Zurich; Allreal Holding AG, Baar; Barry Callebaut AG, Zurich.

Chairman of the audit committee

Non-executive

Michael Pieper (1946)
Director
Swiss national

Director since 2009

2015

Lic.oec. HSG; owner and Chief Executive Officer of the Franke Artemis Group.

Director: Berenberg Bank (Schweiz) AG, Zurich; Hero AG, Lenzburg; Forbo Holding AG, Baar; Adval Tech Holding AG, Niederwangen; Autoneum Holding AG, Winterthur; with the Franke Artemis Group since 1988 and its owner and Chief Executive Officer since 1989.

Non-executive

Hans-Peter Schwald (1959)
Director
Swiss national

Director since 2009

2015

Lic. iur. HSG; lawyer; Chairman and managing partner in the legal practice of Staiger, Schwald & Partner AG, Zurich, Berne und Basel.

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

Member of the audit committee and the nomination and compensation committee

Non-executive

Peter Spuhler (1959)
Director
Swiss national

Director since 2009

2015

Majority shareholder and CEO of Stadler Rail AG, Bussnang.

Chairman of the Board: Stadler Rail AG, Bussnang; Stadler Bussnang AG, Bussnang; Aebi-Schmidt Holding AG, Burgdorf, PCS Holding AG, Weiningen, and of several other companies of the Stadler Rail Group; Director: Walo Bertschinger Central AG, Zurich; DSH Holding AG, Weiningen, WPP AG, Einsiedeln, Autoneum Holding AG, Winterthur. Member of the Swiss federal parliament (Nationalrat) from January 1, 1999 to December 31, 2012.

Non-executive

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 2012 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., General Counsel of Rieter Holding Ltd., has been Secretary to the Board of Directors since 1993; he is not a member of the Board of Directors.

Election and term of office

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

The Annual General Meeting held on April 18, 2012, elected Dr. Jakob Baer, Michael Pieper, This E. Schneider, Hans-Peter Schwald and Peter Spuhler to the Board of Directors for a further three-year term of office.

The term of office of Dr. Dieter Spälti expires at the Annual General Meeting to be held on April 18, 2013. He is standing for re-election.

Internal organization

The Board of Directors is responsible for supervisory management of the Rieter Group and the group companies. It exercises a supervisory function over the persons who have been entrusted with the management of the business. It takes decisions on all transactions assigned to it by law, the Articles of Association and the management regulations. It draws up the Annual Report, prepares the Annual General Meeting and makes the necessary arrangements for implementing the resolutions adopted by the Annual General Meeting. The Board of Directors has the following decision-making authority:

- composition of the business portfolio and the 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 among 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 nomination and compensation committee to assist it in its work. However, decisions are taken by the Board of Directors as a whole

The Board of Directors meets at least six times a year at the invitation of the Chairman, usually for half a day. The Board of Directors met for ten meetings in the 2012 financial year. In addition, three telephone conferences of the whole Board were also held. All members of the Board of Directors attended all meetings of the Board, with the exception of one absence due to illness. 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 facilities in China. 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. In exceptional cases external consultants can also be invited for discussion of certain items on the agenda.

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 self-assessment.

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

In the 2012 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 2012. 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. 14 regular audits and two special audits were performed in 2012. 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 2012. 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 is also informed about succession plans for the Board of Directors and senior management and the associated development steps.

The committee met for three regular meetings and one extraordinary meeting in 2012. Each meeting lasted half a day. All committee members attended these meetings. The Lead Director chairs the nomination and compensation committee when issues concerning the Executive Chairman are discussed.

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 and the Group Executive Committee 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 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. The Group Executive Committee usually meets monthly. Eleven meetings were held in 2012, each lasting between half a day and a full day.

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; Member of the Executive Committee, ITMF (International Textile Manufacturers Federation).

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.

Risk management
The description of the risk management process and statements on financial risks can be found on pages 46 to 49 of the Annual Report.

Sustainability Report
Rieter published in 2012 for the first time a separate Sustainability Report for the reporting period January to December 2011. The Rieter Sustainability Report 2011 is available online. The next report will be issued in August 2013.

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, 2012

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.

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.

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 79 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 shareholder's 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 in person 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.

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. The statutory auditors are elected by the Annual General Meeting each year upon a motion proposed by the Board of Directors. Stefan Räbsamen has officiated as lead auditor for the Rieter mandate since the 2012 financial year. The change in lead auditor complies with legal provisions stipulating such a change every seven years.

Audit fees

PwC and other auditors charged the Rieter Group approximately 0.9 million CHF in the 2012 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 2012 amounted to 0.2 million CHF and concerned mainly tax consulting.

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. Rieter also cultivates dialog with investors and the media at special events. 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. 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.

Ad-hoc announcements
The push and pull links for disseminating ad-hoc announcements are published in compliance with the directive on ad-hoc publicity (www.rieter.com) and can be subscribed at the following address: www.rieter.com/en/subscription/

Important dates:

• Annual General Meeting 2013	April 18, 2013
• Semi-Annual Report 2013	July 25, 2013
• Publication of sales 2013	February 4, 2014
• Deadline for proposals for inclusion on the agenda of the Annual General Meeting	February 21, 2014
• Results press conference 2014	March 21, 2014
• Annual General Meeting 2014	April 17, 2014

Contacts for queries regarding Rieter:

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

for the media:
Cornelia Schreier, Head 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	2012	%*	2011	%*
Sales	(4)	**888.5**	**100.0**	**1 060.8**	**100.0**
Change in semi-finished and finished goods		0.3	0.0	36.4	3.4
Own work capitalized		4.8	0.5	5.4	0.5
Material costs		– 412.1	– 46.4	– 497.8	– 46.9
Employee costs	(5)	– 278.9	– 31.4	– 302.3	– 28.5
Other operating expenses[1]	(6)	– 167.6	– 18.9	– 184.8	– 17.4
Other operating income		31.8	3.6	28.8	2.7
Depreciation and amortization	(7)	– 33.2	– 3.7	– 33.9	– 3.2
Operating result before interest and taxes (EBIT)		**33.6**	**3.8**	**112.6**	**10.6**
Share of profit of associated companies	(33)	0.4		0.8	
Gain on sale of investments	(8)	17.6		50.3	
Financial income	(9)	2.2		8.1	
Financial expenses	(10)	– 18.7		– 33.8	
Profit before taxes		**35.1**	**4.0**	**138.0**	**13.0**
Income taxes	(11)	– 8.6		– 19.0	
Net profit[2]		**26.5**	**3.0**	**119.0**	**11.2**
Result of discontinued operations	(31)	0.0		151.0	
Net profit (incl. discontinued operations)		**26.5**		**270.0**	
Attributable to shareholders of Rieter Holding Ltd.		29.5		267.2	
Attributable to non-controlling interests		– 3.0		2.8	
Earnings per share in CHF					
Continuing operations	(13)	6.40		25.86	
Discontinued operations	(13)	–		31.91	
Total		**6.40**		**57.77**	
Diluted earnings per share in CHF					
Continuing operations	(13)	6.39		25.86	
Discontinued operations	(13)	–		31.91	
Total		**6.39**		**57.77**	

* In % of sales.
1. Revised (see paragraph “Revision and correction of presentation” on page 40).
2. Continuing operations.
The notes on pages 39 to 71 are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

CHF million	Notes	2012	2011
Net profit (incl. discontinued operations)		**26.5**	**270.0**
Currency translation differences		– 6.1	– 30.0
Financial instruments available for sale:			
Change in fair value		4.7	– 17.1
Income taxes on change in fair value		3.2	13.9
Realized results through income statement		– 11.7	– 50.3
Realized impairment through income statement	(10)	0.0	2.9
Realized income taxes through income statement		0.0	9.0
Transfer of currency translation differences to income statement:			
Separation Automotive Systems	(31)	0.0	91.7
Others (net investments in foreign operations)	(10)	0.0	7.3
Total other comprehensive income		**– 9.9**	**27.4**
Total comprehensive income		**16.6**	**297.4**
Attributable to shareholders of Rieter Holding Ltd.		20.0	301.0
Attributable to non-controlling interests		– 3.4	– 3.6

The notes on pages 39 to 71 are an integral part of the consolidated financial statements.

Consolidated balance sheet

CHF million	Notes	December 31, 2012	December 31, 2011
Assets			
Tangible fixed assets	(14)	258.3	227.6
Intangible assets	(15)	20.1	9.5
Investments in associates	(33)	2.7	2.3
Other non-current assets	(16)	68.5	76.1
Deferred tax assets	(11)	6.7	6.5
Non-current assets		**356.3**	**322.0**
Inventories	(17)	229.3	234.8
Trade receivables	(18)	91.1	84.1
Other receivables	(19)	41.5	44.1
Assets of disposal groups	(30)	0.0	10.8
Marketable securities and time deposits	(20)	9.3	7.3
Cash and cash equivalents	(21)	342.6	408.3
Current assets		**713.8**	**789.4**
Assets		**1 070.1**	**1 111.4**
Shareholders' equity and liabilities			
Equity attributable to shareholders of Rieter Holding Ltd.		371.8	379.3
Equity attributable to non-controlling interests	(23)	5.0	8.4
Total shareholders' equity		**376.8**	**387.7**
Long-term financial debt	(24)	249.6	253.5
Deferred tax liabilities	(11)	32.3	42.1
Provisions	(25)	104.7	104.3
Other non-current liabilities		0.1	0.2
Non-current liabilities		**386.7**	**400.1**
Trade payables		97.3	86.4
Advance payments from customers		79.8	89.8
Short-term financial debt	(24)	6.7	3.1
Current tax liabilities		7.2	14.4
Provisions	(25)	37.8	38.6
Other current liabilities	(26)	77.8	91.3
Current liabilities		**306.6**	**323.6**
Liabilities		**693.3**	**723.7**
Shareholders' equity and liabilities		**1 070.1**	**1 111.4**

The notes on pages 39 to 71 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

CHF million	Notes	Share capital	Treasury shares	Financial instruments available for sale	Currency translation differences	Reserves	Total attributable to Rieter shareholders	Attributable to non-controlling interests	Total consolidated equity
At January 1, 2011[1]		**23.4**	**– 15.5**	**45.2**	**– 121.9**	**625.7**	**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	– 41.6	75.4	0.0	33.8	– 6.4	27.4
Total comprehensive income		**0.0**	**0.0**	**– 41.6**	**75.4**	**267.2**	**301.0**	**– 3.6**	**297.4**
Distribution of shares of Autoneum Holding Ltd. as special dividend:									
Fair value of distributed assets	(31)	0.0	0.0	0.0	0.0	– 486.9	– 486.9	0.0	– 486.9
Derecognition of non-controlling interests	(31)	0.0	0.0	0.0	0.0	0.0	0.0	– 45.9	– 45.9
Special dividend on treasury shares		0.0	4.1	0.0	0.0	1.1	5.2	0.0	5.2
Dividend to non-controlling interests[2]		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	(32)	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.1
Change in holding of treasury shares		0.0	1.6	0.0	0.0	1.4	3.0	0.0	3.0
Total contributions by and distributions to owners of the company		**0.0**	**5.7**	**0.0**	**0.0**	**– 484.3**	**– 478.6**	**– 58.7**	**– 537.3**
At December 31, 2011		**23.4**	**– 9.8**	**3.6**	**– 46.5**	**408.6**	**379.3**	**8.4**	**387.7**
Net profit		0.0	0.0	0.0	0.0	29.5	29.5	– 3.0	26.5
Total other comprehensive income		0.0	0.0	– 3.8	– 5.7	0.0	– 9.5	– 0.4	– 9.9
Total comprehensive income		**0.0**	**0.0**	**– 3.8**	**– 5.7**	**29.5**	**20.0**	**– 3.4**	**16.6**
Distribution of dividend from reserves from capital contribution	(22)	0.0	0.0	0.0	0.0	– 27.7	– 27.7	0.0	– 27.7
Share-based compensation	(32)	0.0	1.2	0.0	0.0	– 0.3	0.9	0.0	0.9
Change in holding of treasury shares		0.0	1.8	0.0	0.0	– 2.5	– 0.7	0.0	– 0.7
Total contributions by and distributions to owners of the company		**0.0**	**3.0**	**0.0**	**0.0**	**– 30.5**	**– 27.5**	**0.0**	**– 27.5**
At December 31, 2012		**23.4**	**– 6.8**	**– 0.2**	**– 52.2**	**407.6**	**371.8**	**5.0**	**376.8**

1. Revised (see paragraph "Revision and correction of presentation" on page 40).
2. Dividend to non-controlling interests in 2011 relate to the discontinued operations Automotive Systems.

The notes on pages 39 to 71 are an integral part of the consolidated financial statements.

Consolidated statement of cash flow

CHF million	Notes	2012	2011
Net profit[1]		**26.5**	**119.0**
Interest income	(9)	– 1.8	– 6.9
Interest expenses	(10)	15.4	17.1
Income taxes	(11)	8.6	19.0
Depreciation and amortization of tangible and intangible fixed assets	(7)	33.2	33.9
Gain related to divestments of businesses	(30)	– 6.0	– 3.2
Gain on sale of investments	(8)	– 17.6	– 50.3
Other non-cash income and expenses		– 15.6	0.0
Change in inventories		9.2	– 55.2
Change in receivables		– 7.2	35.5
Change in provisions		0.0	1.9
Change in trade payables		11.7	– 15.0
Change in advance payments by customers and other liabilities		– 19.5	15.3
Dividends received		0.4	0.4
Interest received		1.8	6.9
Interest paid		– 12.1	– 14.6
Taxes paid		– 17.7	– 23.4
Net cash from operating activities[1]		**9.3**	**80.4**
Net cash from operating activities of discontinued operations		0.0	– 70.3
Total net cash from operating activities (incl. discontinued operations)		**9.3**	**10.1**
Capital expenditure on tangible and intangible assets	(14/15)	– 81.6	– 57.3
Proceeds from disposals of tangible and intangible assets		5.7	3.7
Proceeds from sale of investments (after local taxes)		17.8	47.3
Investments in other non-current assets		– 0.1	– 0.7
Proceeds from disposals of other non-current assets		1.2	0.6
Purchase / sale of marketable securities and time deposits		– 1.8	0.6
Divestments of businesses	(30)	17.2	4.9
Net cash used for investing activities[1]		**– 41.6**	**– 0.9**
Net cash from investing activities of discontinued operations		0.0	– 20.6
Total net cash from investing activities (incl. discontinued operations)		**– 41.6**	**– 21.5**
Dividend paid to shareholders of Rieter Holding Ltd.	(22)	– 27.7	0.0
Sale / purchase of treasury shares		0.3	1.1
Proceeds from short-term financial debt		3.2	0.3
Proceeds from long-term financial debt		0.0	0.1
Repayments of long-term financial debt		– 7.6	– 26.6
Net cash from financing activities[1]		**– 31.8**	**– 25.1**
Net cash from financing activities of discontinued operations		0.0	3.5
Repayment of Group liabilities by Autoneum		0.0	193.1
Cash balance of Autoneum at date of distribution as special dividend	(31)	0.0	– 100.3
Net cash from financing activities (incl. discontinued operations)		**– 31.8**	**71.2**
Currency translation differences		– 1.6	– 3.4
Change in cash and cash equivalents		**– 65.7**	**56.4**
Cash and cash equivalents at beginning of the year	(21)	**408.3**	**351.9**
Cash and cash equivalents at end of the year	(21)	**342.6**	**408.3**

1. Continuing operations.
The notes on pages 39 to 71 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.

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.

In the year under review, the following amended standards became effective: Amendment to IFRS 7 "Financial instruments: disclosures on transfers of financial assets" and Amendment to IAS 12 "Income taxes: deferred tax accounting for investment properties". The adoption of these amended standards 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 from continuing use 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 and tax courts, respectively. 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 acquisition method. Intercompany transactions are eliminated.

Holdings of 20 to 49% where Rieter can exercise a significant influence 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.

Subsidiaries and associated companies of Rieter are listed on page 71.

Changes in the scope of consolidation
The sale of two manufacturing facilities changed the scope of consolidation in the year under review. The impact of this transaction on the consolidated financial statements is shown in note 30 (page 66).

Revision and correction of presentation
"Sales" of 1 060.8 million CHF presented in the 2011 financial statements correspond to sales revenue as defined in IAS 18. Items like commissions to third parties, bad debt losses and outbound freight were presented as "Sales deductions". In 2012, these items are included in "Other operating expenses" as they have rather the nature of cost. Accordingly, the 2011 presentation of "Other operating expenses" was corrected from -124.7 million CHF to -184.8 million CHF. This restatement had no impact on sales revenue as defined in IAS 18, operating result before interest and taxes, net profit or the consolidated balance sheet.

In connection with the amendment of the law concerning the distribution of capital contributions, a corresponding distribution in 2012, and the aim to enhance transparency, the presentation of changes in consolidated equity has been revised. In accordance with IAS 32, reacquired Rieter shares are deducted at cost from equity. In the 2011 financial statements such shares were presented in column "Own shares" of the consolidated equity statement at their par value of 5.00 CHF. The acquisition costs in excess of par value were debited to "Retained earnings". In 2012, the entire acquisition costs are shown in column "Treasury shares". This presentation enables a clear assessment of the impact of transactions with treasury shares on equity. Cumulative currency translation differences and valuation reserves on financial instruments available for sale were presented in the past as part of "Valuation reserves". In 2012, these two components of equity are presented for the first time separately. Equity categories in the 2011 financial statements "General legal reserve", "Valuation reserves" and "Retained earnings" are combined in 2012 and presented as "Reserves". The new presentation allows a clearer understanding of changes in equity.

In accordance with IAS 8 the presentation of treasury shares and reserves was restated in the opening balance sheet as of January 1, 2011:

CHF million	Share capital	Treasury shares	General legal reserve	Valuation reserves	Retained earnings	Financial instru-ments available for sale	Currency translation differences	Reserves	Total at-tributable to Rieter share-holders
At December 31, 2010	**23.4**	**– 0.2**	**27.5**	**189.6**	**316.6**	**0.0**	**0.0**	**0.0**	**556.9**
New presentation of treasury shares	0.0	– 15.3	0.0	0.0	15.3	0.0	0.0	0.0	0.0
Separate presentation of reserves on available for sale financial instru-ments	0.0	0.0	0.0	– 45.2	0.0	45.2	0.0	0.0	0.0
Separate presentation of currency translations differences	0.0	0.0	0.0	121.9	0.0	0.0	– 121.9	0.0	0.0
Combination of general legal reserve, valuation reserves and retained earnings into reserves	0.0	0.0	– 27.5	– 266.3	– 331.9	0.0	0.0	625.7	0.0
At January 1, 2011	**23.4**	**– 15.5**	**0.0**	**0.0**	**0.0**	**45.2**	**– 121.9**	**625.7**	**556.9**

These restatements had no impact on the income statement and total shareholders' equity.

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. Depreciation of an asset begins when it is available for use. 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.

Assets under construction, which are not yet available for use, are not depreciated.

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 to projects 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. Capitalized costs associated with process improvement projects are amortized over a period of up to five years.

Research and development

Research costs are recognized in the income statement as incurred. Development costs for 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

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 , 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 date, in which case they are presented as non-current assets.

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. Significant or long-term impairment is charged to income immediately. Available-for-sale financial assets 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, auxiliary 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 and the changes are recognized as other operating expenses.

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. Therefore, no deferred taxes on retained earnings of group companies are recognized if the Group is able to control the timing of the reversal of the temporary difference and it is probable that retained earnings will not be distributed in the foreseeable future.

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 personnel 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
Rieter uses share-based awards in the context of the compensation of the members of the Board of Directors, the Group Executive Committee and senior management. There are equity-settled and cash-settled share-based awards.

For equity-settled share-based awards, for which there are no vesting conditions, the difference between the grant date fair value of the shares and the cash payment is charged to income when the shares are granted.

For cash-settled share-based awards, which are subject to an ongoing employment over three years and where the participants have the choice to receive a certain number of shares free of charge or a corresponding cash compensation, a liability is recognized over three years reflecting the applicable market values at the balance sheet dates.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services supplied in the ordinary course of business of the Group, stated net of value added taxes, credits, discounts and rebates.

Rieter recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group; and when specific contractual criteria are met.

Sales revenues arising from deliveries of products are recorded when benefit and risk pass to the customer. This is determined by specific contractual terms (incoterms).

Revenue arising from rendering of product related services (assembling, training etc.) is recognized based on the stage of completion of the service.

Subsequent allowances on trade receivables are not recognized as an adjustment to sales but as other operating expenses.

Financing costs
Borrowing costs that are 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, 2013. 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.

The revised version of IAS 19 will be adopted on January 1, 2013 and will be applied retrospectively. Actuarial gains and losses from defined benefit plans will have to be recognized immediately in other comprehensive income as the option to defer such gains and losses, known as the corridor method, will be eliminated. The current method of including the expected income from plan assets at an estimated asset return will be replaced by using the discount rate that is used to discount the defined benefit obligation. The retrospective first-time application of IAS 19 revised will reduce shareholders’ equity as of January 1, 2012 by about 1.5 million CHF and the pension costs 2012 will increase by about 1.0 million CHF.

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, 2012, with all other variables held constant, the Group's after-tax result and equity would have been 2.5 million CHF higher (3.8 million CHF higher in 2011). Assuming that the US dollar had been 5% stronger versus the Swiss franc at December 31, 2012, with all other variables held constant, the Group's after-tax result and equity would have been 0.2 million CHF higher (0.1 million CHF lower in 2011). If the reverse had been the case, the Group's after-tax result and equity 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 equity by less than 0.1 million CHF (0.4 million CHF in 2011).

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 had no material securities at the end of the reporting period.

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. For more information, see note 18 “trade receivables”.

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, 2012	**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	216.6	9.8	237.5	0.0	247.3
Bank debt	6.7	6.7	0.0	0.0	6.7
Other financial debt	33.0	0.0	36.0	0.2	36.2
Negative replacement values of derivative financial instruments	0.1	0.1	0.0	0.0	0.1
Trade payables	97.3	97.3	0.0	0.0	97.3

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

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 Ltd. 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 to spinning mills and also to machinery manufacturers.

Segment information 2012

CHF million	Spun Yarn Systems	Premium Textile Components	Total reportable segments
Total segment sales	727.6	232.3	959.9
Inter-segment sales[1]	0.0	71.4	71.4
Sales to third parties[2]	727.6	160.9	888.5
Operating result before interest and taxes (EBIT)	30.5	16.0	46.5
Operating assets December 31, 2012[3]	487.1	173.8	660.9
Operating liabilities December 31, 2012[3]	316.7	59.5	376.2
Net operating assets December 31, 2012[3]	170.4	114.3	284.7
Capital expenditures on tangible and intangible assets	62.7	18.7	81.4
Depreciation and amortization	18.1	15.0	33.1
Number of employees[4]	3 542	1 150	4 692

Segment information 2011

CHF million	Spun Yarn Systems	Premium Textile Components	Total reportable segments
Total segment sales	861.7	263.9	1 125.6
Inter-segment sales[1]	0.0	64.8	64.8
Sales to third parties[2]	861.7	199.1	1 060.8
Operating result before interest and taxes (EBIT)	81.2	35.1	116.3
Operating assets December 31, 2011[3]	452.5	167.6	620.1
Operating liabilities December 31, 2011[3]	319.9	59.9	379.8
Net operating assets December 31, 2011[3]	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[4]	3 594	1 075	4 669

1. Inter-segment sales conducted at arm's length.
2. Corresponds to sales in the consolidated income statement.
3. Segment assets and liabilities excluding financial and income tax related items.
4. At year-end (excluding apprentices and temporary employees), in full-time equivalents.

Reconciliation of segment results

CHF million	2012	2011
Operating result before interest and taxes (EBIT) reportable segments	46.5	116.3
Non-reportable segments (non-wovens)	0.0	2.4
Elimination of unrealized inter-segment profits	– 0.8	– 0.5
Cost allocation discontinued operations	0.0	3.4
Other companies (Rieter Holding Ltd, central units)	– 12.1	– 9.0
Operating result before interest and taxes (EBIT) Group	**33.6**	**112.6**
Share of profit of associated companies	0.4	0.8
Gain on sale of investments	17.6	50.3
Financial income	2.2	8.1
Financial expenses	– 18.7	– 33.8
Profit before taxes	**35.1**	**138.0**

Sales and non-current assets by countries

CHF million	Sales 2012[1]	Sales 2011[1]	Non-current assets 2012[2]	Non-current assets 2011[2]
Switzerland (domicile of Rieter Holding Ltd.)	38.2	63.6	89.8	70.4
Foreign countries	850.3	997.2	188.6	166.7
Total Group	**888.5**	**1 060.8**	**278.4**	**237.1**
The following countries accounted for more than 10% of sales or non-current assets:				
Switzerland (domicile of Rieter Holding Ltd.)	38.2	63.6	89.8	70.4
India	95.8	175.1	59.5	54.0
Turkey	168.4	208.9	–	–
China	192.5	151.0	55.1	34.8
Czech Republic	–	–	26.2	30.2

1. By location of customer.
2. Tangible and intangible fixed assets by country of location.

No individual customer accounted for more than 10% of consolidated sales in 2012 and 2011. The greatest granularity on products is on segments and the sales by product are reflected in segmental reporting.

4 Sales

Change in sales

CHF million	2012	2011
Change in sales due to volume and price, Spun Yarn Systems	– 131.1	217.0
Change in sales due to volume and price, Premium Textile Components	– 36.2	21.3
Impact of divestments	– 9.4	– 5.8
Currency translation differences	4.4	– 42.1
Total change in sales	**– 172.3**	**190.4**

5 Employee costs

CHF million	2012	2011
Wages and salaries	226.8	244.2
Social security and other personnel expenses	52.1	58.1
Total	**278.9**	**302.3**

6 Other operating expenses

CHF million	2012	2011
Energy and operating material	28.5	33.7
Sales commission to third parties[1]	27.2	31.6
Maintenance and repair	15.1	20.7
Outbound freight[1]	14.3	19.4
External services	9.6	7.6
Other operating expenses[1]	72.9	71.8
Total	**167.6**	**184.8**

1. Revised (see paragraph "Revision and correction of presentation" on page 40).

7 Depreciation and amortization

CHF million	2012	2011
Tangible fixed assets	27.5	28.3
Intangible assets	5.7	5.6
Total	**33.2**	**33.9**

8 Gain on sale of investments

In October 2012, Rieter sold its shareholding of 3% in Lakshmi Machine Works Ltd., India, realizing a pre-tax gain of 13.2 million CHF. In 2011, Rieter had reduced its shareholding in Lakshmi Machine Works Ltd., India, from 13% to 3%, realizing a pre-tax gain of 50.3 million CHF (47.3 million CHF after local taxes). Furthermore, Rieter sold its non-controlling interest in Lakshmi Ring Travellers (Coimbatore) Limited in January 2012, realizing a gain on disposal of 4.4 million CHF.

9 Financial income

CHF million	2012	2011
Interest income from third parties	1.8	2.7
Interest income from discontinued operations	0.0	4.2
Other financial income	0.4	1.2
Total	**2.2**	**8.1**

10 Financial expenses

CHF million	2012	2011
Interest cost to third parties	15.4	17.0
Interest cost to discontinued operations	0.0	0.1
Loss on repurchase of own debt instruments	0.4	1.6
Impairment of available for sale financial assets	0.0	2.9
Transfer of currency translation differences from other comprehensive income	0.0	7.3
Other financial expenses and foreign exchange differences, net	2.9	4.9
Total	**18.7**	**33.8**

In 2011, currency translation differences transferred from other comprehensive income relate to net investments in foreign operations.

11 Income taxes

CHF million	2012	2011
Current income tax expense	15.7	28.5
Deferred income tax expense	– 7.1	– 9.5
Total	**8.6**	**19.0**

Reconciliation of expected and actual tax expense:

CHF million	2012	2011
Expected tax expense on pre-tax profit of continuing operations of 35.1 million CHF (138.0 million CHF in 2011) at an average rate of 24.1% (22.6% in 2011)	8.5	31.2
Impact of non-deductible costs	0.4	0.4
Impact of non-taxable income / income taxed at different rates	– 5.6	– 8.8
Impact of losses and loss carry-forwards	2.7	– 4.2
Impact of changes in tax rates and tax legislation	0.0	– 0.1
Tax effects from previous periods (adjustments)	2.2	0.6
Other effects	0.4	– 0.1
Total	**8.6**	**19.0**

The increase in the expected weighted average tax rate by 1.5%-points resulted from changes in the profitability of some group companies.

Deferred income taxes

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

CHF million	Deferred tax assets 2012	Deferred tax liabilities 2012	Deferred tax assets 2011	Deferred tax liabilities 2011
Tangible fixed assets	0.6	– 12.0	1.1	– 10.3
Inventories	5.0	– 6.4	4.7	– 7.6
Other assets	4.3	– 19.3	2.6	– 25.8
Provisions	4.6	– 0.2	4.9	– 1.5
Other liabilities	1.9	– 0.1	1.7	– 0.2
Valuation adjustments on deferred tax assets	– 5.9	0.0	– 7.4	0.0
Tax loss carry-forwards and tax credits	1.9	0.0	2.2	0.0
Total	12.4	– 38.0	9.8	– 45.4
Offsetting	– 5.7	5.7	– 3.3	3.3
Deferred tax assets / liabilities	**6.7**	**– 32.3**	**6.5**	**– 42.1**

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 cannot 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 2012	Non capitalized 2012	Total 2012	Total 2011
Expiry in				
1 to 3 years	0.0	0.3	0.3	0.3
3 to 7 years	0.0	0.1	0.1	0.5
7 or more years	1.9	30.4	32.3	31.7
Total	**1.9**	**30.8**	**32.7**	**32.5**

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

42.7 million CHF were spent on research and development in 2012 (39.5 million CHF in 2011).

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 2012 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 2012 and 2011, 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. The figure for diluted earnings per share takes into account additionally the potential dilution effects if all rights from the long term incentive plan (see note 32) were to be exercized.

CHF million	2012	2011
Net profit continuing operations (CHF million)[1]	**29.5**	**119.6**
Result discontinued operations (CHF million)[1]	0.0	147.6
Average number of shares outstanding (non diluted)	4 609 778	4 625 281
Average number of shares outstanding (diluted)	4 610 485	4 625 281
Earnings per share continuing operations (CHF)	**6.40**	**25.86**
Earnings per share discontinuing operations (CHF)	0.00	31.91
Diluted earnings per share continuing operations (CHF)	**6.39**	**25.86**
Diluted earnings per share discontinuing operations (CHF)	0.00	31.91

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, 2011	**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 reclassifications	– 0.1	5.1	0.2	0.1	– 5.3	0.0
Currency translation differences	– 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**
Additions	25.0	18.7	5.3	4.0	12.3	65.3
Disposals	– 2.3	– 0.2	0.0	0.0	– 0.3	– 2.8
Depreciation	– 4.9	– 18.1	– 2.1	– 2.4	0.0	– 27.5
Reclassifications	– 1.1	13.6	0.2	0.3	– 13.0	0.0
Currency translation differences	– 2.1	– 1.2	– 0.1	– 0.1	– 0.8	– 4.3
Net book value at December 31, 2012	**133.2**	**90.8**	**8.3**	**7.5**	**18.5**	**258.3**
Cost at December 31, 2012	270.0	389.4	29.5	35.1	18.7	742.7
Accumulated depreciation at December 31, 2012	– 136.8	– 298.6	– 21.2	– 27.6	– 0.2	– 484.4
Net book value at December 31, 2012	**133.2**	**90.8**	**8.3**	**7.5**	**18.5**	**258.3**

1. See note 31.

No tangible assets are held under long-term finance leases. No land and buildings are pledged for financial debt. No borrowing costs were capitalized in 2012 and 2011. Buildings were insured at the replacement value of 540.9 million CHF at the balance sheet date (539.8 million CHF in 2011).

15 Intangible assets

CHF million	Patents/ trademarks	Other intangible assets	Total intangible assets
Net book value at January 1, 2011	**13.3**	**1.9**	**15.2**
Amortization	– 5.4	– 0.2	– 5.6
Currency translation differences	– 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**
Additions	0.0	16.3	16.3
Amortization	– 5.2	– 0.5	– 5.7
Currency translation differences	0.0	0.0	0.0
Net book value at December 31, 2012	**2.6**	**17.5**	**20.1**
Cost at December 31, 2012	41.5	19.9	61.4
Accumulated amortization at December 31, 2012	– 38.9	– 2.4	– 41.3
Net book value at December 31, 2012	**2.6**	**17.5**	**20.1**

Additions to other intangible assets comprise costs incurred in process improvement projects. No amortization has been made because the related systems are not yet available for use. In 2012 and 2011, there were no intangible assets with undefined useful lives. No intangible assets are financed by long-term lease agreements.

16 Other non-current assets

CHF million	2012	2011
Investments in non-consolidated companies	3.4	12.1
Long-term interest-bearing receivables	3.3	3.7
Other long-term receivables and pension funds	61.8	60.3
Total	**68.5**	**76.1**

Prepaid contributions and overfunding of personnel pension plans have been accrued up to the expected future benefit and amount to 56.2 million CHF (56.2 million CHF in 2011).

17 Inventories

CHF million	2012	2011
Raw materials and consumables	46.2	56.0
Purchased parts and goods for resale	77.3	73.2
Semi-finished and finished goods	90.0	87.0
Work in progress	50.0	54.4
Allowance	– 34.2	– 35.8
Total	**229.3**	**234.8**

The following summarizes the movement in the allowance for inventories:

CHF million	2012	2011
Allowance at January 1	– 35.8	– 43.8
Deconsolidation Automotive Systems[1]	0.0	3.7
Utilization	1.4	1.4
Reversals / additions, net	0.1	0.6
Currency translation differences	0.1	2.3
Allowance at December 31	**– 34.2**	**– 35.8**

1. See note 31.

18 Trade receivables

CHF million	2012	2011
Trade receivables	106.9	103.8
Allowance for doubtful receivables	– 15.8	– 19.7
Total	**91.1**	**84.1**

At December 31, 2012, trade receivables of 34.4 million CHF (24.8 million CHF in 2011) were past due. Thereof 15.8 million CHF (19.7 million CHF in 2011) were covered by an individual allowance. Past due items of 18.6 million CHF (5.1 million CHF in 2011), which were not covered by allowances, were past due less than 3 months.

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

CHF million	2012	2011
Allowance for doubtful receivables at January 1	– 19.7	– 27.9
Deconsolidation Automotive Systems[1]	0.0	5.1
Increase charged to income statement	– 4.0	– 3.5
Utilization or reversal	7.8	6.4
Currency translation differences	0.1	0.2
Allowance for doubtful receivables at December 31	**– 15.8**	**– 19.7**

1. See note 31.

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	2012	2011
CHF	52.9	38.2
EUR	26.0	32.4
USD	3.8	2.1
CNY	2.1	8.3
Other	6.3	3.1
Total	**91.1**	**84.1**

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	2012	2011
Not due	72.5	79.0
Past due less than 3 months	19.4	14.3
Past due 3 to 6 months	1.2	3.3
Past due 6 months to 1 year	2.1	2.1
Past due 1 to 5 years	10.5	1.6
Past due 5 or more years	1.2	3.5
Trade receivables	106.9	103.8
Allowance for doubtful receivables	– 15.8	– 19.7
Total	**91.1**	**84.1**

19 Other receivables

CHF million	2012	2011
Prepaid expenses and deferred charges	4.6	5.7
Advance payments to suppliers	4.1	6.1
Positive replacement values of derivative financial instruments	0.0	0.6
Other short-term receivables[1]	32.8	31.7
Total	**41.5**	**44.1**

1. Other short-term receivables do not include any past due or impaired items.

20 Marketable securities and time deposits

CHF million	2012	2011
Securities available for sale	7.2	6.0
Time deposits with original maturities between 3 and 12 months	2.1	1.3
Total	**9.3**	**7.3**

21 Cash and cash equivalents

CHF million	2012	2011
Cash and banks	334.1	397.9
Time deposits with original maturities up to 3 months	8.5	10.4
Total	**342.6**	**408.3**

22 Share capital and dividend per share

		31.12.2012	31.12.2011
Shares issued	Number of shares	4 672 363	4 672 363
Treasury shares	Number of shares	50 938	43 028
Shares outstanding	**Number of shares**	**4 621 425**	**4 629 335**
Par value per share	CHF	5.00	5.00
Share capital	**CHF**	**23 361 815**	**23 361 815**

The share capital is fully paid in.

The dividend paid in 2012 amounted to 27.7 million CHF (6.00 CHF per registered share). In 2011, a special dividend per registered share in the form of one registered share in Autoneum Holding Ltd. was distributed. See note 31.

Based on the financial statements as of December 31, 2012, the Board of Directors proposes to the General Meeting a dividend of 11.7 million CHF (2.50 CHF per registered share). The proposed dividend is not recognized as a liability in the consolidated financial statements as of December 31, 2012.

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 2012	Total 2011
Duration					
less than 1 year	0.0	6.7	0.0	6.7	3.1
1 to 5 years	216.6	0.0	32.8	249.4	253.3
5 or more years	0.0	0.0	0.2	0.2	0.2
Total	**216.6**	**6.7**	**33.0**	**256.3**	**256.6**

By currency, financial debt is divided up as follows:

CHF million	2012	2011
CHF	248.9	252.7
CNY	3.0	0.0
INR	4.2	2.6
Other	0.2	1.3
Total	**256.3**	**256.6**

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 263.8 million CHF at December 31, 2012. The effective interest costs were 10.4 million CHF in 2012 (11.6 million CHF in 2011).

On May 10, 2011, the bondholders‘ meeting, which was held in connection with the distribution of a special dividend (see note 31), resolved that the outstanding bond issue will be upheld in full.

25 Provisions

CHF million	Restructuring provisions	Personnel provisions	Guarantee and warranty provisions	Other provisions	Total provisions
Provisions at December 31, 2011	**13.3**	**41.9**	**49.0**	**38.7**	**142.9**
Utilization	– 0.4	– 5.3	– 14.2	– 8.0	– 27.9
Release	0.0	0.0	– 2.5	– 3.5	– 6.0
Additions	0.0	3.2	19.6	11.1	33.9
Currency translation differences	0.0	– 0.2	– 0.1	– 0.1	– 0.4
Provisions at December 31, 2012	**12.9**	**39.6**	**51.8**	**38.2**	**142.5**
Thereof non-current	10.2	38.2	35.1	21.2	104.7
Thereof current	2.7	1.4	16.7	17.0	37.8

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. 0.4 million CHF were utilized in 2012 for structural adjustment projects in India. The remaining restructuring provisions will lead to an expected utilization of 2.7 million CHF in 2013 and 10.2 million CHF in 2014 to 2016.

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. The non-current guarantee and warranty provisions of 35.1 million CHF are expected to result partly in a cash outflow in one or two years on average, i.e. in 2014 and 2015.

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 2014 and 2015.

26 Other current liabilities

CHF million	2012	2011
Accrued holidays	8.1	8.5
Accrued sales commissions	17.5	21.7
Other accrued expenses	28.3	33.9
Negative replacement values of derivative financial instruments	0.1	0.2
Other short-term liabilities	23.8	27.0
Total	**77.8**	**91.3**

27 Pension plans

The expense for pension plans is included in employee costs.

Defined contribution plans

The expense for defined contribution plans amounted to 3.0 million CHF (2.5 million CHF in 2011).

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	2012	2011
Actuarial present value of defined benefit obligation		
• unfunded plans	– 22.8	– 20.8
• funded plans	– 886.6	– 921.4
Defined benefit obligation at December 31	**– 909.4**	**– 942.2**
Fair value of plan assets	1 021.8	981.3
Surplus at December 31	**112.4**	**39.1**
Unrecognized actuarial gains and losses	– 54.4	6.8
Unrecognizable assets of pension plans (due to limit of IAS 19.58)	– 30.8	– 19.7
Net asset at December 31	**27.2**	**26.2**
Recognized in the balance sheet		
• as assets	56.2	56.2
• as pension liabilities	– 29.0	– 30.0

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

CHF million	2012	2011
Defined benefit obligation at January 1	**942.2**	**1 124.7**
Deconsolidation Automotive Systems[1]	0.0	– 154.4
Current service cost	10.8	11.4
Interest cost	25.4	29.4
Employee contributions	8.1	8.3
Actuarial gains / losses	– 2.0	– 35.3
Benefits paid	– 74.9	– 41.4
Currency translation differences	– 0.2	– 0.5
Defined benefit obligation at December 31	**909.4**	**942.2**

1. See note 31.

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

CHF million	2012	2011
Fair value of plan assets at January 1	**981.3**	**1 214.2**
Deconsolidation Automotive Systems[1]	0.0	– 128.3
Expected return on plan assets	38.1	43.3
Actuarial gains / losses	59.4	– 125.7
Employer contributions	9.8	10.9
Employee contributions	8.1	8.3
Benefits paid	– 74.9	– 41.4
Currency translation differences	0.0	0.0
Fair value of plan assets at December 31	**1 021.8**	**981.3**

1. See note 31.

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

in %	2012	2011
Equity	46	56
Debt	12	11
Real estate	24	26
Other	18	7

Pension costs of defined benefit plans

CHF million	2012	2011
Current service cost	10.8	11.4
Interest cost	25.4	29.4
Expected return on plan assets	– 38.1	– 43.3
Recognized actuarial gains / losses	– 0.2	79.0
Impact of limit of IAS 19.58	11.1	– 65.9
Pension costs of defined benefit plans	**9.0**	**10.6**

The Group expects to contribute 11.5 million CHF to its defined benefit pension plans in 2012. The actual return on plan assets was 97.5 million CHF (-82.4 million CHF in 2011).

Actuarial assumptions

Weighted average in %	2012	2011
Discount rate	2.0	2.8
Expected return on plan assets	4.0	3.9
Future wage growth	1.3	1.3
Future pension growth	0.0	1.0

Additional disclosure

CHF million	2012	2011	2010	2009	2008
Defined benefit obligation	– 909.4	– 942.2	– 1 124.7	– 1 092.2	– 1 035.4
Plan assets	1 021.8	981.3	1 214.2	1 145.4	1 010.4
Surplus / deficit	**112.4**	**39.1**	**89.5**	**53.2**	**– 25.0**
Experience adjustment on plan liabilities	0.4	– 71.9	2.6	34.3	– 17.3
Experience adjustment on plan assets	59.4	– 125.7	55.4	144.2	– 482.4

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	2012	2011
Cash (excluding time deposits)	**334.1**	**397.9**
Positive replacement values of derivative financial instruments[2]	0.0	0.6
Investments in non-consolidated companies[2]	1.0	1.2
Total financial assets at fair value through profit and loss	**1.0**	**1.8**
Time deposits with original maturities up to 3 months	8.5	10.4
Time deposits with original maturities between 3 and 12 months	2.1	1.3
Trade receivables	91.1	84.1
Other short-term receivables	32.8	31.7
Long-term interest-bearing receivables	3.3	3.7
Total loans and receivables	**137.8**	**131.2**
Securities available for sale[1]	7.2	6.0
Investments in non-consolidated companies[2]	2.4	10.9
Total available for sale financial assets	**9.6**	**16.9**
Total financial assets and derivatives	**482.5**	**547.8**

CHF million	2012	2011
Short-term financial debt[3]	6.7	3.1
Long-term financial debt[3] (excluding put option non-controlling interests)	217.4	224.1
Put option non-controlling interests[4]	32.2	29.4
Negative replacement values of derivative financial instruments[2]	0.1	0.2
Total financial debt and derivatives	**256.4**	**256.8**

1. Measurement based on quoted prices in active markets (level 1 according to IFRS 7).
2. Measurement derived from transparent market data (level 2 according to IFRS 7).
3. Measured at amortized cost.
4. Measured at fair values which are not based on observable market data (level 3 according to IFRS 7).

Financial instruments measured at level 3 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. In 2009, the value of the put option was discounted at 9.4% and recognized as a financial debt of 22.9 million CHF. In 2012, the financial debt was increased by 2.8 million CHF (2.5 million CHF in 2011) by debiting interest expenses. If the value of the put option had been discounted at 8.4%, the recognized financial debt would have been 0.3 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 2.7 million CHF (3.0 million CHF in 2011). The leases have varying terms, escalation clauses and renewal rights.

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

CHF million	2012	2011
Up to 1 year	0.7	0.9
1 to 5 years	0.6	0.6
5 or more years	0.0	0.0
Total	**1.3**	**1.5**

There were open purchase commitments of 2.5 million CHF in respect of major purchases at year-end (0.0 million CHF in 2011).

30 Divestments

At January 1, 2012, Rieter sold two manufacturing facilities in the Czech Republic, which were part of segment Spun Yarn Systems and operate as subcontractor for Rieter and other industrial companies. In 2011, these two facilities generated third party sales of 9.4 million CHF. In accordance with IFRS 5, the concerned assets were classified as a disposal group in the balance sheet as of December 31, 2011. The resulting divestment gain of 6.0 million CHF was recognized in other opearting income.

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

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

CHF million	2012	2011
Non-current assets	4.8	5.2
Current assets (excluding cash and cash equivalents)	6.8	8.4
Liabilities	– 0.4	– 7.6
Non-controlling interests	0.0	– 4.3
Net disposed assets and liabilities	**11.2**	**1.7**
Gain on divestments	6.0	3.2
Cash flow	**17.2**	**4.9**

31 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 Autoneum 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**
Sales	658.9
Expenses	– 652.8
Result before taxes	**6.1**
Income taxes	– 5.4
Result after taxes	**0.7**
Attributable to shareholders of Rieter Holding Ltd.	– 2.7
Attributable to non-controlling interests	3.4
Gain from differences between carrying values of dividend liability and net assets	251.9
Reclassification of other components of comprehensive income to the income statement	– 91.7
Transaction costs	– 9.9
Total net result from discontinued operations	**151.0**

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 (excluding 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**

32 Share-based compensation

The members of the Board of Directors can choose whether to receive all or part of their remuneration in shares. On April 18, 2012, six Board Directors received 3 893 shares in connection with their remuneration for the year 2011. The market value of the shares granted was 0.6 million CHF and was charged to the income statement in 2011. In the context of their remuneration for the year 2012, six Board Directors will receive 4 407 shares in April 2013. The estimated cost of 0.7 million CHF was charged to the income statement 2012. The shares are taken from the holdings of Rieter Holding Ltd. and cannot be sold for three years.

Rieter has established a share purchase plan for the members of the Group Executive Committee. On May 7, 2012, two participants purchased 2 300 shares at a price of 131.00 CHF per share (3 995 shares at 189.00 CHF in 2011). The average market value of shares granted was 147.95 CHF (212.89 CHF in 2011). The shares cannot be sold for three years. In 2012, the costs resulting from the share purchase plan amounted to less than 0.1 million CHF (0.1 million CHF in 2011). The shares for this program were taken from the holdings of Rieter Holding Ltd.

Since March 2012, Rieter operates a long-term incentive plan for the members of senior management (excluding the members of the Executive Committee). The participants are granted rights to receive in three years a certain number of Rieter shares free of charge or receive cash compensation for the corresponding number of shares at market price. The execution of the rights in three years is subject to an unterminated employment contract. If the employment is terminated within three years, the rights will expire. Exceptions are to be decided by the Executive Chairman. There are no further performance related criteria.

3 337 rights were granted on April 2, 2012. Thereof 14 rights were paid at the termination of the employment according to the decision made by the Executive Chairman. No rights expired in 2012. On December 31, 2012, there was a total of 3 323 rights outstanding. The estimated fair value of the rights granted in 2012 amounts approximately to the market value of the Rieter share of 159.40 CHF at December 31, 2012. The costs of the long-term incentive plan impacted the income statement in the reporting period by 0.1 million CHF.

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

33 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 2012, Rieter bought products worth 4.5 million CHF (6.5 million CHF in 2011) from Prosino S.r.l. and there was a related interest-free liability at the end of 2012 of 0.6 million CHF (0.8 million CHF in 2011) to Prosino S.r.l.

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

CHF million	2012	2011
Cash compensation	2.4	5.0
Employee benefit contributions	0.1	0.1
Social security	0.0	0.0
Share-based compensation	0.7	0.8
Other long-term benefits	0.0	0.0
Total	**3.2**	**5.9**

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 79 to 82.

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.

34 Net liquidity

Net liquidity at December 31 was as follows:

CHF million	2012	2011
Cash and cash equivalents	342.6	408.3
Marketable securities and time deposits	9.3	7.3
Short-term financial debt	– 6.7	– 3.1
Long-term financial debt	– 249.6	– 253.5
Net liquidity	**95.6**	**159.0**

35 Exchange rates for currency translation

		Average annual rates		Year-end rates	
CHF million		**2012**	**2011**	**2012**	**2011**
Brazil	1 BRL	0.48	0.53	0.45	0.50
China	100 CNY	14.86	13.71	14.68	14.90
Czech Republic	100 CZK	4.80	5.02	4.80	4.71
Euro countries	1 EUR	1.21	1.23	1.21	1.22
Hong Kong	100 HKD	12.09	11.39	11.81	12.09
India	100 INR	1.76	1.91	1.66	1.77
Taiwan	100 TWD	3.17	3.02	3.14	3.12
USA	1 USD	0.94	0.89	0.92	0.94

36 Approval for publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Board of Directors on March 20, 2013. They are also subject to approval by the Annual General Meeting of shareholders. No events have occurred up to March 20, 2013, which would necessitate adjustments to the book values of the Group’s assets or liabilities, or which require additional disclosure.

Subsidiaries and associated companies

at December 31, 2012

			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 China Textile Instruments Co. Ltd., Changzhou	EUR	10 000 000	100%			•	
	European Excellent Textile Components Co. Ltd., Changzhou	CNY	35 287 000	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 s.r.o., 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%		•		•
	Novibra GmbH, Süssen (inactive)	EUR	1 534 000	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%		•	•	
Spain	Graf Espâna SA, Santa Perpètua de Mogoda (inactive)	EUR	601 000	100%				
Switzerland	Rieter Management AG, Winterthur	CHF	5 000 000	100%				•
	Tefina Holding-Gesellschaft AG, Zug	CHF	5 000 000	100%				•
	Unikeller Sona AG, Winterthur	CHF	500 000	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

pwc

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 34 to 71), for the year ended December 31, 2012.

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, 2012 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

Stefan Räbsamen
Audit expert
Auditor in charge

Nicolas Mayer

Zurich, March 20, 2013

Income statement of Rieter Holding Ltd.

for the financial year from January 1 to December 31

CHF million	Notes	2012	2011
Income			
Income from investments	(1)	41.4	118.4
Income from marketable securities and interest income	(2)	8.1	– 2.2
Other income	(3)	2.5	5.1
Total income		**52.0**	**121.3**
Expenses			
Financial expenses	(4)	12.4	16.1
Administration expenses	(5)	7.0	21.5
Value adjustments, provisions	(6)	20.6	55.0
Total expenses		**40.0**	**92.6**
Net profit		**12.0**	**28.7**

Balance sheet of Rieter Holding Ltd.

at December 31, before appropriation of profit

CHF million	Notes	2012	2011
Assets			
Investments in and loans to subsidiaries	(7)	242.0	259.6
Non-current assets		**242.0**	**259.6**
Accrued income and prepayments	(8)	2.5	3.6
Receivables	(9)	53.1	55.4
Liquid funds	(10)	286.4	362.8
Current assets		**342.0**	**421.8**
Total assets		**584.0**	**681.4**
Shareholders' equity and liabilities			
Share capital	(11)	23.4	23.4
Legal reserves			
• General reserve	(12)	27.5	27.5
• Reserve for treasury shares	(13)	6.8	9.8
Reserve from capital contributions	(14)	101.7	129.4
Other reserves	(15)	9.6	6.6
Retained earnings	(16)		
• Balance brought forward		31.3	2.6
• Net profit for the year		12.0	28.7
Shareholders' equity		**212.3**	**228.0**
Long-term financial debt	(17)	250.0	250.0
Provisions	(18)	11.3	11.3
Non-current liabilities		**261.3**	**261.3**
Short-term liabilities	(19)	102.3	180.8
Accrued liabilities		8.1	11.3
Current liabilities		**110.4**	**192.1**
Liabilities		**371.7**	**453.4**
Total shareholders' equity and liabilities		**584.0**	**681.4**

Notes to the financial statements of Rieter Holding Ltd.

1 Income from investments

Income from investments consists of dividends paid by subsidiaries and associated companies as well as gains on sale of investments.

2 Income from marketable securities and interest income

This includes income from marketable securities, interest income as well as the foreign exchange result. Negative currency effects occurred in 2011 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 in 2011.

6 Value adjustments, provisions

The value adjustment for general business risks was increased by 20.6 million CHF and deducted from investments in and loans to subsidiaries.

7 Investments in and loans to subsidiaries

CHF million	2012	2011
Investments in subsidiaries	178.0	198.5
Loans to subsidiaries	64.0	61.1
Total	**242.0**	**259.6**

The changes in investments in and loans to subsidiaries are mainly due to value adjustments. The main subsidiaries and associated companies are listed on page 71. 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	2012	2011
Receivables from third parties	0.4	0.8
Receivables from subsidiaries	52.7	54.6
Total	**53.1**	**55.4**

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	2012	2011
Cash and cash equivalents	247.0	331.8
Marketable securities[1]	39.4	31.0
Total	**286.4**	**362.8**

1. Incl. treasury shares and repurchased bonds.

11 Share capital

At December 31, 2012, the share capital of Rieter Holding Ltd. amounts to 23 361 815 CHF. It is divided into 4 672 363 fully paid registered shares with a par value of 5.00 CHF each.

The Annual General Meeting has authorized the Board of Directors to increase the share capital at all times until April 18, 2014, up to a maximum amount of 2 500 000 CHF by issuing a maximum of 500 000 fully paid registered shares with a par value of 5.00 CHF each. Increases in partial amounts are permitted. The subscription and acquisition of the new registered shares as well as any subsequent assignment of the registered shares shall be subject to the restrictions set forth in §4 of the Articles of Association.

12 General reserve

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

13 Reserve for treasury shares

Shares held by all Group companies

	Number
Registered shares held at January 1, 2012	43 028
Purchases January to December 2012 (average price 138.80 CHF)	78 722
Sales January to December 2012 (average price 159.56 CHF)	70 812
Registered shares held at December 31, 2012	50 938

The reserve for treasury shares has been made at the acquisition cost of 6.8 million CHF. This amount was deducted from other reserves.

14 Reserve from capital contributions

CHF million	2012	2011
Opening balance	129.4	130.6
Reversal for distribution	– 27.7	– 0.2
Transfer to other reserves	0.0	– 1.0
Total	**101.7**	**129.4**

The dividend of 27.7 million CHF which was distributed in April 2012 was taken from reserves from capital contributions.

15 Other reserves

CHF million	2012	2011
Opening balance	6.6	139.6
Reversal other reserves for distribution	0.0	– 139.6
Transfer from reserve for treasury shares	3.0	5.6
Transfer from reserve from capital contributions[1]	0.0	1.0
Total	**9.6**	**6.6**

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

16 Retained earnings

Including the balance brought forward and before the reversal of reserves, the Annual General Meeting has a total of 43.3 million CHF at its disposal (31.3 million CHF in 2011).

17 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.

18 Provisions

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

19 Short-term liabilities

CHF million	2012	2011
Liabilities to group companies	102.2	180.3
Liabilities to third parties	0.1	0.5
Total	**102.3**	**180.8**

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

20 Guarantees to third parties

CHF million	2012	2011
Guarantees	3.0	19.5

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

21 Significant 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, 2012:

According to the notification on August 27, 2009, PCS Holding AG, Weiningen, Switzerland, held 894 223 shares (19.14%).

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 (11.52%).

According to the notification on December 7, 2009, First Eagle Investment Management, LLC, Delaware, USA, held 183 274 shares (3.92%).

According to the notification on November 16, 2012, Sparinvest Holding A/S, Randers, Denmark, held 161 400 shares (3.45%).

22 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 46 to 49.

23 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 reviews the main features of the salary policy annually. 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. In determining the amount of remuneration for the Board of Directors and the Group Executive Committee, publicly available information of Swiss listed companies in the machine industry is consulted and compared. For the members of Group Executive Committee, additional information like individual responsibility and experience is taken into account as well. 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 all or part of their remuneration as cash or to take up the equal amount in shares. Cash remuneration 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, 2013).

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 (EBIT, RONA and Free Cash Flow) and strategic (projects) targets set by the Board. Determining whether the strategic targets are achieved is based on the judgement of the Board of Directors. For 2012, the performance-related cash component amounts to a maximum of 250'000 CHF. Erwin Stoller has informed the Board of Directors that he will relinquish the payment of bonus. 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. 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 [50%], RONA [30%] and Free Cash Flow [20%]). 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, RONA 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 2012 the actual discount is 0%. 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 2013.

Total 2012 compensation to the members of the Board of Directors and the Group Executive Committee

	Cash compensation		Shares			Total
CHF	Fixed net	Variable net	Number	Value	Contribution to pension plans	
This E. Schneider, Vice-Chairman	0	0	974	150 000[1]	0	150 000
Dr. Jakob Baer	50 000	0	661	100 000[1]	0	150 000
Michael Pieper	0	0	663	100 000[1]	0	100 000
Hans-Peter Schwald	150 000	0	0	0	0	150 000
Dr. Dieter Spälti	65 000	0	422	65 000[1]	0	130 000
Peter Spuhler	0	0	649	100 000[1]	0	100 000
Non-executive members of the Board of Directors	**265 000**	**0**	**3 369**	**515 000[1]**	**0**	**780 000**
Erwin Stoller, Executive Chairman of the Board of Directors	600 000	0	1 038	150 000[1]	40 333	790 333
Members Board of Directors	**865 000**	**0**	**4 407**	**665 000[1]**	**40 333**	**1 570 333**
Members Group Executive Committee	**1 495 000**	**48 000**	**2 300**	**0[2]**	**54 600**	**1 597 600**

1. For the purpose of inclusion in the total compensation, the shares are valued at 144.57 CHF (average trading price 20 days prior to the March 2013 Board meeting [=172.19 CHF] less a 16% discount for the three-year restriction on sale).
2. The shares are valued at 0.00 CHF (difference between purchase price [=131.00 CHF] and average trading price during subscription period less a 16% discount for the three-year restriction on sale [=124.22 CHF]).

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	Contribution 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 0.00 CHF (difference between purchase price [=189.00 CHF] and average trading price during subscription period 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.
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.

Additional fees and payments

In 2012, no additonal fees and payments were paid.

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

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 2012, 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, 2012 (Art. 663c, Swiss Code of Obligations)

	Shares	
	2012	**2011**
Erwin Stoller, Chairman	11 039	10 086
Dr. Jakob Baer	1 439	984
Michael Pieper	538 695	538 187
This E. Schneider	2 036	1 142
Hans-Peter Schwald	3 513	3 513
Dr. Dieter Spälti	3 367	2 980
Peter Spuhler	896 561	895 965
Total Board of Directors	**1 456 650**	**1 452 857**

	Shares	
	2012	**2011**
Thomas Anwander	1 260	1 260
Peter Gnägi	2 624	4 617
Joris Gröflin	1 229	502
Werner Strasser	560	460
Total Group Executive Committee	**5 673**	**6 839**

In 2011, the Board of Directors decided to discontinue the option program. As of December 31, 2011 and 2012, there were no options outstanding.

Proposal of the Board of Directors

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

CHF	2012
Net profit for the year	12 000 992
Retained earnings brought forward from previous year	31 315 219
Reversal of reserve from capital contributions[1]	11 680 908
Retained earnings at the disposal of the Annual General Meeting	**54 997 119**
Proposal	
Distribution of dividends[1]	11 680 908
Allocation to other reserves	20 000 000
Carried forward to new account	23 316 211
	54 997 119

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 20.0 million CHF to be allocated to other reserves and a dividend of 2.50 CHF per registered share to be paid, the latter is taken from reserves 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

pwc

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 74 to 84 and page 71), for the year ended December 31, 2012.

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, 2012 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

Stefan Räbsamen
Audit expert
Auditor in charge

Nicolas Mayer

Zurich, March 20, 2013

Review 2008 to 2012

Consolidated income statement

		2012	2011	2010	2009	2008
Sales	CHF million	888.5	1 060.8	870.4	1 956.3	3 142.5
• Europe	CHF million	89	124	119	–	–
• Asia	CHF million	680	791	595	–	–
thereof China	CHF million	193	151	103	–	–
thereof India	CHF million	96	175	146	–	–
thereof Turkey	CHF million	168	209	117	–	–
• Americas	CHF million	91	124	128	–	–
• Africa	CHF million	29	22	28	–	–
Operating result before interest, taxes, depreciation and amortization (EBITDA)	CHF million	66.8	146.5	115.6	– 45.7	– 52.6
• in % of sales		7.5	13.8	13.3	– 2.3	– 1.7
Operating result before interest and taxes (EBIT)	CHF million	33.6	112.6	75.7	– 186.6	– 312.1
• in % of sales		3.8	10.6	8.7	– 9.5	– 9.9
Net result[1]	CHF million	26.5	119.0	82.9	– 217.5	– 396.7
• in % of sales		3.0	11.2	9.5	– 11.1	– 12.6
Return on net assets (RONA) in %		6.7	19.8	–	– 19.5	– 28.1

Consolidated statement of cash flows

		2012	2011	2010	2009	2008
Net cash from operating activities	CHF million	9.3	80.4	99.2	– 1.6	57.2
Net cash used for investing activities	CHF million	-41.6	– 0.9	– 20.5	– 33.2	– 35.8
Net cash from financing activities	CHF million	-31.8	– 25.1	140.2	– 27.8	8.8
Number of employees at year-end		**4 720**	**4 695**	**4 395**	**12 761**	**14 183**

As of 2010 without Automotive Systems.

Consolidated balance sheet

		2012	2011	2010	2009	2008
Non-current assets	CHF million	356.3	322.0	802.2	886.5	929.3
Current assets	CHF million	713.8	789.4	1 166.9	927.6	1 159.6
Equity attributable to Rieter shareholders	CHF million	371.8	379.3	556.9	587.2	689.9
Equity attributable to non controlling interests	CHF million	5.0	8.4	70.7	68.7	56.3
Non-current liabilities	CHF million	386.7	400.1	557.1	399.3	418.9
Current liabilities	CHF million	306.6	323.6	784.4	759.0	923.8
Total assets	CHF million	1 070.1	1 111.4	1 969.1	1 814.1	2 088.9
Shareholders' equity in % of total assets		35.2	34.9	31.9	36.2	35.7
Net liquidity	CHF million	**95.6**	**159.0**	**– 3.5**	**10.4**	**– 36.8**

As of 2011 without Automotive Systems.

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

Information for investors

		2012	2011	2010	2009	2008
Share capital	CHF million	23.4	23.4	23.4	23.4	21.4
Net profit of Rieter Holding Ltd.	CHF million	12.0	28.7	143.1	1.0	2.9
Dividend	CHF million	11.7[1]	27.7	0.0	0.0	0.0
Payout ratio (in % of net profit)[2]	in %	39	23	0	0	0
Market capitalization (December 31)	CHF million	737	653	1 566	1 085	651
Market capitalization in % of						
• sales	in %	83	62	61	55	21
• equity attributable to Rieter shareholders	in %	198	172	281	185	94

As of 2011 without Automotive Systems.

1. See proposal of the Board of Directors on page 84.
2. Net profit continuing operations after deduction of non-controlling interests.

Data per share (RIEN)

			2012	2011	2010	2009	2008
Share prices on the SIX Swiss Exchange	high	CHF	198	267	343	270	505
	low	CHF	123	133	244	95	151
Price / earnings ratio	high		30.9	10.3	60.0	– 5.3	– 4.8
	low		19.2	5.1	42.7	– 1.9	– 1.4
Shareholders' equity (Group) per registered share		CHF	80.45	81.93	120.57	126.42	181.25
Tax value per registered share		CHF	159.40	141.10	339.00	233.50	171.00
Dividend per registered share		CHF	2.50[1]	6.00	0.00	0.00	0.00
Gross yield on registered shares	high	in %	1.3[1]	2.2	0.0	0.0	0.0
	low	in %	2.0[1]	4.5	0.0	0.0	0.0
Earnings per share		CHF	6.40	25.86	5.72	– 50.96	– 106.18

As of 2011 without Automotive Systems.

1. See proposal of the Board of Directors on page 84.

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

March 2013

This is a translation of the original German text.

Copy:
Rieter Management Ltd.

Concept and design:
MetaDesign, Zurich

Photos:
Bösiger Fotodesign,
Thierry Bösiger, Winterthur

Publishing-System:
Multimedia Solutions AG, Zurich

Printing:
Druckmanufaktur, Urdorf

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