

# Summary

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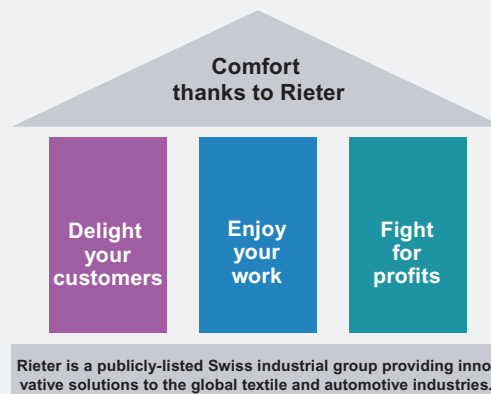
All statements in this report which do not refer to historical facts are forecasts for the future which offer no guarantee whatsoever with respect to future performance; they embody risks and uncertainties which include – but are not confined to – future global economic conditions, exchange rates, legal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

Rieter is a Swiss-based industrial group with activities in all regions of the world. It is a leading supplier of products and services for the textile, automotive and plastics industries. Rieter's worldwide workforce totals approximately 13 500 employees, some 13% of whom are based in Switzerland.

The group comprises two divisions: Rieter Textile Systems develops and produces machinery and integrated systems for converting fibers and plastics into yarns, nonwovens and pellets. In partnership with automotive manufacturers, Rieter Automotive Systems develops and produces components, modules and integrated systems on the basis of fibers, plastics and metals in order to provide acoustic comfort and thermal insulation in motor vehicles. Both divisions are world market leaders in their respective market segments.

Rieter aspires to achieve sustained growth in corporate value for the benefit of shareholders, customers and employees. With this in mind, Rieter seeks to maintain continuous growth in sales and earnings in both divisions, primarily by maximizing in-house resources, and secondly also through cooperative ventures and acquisitions. The basis for growth is provided by its existing know-how and the resulting core competencies together with innovations in products and processes.

Since it was established in 1795, Rieter has continuously adapted to new challenges and developed from a Swiss machine manufacturer into a worldwide industrial group of companies. Rieter has been a driving force for industrial progress for 210 years: its products and solutions are the outcome of a traditionally high level of innovative momentum. Based on the skills of its personnel, Rieter creates products that are ideally tailored to its customers' needs. As partner and supplier of the textile and the automotive industry, Rieter contributes to the success of its customers. Continuous further development is the motivation for its employees and the basis of its business success. These principles – Delight your customers, Enjoy your work and Fight for profits – also represent the pillars of our corporate vision.



# Financial highlights

CHF million	2004	2003	Change in %
<b>Rieter Group</b>			
Orders received	3 088.3	2 967.9	4.1
Sales	3 173.2	3 118.3	1.8
thereof Textile Systems	1 175.9	1 228.2	-4.3
thereof Automotive Systems	1 978.9	1 875.6	5.5
Corporate output <sup>1</sup>	3 054.6	2 991.3	2.1
Operating result before interest, taxes, depreciation and amortization (EBITDA)	343.1	332.7	3.1
in % of corporate output	11.2	11.1	
Operating result before interest and taxes (EBIT)	210.5	202.4	4.0
in % of corporate output	6.9	6.8	
Textile Systems, in % of corporate output	10.2	10.6	
Automotive Systems, in % of corporate output	5.1	4.6	
Net profit	137.8	116.0	18.8
in % of corporate output	4.5	3.9	
Cash flow <sup>2</sup>	281.8	258.3	9.1
in % of corporate output	9.2	8.6	
Net cash flow <sup>3</sup>	255.4	245.5	4.0
in % of corporate output	8.4	8.2	
Investments in tangible fixed assets and intangible assets	120.8	128.7	-6.1
Assets	2 490.0	2 326.9	7.0
Long-term assets	944.5	982.4	-3.9
Shareholders' equity before appropriation of profit	1 069.8	918.0	16.5
Number of employees at year-end <sup>4</sup>	13 557	13 316	1.8
<b>Rieter Holding Ltd.</b>			
Share capital	22.3	22.8	
Net profit	43.7	36.6	19.4
Gross distribution	41.2 <sup>5</sup>	34.0	21.2
Number of registered shares, paid-in	4 450 856	4 569 056	-2.6
Number of registered shares, issued <sup>6</sup>	4 020 633	3 983 970	0.9
Price of registered shares (high/low)	CHF 350/293 <sup>7</sup>	290/237 <sup>7</sup>	
Number of registered shareholders on December 31	7 708	7 070	9.0
Market capitalization on December 31	1 361.2	1 213.5	12.2
<b>Data per registered share</b>			
Net profit after deduction of minority interests <sup>6</sup>	CHF 31.04	25.68	20.9
Net cash flow <sup>6</sup>	CHF 63.52	61.62	3.1
Equity (group) <sup>6</sup>	CHF 266.08	230.42	15.5
Gross distribution (Rieter Holding Ltd.)	CHF 10.00 <sup>5</sup>	8.60	16.3

<sup>1</sup> Sales, adjustments for sales deductions and own work capitalized and changes in inventories of products manufactured by the company (cf. page 64).

<sup>2</sup> Net profit plus depreciation and amortization (cf. page 88).

<sup>3</sup> Net cash flow (cf. page 88).

<sup>4</sup> Excluding apprentices and temporary employees.

<sup>5</sup> Proposed by the Board of Directors (cf. page 97).

<sup>6</sup> Based on average number of registered shares.

<sup>7</sup> Source: Bloomberg.

# Board of Directors

As at March 22, 2005

**Rudolf Hauser**  
Vice-chairman

**Kurt Feller**  
Chairman

**Dr. Peter Wirth**

**Dr. Rainer Hahn**

**Dr. Ulrich Dätwyler**

**Dr. Dieter Spälti**



# Group Executive Committee

As at March 22, 2005

**Urs Leinhäuser**  
Chief Financial Officer



**Hartmut Reuter**  
Chief Executive Officer



**Erwin Stoller**  
CEO Automotive Systems



**Peter Gnägi**  
CEO Textile Systems



## 2004 financial year

# Continued growth in sales and earnings – innovation as the driving force for profitable growth

Kurt Feller

Hartmut Reuter



### Dear shareholder

Rieter can look back on a financial year in which a revival in the global economy and strong economic development in Asia were the dominant features. The momentum for this came primarily from China. The two largest economies, the US and Japan, also showed dynamic development. By contrast, the EU countries recorded much lower growth rates. The development of the textile machinery and automobile markets in the year under review was weaker than expected, due to the subduing influence of high raw material and energy costs, the weak US dollar and political uncertainties.

In this environment all the main key figures at the Rieter Group at the close of the 2004 financial year were higher than in 2003, and new records were set for sales and operating results. In both the textile and automotive divisions, Rieter worked systematically on establishing and expanding market positions in the strategically important Asian key markets.

Orders received were 4.1% higher at 3 088.3 million CHF. Expressed in local currencies the increase amounted to 4.7%. Both divisions recorded higher order intake on an annual basis than in the previous year. Following a very strong first half, fewer orders from China in the second half of the year, together with uncertainties in the textile industry about new tariff regimes after the removal of WTO export quotas, resulted in weaker order intake compared with the same period of 2003.

Rieter's consolidated sales increased by 1.8% to 3 173.2 million CHF, thus exceeding the previous record posted in 2001. Sales growth at Automotive Systems more than compensated for the decline at Textile Systems. Textile Systems successfully maintained sales of staple fiber machinery, while the man-made fiber machinery business declined due to market conditions. Automotive Systems recorded increased sales despite the fact that vehicle production in Rieter's main markets of Western Europe and North America remained at about the previous year's level. The appreciation of the Euro offset only about half of the further weakening of the US dollar compared with the previous year as reflected in sales revenues.

### Operating result improved

Rieter reported an operating result before interest and taxes (EBIT) of 210.5 million CHF on slightly higher overall sales. That is 4.0% more than in the previous year and 3.2% more than the previous record figure in 2001. This corresponds to 6.9% of corporate output (6.8% in 2003). Both divisions contributed to this positive result; a slight, volume-related decline in the high return at Textile Systems was more than offset by the improvement in earnings at Automotive Systems.

### **Net profit and earnings per share increased**

The higher operating result and the improved financial result contributed to an 18.8% increase in Rieter's net profit compared with 2003, to 137.8 million CHF (116.0 million CHF in 2003). This is 4.5% of corporate output (3.9% in 2003). Cash flow rose by 9.1% to 281.8 million CHF (258.3 million CHF in 2003), which corresponds to 9.2% of corporate output (8.6% in 2003). Earnings per share rose by 20.9% to 31.04 CHF (25.68 CHF in 2003).

### **Higher dividend**

Rieter Holding Ltd. reported a net profit of 43.7 million CHF for the 2004 financial year (36.6 million CHF in 2003). Together with retained earnings brought forward from the previous year, 63.1 million CHF are at the disposal of the Annual General Meeting. On the basis of the net profit reported and the very good balance sheet figures, the Board of Directors will propose to the Annual General Meeting of Rieter Holding Ltd. on April 28, 2005, that a higher dividend of 10.00 CHF per share (8.60 CHF in 2003) should be paid; this is equivalent to a payout ratio of one third. Based on the year-end share price of 330 CHF, this results in a yield of 3.0% on Rieter shares. The total dividend paid out amounts to 41.2 million CHF.

### **Strategically well positioned for the future**

Basing the group's activities on two industrial sectors with different market cycles and customers in all regions of market relevance throughout the world again proved its worth in 2004. The market-related decline in sales at Textile Systems was therefore effectively cushioned by the Automotive Systems Division with its internationally well-balanced customer base. Rieter will continue to pursue its dual strategy and invest in expanding its market presence, developing new systems and products, increasing productivity and optimizing business processes at both divisions. In this way Rieter can expand its product range as well as improve its cost position and continue to grow profitably.

### **Innovation – the driving force for profitable growth**

In the year under review some 13 500 employees worked for Rieter worldwide – in Western and Eastern Europe, North and South America, Asia and South Africa. With innovative solutions and through the quality of their work they ensure that Rieter's products and services are continuously adapted to customers' new requirements. Rieter invests up to 5% of sales annually in research and the development of new materials and products. For example, in autumn a new automotive development center was opened near Paris, while new, customized acoustic products, carpets and underfloor components were developed elsewhere in Europe as well as in North America and Asia. The focus at Textile Systems was on developing new preparatory and final spinning machinery for cotton spinning mills, and the new nonwovens technology center in Montbonnot near Grenoble (France) enabled new nonwovens manufacturing processes to be launched on the market. New, customized solutions were also developed and tested in cooperation with our customers at the spinning center in Shanghai (China).

Innovation at Rieter goes beyond technological innovation for new products and also includes areas such as procurement and logistics, marketing, production and business processes. It also includes the new Internet website launched in January 2004, through which the group's various target audiences can be provided even more effectively with the necessary information. Alongside China, innovation was also the main theme at the annual meeting of the group's top executives in the year under review.

**Rieter Textile Systems: very good profitability despite slowdown in the China boom**

Rieter Textile Systems again reported very good profitability with an EBIT margin of more than 10%. This result was based on strict cost discipline and a good product range with various new developments in both staple fiber and man-made fiber machinery. The high level of orders received in the first six months eased off in the second half of the year due to lower order intake from China, but stronger demand from other markets enabled the previous year's overall level to be exceeded. Annual sales were lower, since the downturn in the first six months due to delayed deliveries in China was not recouped in the second half of the year. Despite the slight, temporary slowdown in China, Rieter continued to expand its presence there in the year under review, since China will continue to consolidate and reinforce its position as the largest textile market in the long term.

**Rieter Automotive Systems: positive development of sales and earnings**

Rieter Automotive Systems reported higher sales and operating results compared with the previous year. This was achieved against the backdrop of vehicle production at about the previous year's level in Rieter's main markets of Western Europe and North America. Global automobile production increased by about 5% in the year under review. Higher growth rates were recorded primarily in Eastern Europe and in Asia with China and Korea. Since the spring of 2004 Rieter Automotive has been producing noise control components in a new plant in southern China, from which Japanese manufacturers in China are supplied. The dominant features of the 2004 financial year were the increase in operating profitability and various important model launches with new products in Europe and North America. The higher operating result and the increase in the EBIT margin also reflect the success of the program initiated in the previous year to reduce costs and increase productivity.



### **Sound finances**

By virtue of its strong equity ratio, sound net liquidity and the ability continuously to generate good levels of cash flow, Rieter has a stable financial base. Cash flow increased by 9.1% to 281.8 million CHF and free cash flow by 135% to 202.2 million CHF in 2004. The action taken to optimize net working capital showed good results and contributed 69.7 million CHF to free cash flow in 2004. From minus 22.2 million CHF at the end of 2003 net liquidity increased significantly in the course of the year by 239.7 million CHF to 217.5 million CHF, corresponding to 8.7% of total assets. This enabled bank debt to be reduced by 16.0 million CHF to 26.9 million CHF. Shareholders' equity improved in the year under review by 151.8 million CHF to 1 069.8 million CHF, equivalent to 43.0% of total assets (39.5% in 2003). The goodwill component of intangible assets amounted to 140.4 million CHF at year-end (154.6 million CHF in 2003), corresponding to 13.1% of shareholders' equity (16.8% in 2003). This sound financial foundation is a good basis for successfully pursuing Rieter's strategy, which focuses on profitable growth.

### **Sustainable acquisition policy**

Rieter's strategy of pursuing primarily organic growth does not rule out appropriate acquisitions. Rieter therefore again examined a number of opportunities in the year under review with regard to strategic compatibility, return and purchase price. The cautious acquisition policy will also be maintained in future and resources will only be employed for acquisitions if these offer a high probability of contributing to the sustainable and profitable growth of the Rieter Group.

### **Expansion of the automotive component supply business in North America**

After the close of the 2004 financial year Rieter acquired the entire share capital of American automotive component supplier Magee Rieter Automotive Systems as of January 12, 2005. Rieter has held a 50% interest in this North American carpet manufacturer since mid 1997. Rieter will further expand its automotive component supply business in North America through this acquisition. Magee Rieter has already been fully consolidated in Rieter's group accounts since 1997. The increase in holding will have a positive effect to the earnings per share.

### **Rieter reinforces its leading position in the components business**

Also after the close of the reporting period, Rieter exercised options to purchase the remaining shares of Spindelfabrik Suessen GmbH, based in Süssen (southern Germany), thus increasing its holding from 19% to 100%. These activities will be consolidated in group accounts as of January 2005. With this move Rieter will further expand its position as a leading global supplier of technology components, upgrades and service facilities.

At year-end Suessen employed a workforce of some 250 at its headquarters and a further 350 in a manufacturing plant in India. The integration of the Indian plant will reinforce Rieter's position in the strategically important Asian markets.

**Shareholders and Annual General Meeting**

No investor holds 5% or more of the company's shares. Rieter has an interest in a broad shareholders base. Dr. Dieter Spälti was re-elected as a member of the board for a further three-year term of office at the last Annual General Meeting, held on May 5, 2004. The following members of the board will be proposed for re-election at the forthcoming Annual General Meeting on April 28, 2005: Kurt Feller, Rudolf Hauser and Dr. Rainer Hahn.

**Outlook**

We expect global economic development to be slightly positive in 2005. Only modest economic growth is to be expected for the EU and OECD countries as a whole, while growth rates are likely to ease in the US, Japan and China. The leading market positions and the necessary global presence of both divisions will enable us to continue to make the most of our opportunities in all parts of the world in 2005.

**Outlook Rieter**

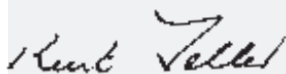
Economic signals are not consistent and do not allow a precise assessment to be made of prospects in the markets of importance for Rieter in 2005. Rieter's strong position in both divisions with innovative products and solutions enables growth opportunities to be exploited in a favorable market environment. With the corresponding economic situation Rieter has opportunities to exceed sales and earnings of the previous year.

**Thanks**

On behalf of the Board of Directors and the Group Executive Committee, we wish to thank our shareholders and customers for the confidence and loyalty they show toward Rieter year after year. Our thanks to union and employee representatives for the good cooperative relationship and the willingness to engage in dialog. Very special thanks are due to our employees throughout the world for all their efforts on Rieter's behalf. Their commitment to quality, their professional customer care and their innovative skills are among the most important contributory factors to our 210-year corporate success story.

Winterthur, March 22, 2005

Kurt Feller



Chairman of the Board of Directors

Hartmut Reuter



Chief Executive Officer

The structure of this report conforms to the corporate governance guidelines issued by the SWX Swiss Exchange and the pertinent commentaries dated November 18, 2002, November 30, 2003 and August 1, 2004, as well as the principles and rules of the "Swiss Code of Best Practice" issued by Economiesuisse. Unless otherwise stated, the data refer to December 31, 2004.

## 1 Group structure and shareholders

### Group structure

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

The divisions conduct their business within the framework of the internal management regulations and are responsible for profitability with reference to sales and capital employed. The heads of the divisions report to the Group CEO. Detailed segmental reporting can be found on pages 73 to 75.

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

More than 70 companies worldwide are members of the Rieter Group. A list of the main companies can be found on pages 102 to 103. The management organization of the Rieter Group is independent of the legal structure of the group and the individual companies.

### Notifiable shareholdings/cross-holdings

On December 31, 2004, Rieter was not aware of any shareholders with holdings in excess of 5% of all voting rights in the company.

There are no cross-holdings in which the interests exceed 5% in terms of capital or voting rights.

## 2 Capital structure

### Share capital

On December 31, 2004, the share capital of Rieter Holding Ltd. totaled 22 254 280 CHF. This is divided into 4 450 856 fully paid registered shares with a par value of 5.00 CHF each. The shares are listed on the Swiss Exchange (SWX), securities code 367144, Investdata RIEN.

Rieter's market capitalization on December 31, 2004, was 1 361.2 million CHF. Each share entitles the holder to one vote at general meetings of shareholders.

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

### Contingent and authorized share capital

The share capital of Rieter Holding Ltd. can be increased by up to 1 981 560 CHF by the issue of 396 312 registered shares with a par value of 5.00 CHF each, to be fully paid by the exercise of warrants or conversion rights granted in connection with bonds issued by the company or one of its subsidiaries, or warrants allotted to shareholders. Shareholders' pre-emptive subscription rights are precluded. Holders of warrants or conversion rights are entitled to acquire the new registered shares. The Board of Directors is authorized to revoke shareholders' pre-emptive subscription rights when issuing convertible bonds or bonds with warrants if the bonds in question are issued to finance the acquisition of companies, parts of companies or equity interests in companies. If preemptive subscription rights are revoked, the bonds must be issued at terms and conditions customary on the market in respect of structure, maturity and amount, including the non-dilution of equity. The exercise period of warrants must not exceed five years, that of conversion rights ten years from the date of issue of the relevant bonds.

Rieter Holding Ltd. had no authorized unpaid-in capital on December 31, 2004.

### Changes in share capital

The Annual General Meeting held on May 7, 2002, approved a reduction in the company's share capital from 45 690 560 CHF to 22 845 280 CHF by reducing the par value of each registered share from 10.00 CHF to 5.00 CHF.

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

Further information on the capital structure can be found on page 99.

### Restrictions on share transfers and nominee registrations

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

Shares held in a fiduciary capacity are not entered in the shareholders' register. As an exception to this rule, Anglo-Saxon nominee companies are entered in the register if the company in question has concluded a nominee agreement with Rieter.

### Convertible bonds and options

Rieter Holding Ltd. has no convertible bonds or shareholders' options outstanding. For details of options issued to personnel, please refer to section 5 of this report and to note 24 (page 87) in the notes to the consolidated financial statements.

## 3 Board of Directors

### Directors

Pursuant to the articles of association, the Board of Directors of Rieter Holding Ltd. consists of no less than five and no more than nine members. In the 2004 financial year, no member of the board performed any executive duties.

Name	Nationality	Position	Year of birth	On the board since	Elected until	Executive/non-executive
Kurt Feller*	CH	Chairman	1937	1994	2005	Executive from 1994 to 2002, non-executive since 2003
Rudolf Hauser*	CH	Vice-chairman	1937	1987	2005	Non-executive
Dr. Ulrich Dätwyler*	CH	Member	1941	1994	2006	Non-executive
Dr. Rainer Hahn	DE	Member	1940	1999	2005	Non-executive
Dr. Peter Wirth	CH	Member	1946	2000	2006	Non-executive
Dr. Dieter Spälti	CH	Member	1961	2001	2007	Non-executive

\* Members of the audit committee (Chairman: Rudolf Hauser);  
all six members of the board are members of the personnel committee (Chairman: Kurt Feller).

**Kurt E. Feller (1937)**

- Chairman, executive Board member from 1994 to 2002, non-executive Board member since 2003, term of office expires in 2005, Chairman of the Board since 2000, chairman of the personnel committee, member of the audit committee.
- Swiss national.
- MBA University of Massachusetts in Amherst; with Rieter since 1978, CEO of the Rieter Group 1989–2000.
- Chairman of the Board, Geberit AG, Jona; Vice-chairman of the Board and lead director, Ciba SC AG, Basel; Board member, Scintilla AG, Solothurn; Board member, Büro-Fürerrer AG, Zurich.

**Rudolf Hauser (1937)**

- Vice-chairman and non-executive, independent Board member since 1987, term of office expires in 2005, chairman of the audit committee, member of the personnel committee.
- Swiss national.
- Dipl. Ing. ETH Zurich, MBA Insead; Managing director, Bucher Industries AG, until 2001; Chairman of the Board, Bucher Industries AG, since 2001.
- Chairman of the Board, Kaba Holding AG, Rümlang; Vice-chairman of the Board AG für die Neue Zürcher Zeitung, Zurich.

**Ulrich Dätwyler (1941)**

- Non-executive, independent Board member since 1994, term of office expires in 2006, member of the audit committee and the personnel committee.
- Swiss national.
- Dr. oec. HSG; CEO SIG Holding AG until 1996.
- Board member, Dätwyler Holding Inc., Altdorf.

**Rainer Hahn (1940)**

- Non-executive, independent Board member since 1999, term of office expires in 2005, member of the personnel committee.
- German national.
- Dr.-Ing.; Managing director, Robert Bosch GmbH, Stuttgart, until 2001.
- Member of the supervisory board, Robert Bosch GmbH, Stuttgart; Member of the supervisory board, Bosch Rexroth AG, Stuttgart; Member of the supervisory board, ElringKlinger AG, Dettingen/Erms (Germany); Member of the Board, TÜV Süddeutschland Holding AG, Munich.



**Peter Wirth (1946)**

- Non-executive, independent Board member since 2000, term of office expires in 2006, member of the personnel committee.
- Swiss national.
- Dr. sc. techn. ETH Zurich; with Mikron Group, Biel, 1986–2003; CEO, Mikron Group and managing director, Mikron Holding AG, 1991–2003; Partner, ex.tra experience transfer AG, Biel, since 2004.
- Board member, Saia-Burgess Electronics AG, Murten; Member of the Swissmem technical committee “Machine Tools and Production Engineering”; Member of the Executive Committee, CECIMO (Comité Européen de Coopération des Industries de la Machine-Outil).



**Dieter Spälti (1961)**

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

**Inter-company relationships**

There are no reciprocal appointments to Boards of Directors.

**Company Secretary**

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

**Election and term of office**

Elections to the Board of Directors are staggered and directors are elected for a term of office of three years. They retire at the Annual General Meeting following their 70<sup>th</sup> 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 terms of office of Kurt Feller, Rudolf Hauser, and Dr. Rainer Hahn expire at the Annual General Meeting to be held on April 28, 2005. They are standing for re-election.

**Internal organization**

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

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

- composition of the business portfolio and strategic thrust of the group
- organizational structure
- appointment and dismissal of the Chief Executive Officer (CEO) and the members of the Group Executive Committee
- organization of accounting, financial control and financial planning
- principles of financial and investment policy, personnel and social policy, management and communications
- signature regulations and allocation of authority
- principles of internal auditing
- authority and duties of the chairman and the committees of the Board of Directors, the CEO and the Group Executive Committee

The Board of Directors comprises the chairman, the vice-chairman and the other members. The directors allocate their responsibilities amongst themselves. The vice-chairman stands in for the chairman in the latter's absence. The board has formed an audit committee and a personnel committee to assist it in its work. However, decisions are made by the Board of Directors as a whole.

The Board of Directors met for six regular meetings in the 2004 financial year. One extraordinary meeting of the whole board, two meetings of the audit committee and one meeting of the personnel committee were also held. Urgent decisions were taken in telephone conferences. The agendas for the board meetings are drawn up by the chairman on the basis of proposals by the CEO. Any member of the board can also propose items for inclusion on the agenda. The board usually makes an annual visit to one group location.

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

In the 2004 financial year none of the members performed executive duties. The chairman is elected for one year. The audit committee meets at least twice a year. The head of internal audit, representatives of the statutory and group auditors PricewaterhouseCoopers AG, the CEO and the CFO and other members of the Group Executive Committee and management as appropriate, also attend the meetings. The main duties of the audit committee are:

- elaborating principles for external and internal audits for submission to the Board of Directors and providing information on their implementation
- assessing the work of the external and internal auditors and their mutual cooperation



- assessing the reports submitted by the statutory auditors and the group auditors
- reporting to the Board of Directors and assisting the board in nominating the statutory auditors and the group auditors for submission to the Annual General Meeting
- considering the results of internal audits, approving the audit schedule for the following year, nominating the head of internal audit

Georg Niederer, Certified Auditor, has been the head of **internal audit** since 2002.

Since Rieter's Board of Directors has only six members, the entire board currently acts as the **personnel committee/nomination committee**. The chairman of this committee is appointed by the Board of Directors. Kurt Feller held this position in 2004. The personnel committee meets at least once a year. It stipulates the profile of requirements and the principles for selecting members of the Board of Directors and prepares the election of new members of the Group Executive Committee and their terms of employment. It establishes the principles for the remuneration of directors and top management at the Rieter Group, especially bonus programs, share purchase plans and option programs. The personnel committee and the Board of Directors are also informed about plans for senior management succession and the relevant development plans.

#### **Allocation of authority**

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

#### **Information and control instruments regarding the Group Executive Committee**

The Board of Directors receives from the Group Executive Committee a written, monthly report on the key figures of the group and the divisions which provides information on the balance sheet, cash flow and income statements, capital expenditure and projects. The figures are compared with the budget, the previous year and competitors. Financial statements for publication are drawn up annually and semi-annually. The Board of Directors is also informed at each meeting about the course of business, important projects and risks. If the Board of Directors has to rule on major projects a written request is submitted to directors prior to the meeting.

The members of the audit committee, the CEO, the CFO, and appointed members of the management, receive the internal audit reports. Internal audit conducted 25 audits in 2004. The results were discussed in detail with the companies and divisions concerned, and with the CEO and the CFO, and appropriate measures have been initiated accordingly.

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

A corporate risk council has been established at group level. This body consists of the CFO, the Group Secretary (chairman), the head of internal audit and other representatives of central group and divisional specialist service units. The risk council advises the Board of Directors, the CEO and the Group Executive Committee on risk management issues and also draws up and maintains risk management concepts, systems and guidelines. A report on the risks existing in the group is drawn up annually for the Board of Directors.

Rieter has issued a code of conduct, which is an integral part of every employee's contract of employment. Compliance with this code of conduct is verified regularly in the context of internal audits and by additional audits. This code can be accessed on the Internet at [www.rieter.com](http://www.rieter.com) (Inside Rieter >> Corporate Profile).

#### 4 Group Executive Committee

The Group Executive Committee had four members on December 31, 2004: the CEO, the heads of the two divisions, and the CFO:

Name	Nationality	Position	Year of Birth	With Rieter since	Member of the Executive Committee	Current function since
Hartmut Reuter	DE	Chief Executive Officer	1957	1997	1997	2002
Erwin Stoller	CH	Head of the Automotive Systems Division	1947	1978	1991	2002
Peter Gnägi	CH	Head of the Textile Systems Division	1954	1990	2002	2002
Urs Leinhäuser	CH	Chief Financial Officer	1959	2003	2003	2004



##### **Hartmut Reuter (1957)**

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



**Erwin Stoller (1947)**

- Head of the Automotive Systems Division.
- Swiss national.
- Dipl. Masch. Ing. ETH Zurich.
- With Rieter since 1978, member of the Group Executive Committee since 1991, head of the Spinning Systems Division 1991–1996, head of the Textile Systems Division 1996–2002, in his present function since 2002.
- Member of the board, Bucher Industries AG, Niederweningen.



**Peter Gnägi (1954)**

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



**Urs Leinhäuser (1959)**

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

**Management contracts**

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

**5 Remuneration, equity participation and loans**

**Content and process for specifying remuneration and equity participation programs**

The basic features of salary policy are elaborated by the personnel committee and adopted by the Board of Directors as a whole, which also approves the bonus program, the share purchase plan and the option plan. The Board of Directors approves the remuneration of the members of the Board of Directors and the Group Executive Committee on the basis of proposals submitted by the personnel committee.

Senior management personnel in the group are remunerated according to the principle of flexible, performance-related compensation. Their remuneration consists of a basic salary, a performance-related component in the context of the bonus plan and the opportunity to participate in the share purchase plan, which applies to the top level of group management – a total of some 126 personnel. The members of the Group Executive Committee also participate in an option plan. The performance-related component is based on the operating earnings achieved by the respective unit, consolidated net profit and the return on net average assets (RONA), as well as organic growth.

#### **Share purchase plan**

Rieter seeks to encourage executives to make a substantial investment in the group's share capital. The company therefore promotes the purchase of its shares through a share purchase plan. In order to foster long-term ties between executives and the company, at least two-thirds of the shares acquired in this way cannot be sold for three years. In the context of this program the members of the Group Executive Committee can purchase Rieter shares up to the amount of their bonus at a variable discount. The discount granted is subject to the achievement of previously defined earnings targets by the group (net profit, return on net average assets [RONA] and organic growth).

#### **Option plan for the Group Executive Committee**

The members of the Group Executive Committee receive an option to purchase one Rieter registered share at the relevant exercise price for each share purchased under the executive share purchase plan and subject to the three-year restriction on sale.

Details of the option plan can be found on page 21.

#### **Remuneration of serving directors and officers**

The members of the Board of Directors receive a fixed annual remuneration. Part of this amount is disbursed in the form of Rieter shares which cannot be sold for three years. The cash remuneration of the Board of Directors in the 2004 financial year totaled 756 000 CHF.

In the 2004 financial year cash remuneration totaling 3 685 000 CHF was disbursed to the members of the Group Executive Committee. This sum comprises the basic salary (including all employer's contributions to pension funds in excess of obligatory amounts, excluding employer's contributions to state social security funds), and the bonus for 2004.

#### **Remuneration of former directors and officers**

No remuneration was disbursed to former directors and officers.

#### **Shares allotted in the year under review**

The directors received 1 752 Rieter registered shares in the 2004 financial year in the context of the share purchase plan. None of the shares acquired by directors in the context of the share purchase plan can be resold for three years.

### Shareholdings

The directors held 12 400 Rieter shares on December 31, 2004. The members of the Group Executive Committee held 12 601 shares. These figures include the shareholdings of the respective individuals, their spouses and minor children. 14 387 of these shares cannot be sold for three years.

### Options

The members of the Group Executive Committee were allotted a total of 3 856 options in the context of the option plan in the 2004 financial year. No options were exercised, and no options expired.

Summary of option holdings:

	Issue date	Number of options	Exercise price in CHF	Blocked until	Expiry date
	2000	2 824	471.50	2002	2005
	2001	4 071	419.00	2003	2006
	2002	2 927	352.00	2004	2007
	2003	4 633	244.00	2005	2008
	2004	3 856	318.15	2006	2009
<b>Total options</b>		<b>18 311</b>			

### Additional fees and payments

No additional fees or other payments were disbursed to members of the Board of Directors or the Group Executive Committee in 2004, nor were severance payments disbursed to any member of the Board of Directors or the Group Executive Committee in 2004.

### Loans to directors and officers

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

### Highest total remuneration

The highest cash remuneration paid to a member of the Board of Directors in the 2004 financial year was 346 000 CHF. The company also allotted 450 shares in the context of the share purchase plan.

## 6 Shareholders' participatory rights

### Voting restrictions

Rieter imposes no voting restrictions.

### Statutory quorum

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

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

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

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

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

**Entries in the shareholders' register**

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

**7 Change of control and defensive measures****Obligation to submit an offer**

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

**Change of control clauses**

There are no change of control clauses in contracts of employment and office. In the event of a change of control all outstanding options can be exercised immediately.

**8 Statutory and group auditors****Duration of mandate and term of office of the lead auditor**

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

**Audit fees and additional fees**

PwC, KPMG and other auditors charged the Rieter Group approximately 2.7 million CHF for services in connection with auditing the annual financial statements of the group companies and Rieter's consolidated accounts for the 2004 financial year. PwC, KPMG and other auditors invoiced some 1.1 million CHF for additional services. Of this total, 0.1 million CHF were for services closely related to the audit, 0.6 million CHF for tax consulting and 0.4 million CHF for other services.

### **Supervisory and monitoring instruments regarding the auditors**

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

## **9 Information policy**

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

Important dates:

– Annual General Meeting 2005	April 28, 2005
– Disbursement of dividends to the shareholders	May 6, 2005
– Semi-annual report 2005	August 16, 2005
– Publication of sales 2005	February 3, 2006
– Deadline for proposals regarding the agenda of the Annual General Meeting 2006	February 28, 2006
– Results press conference	March 29, 2006
– Annual General Meeting 2006	April 27, 2006

### **Contacts for specific queries regarding Rieter are:**

for investors and financial analysts:

Urs Leinhäuser, CFO, Phone +41 (0)52 208 79 55, Fax +41 (0)52 208 70 60,  
[investor@rieter.com](mailto:investor@rieter.com)

for the media:

Dr. Peter Grädel, Head Corporate Communications, Phone +41 (0)52 208 70 12,  
Fax +41 (0)52 208 72 73, [media@rieter.com](mailto:media@rieter.com)

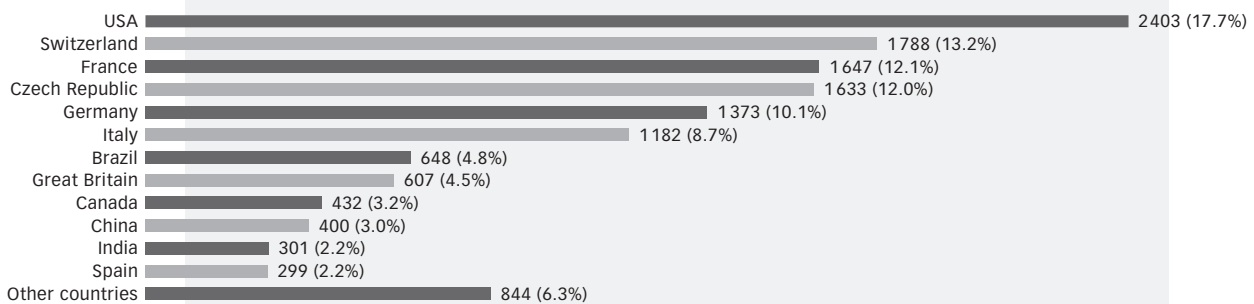
Rieter's performance depends above all on the motivation and skills of the employees. Accordingly, employee commitment figures as the central pillar in Rieter's corporate vision. The Rieter brochure "Values and Guidelines" explains which uniform values unite the workforce at all locations and creates the framework for a corporate culture. The personnel guidelines deducted from these guidelines are applicable worldwide and define the principles to be observed in dealings with all Rieter employees. The appropriate steps are selected and implemented with regard to the cultural, economic and legal environment at the individual locations, subject to local and regional responsibility.

Rieter employed a workforce of 13 557 at the end of 2004. As only some 2% of all sales are recorded in Switzerland, the Rieter Group increased its workforce in the past few years in the customer markets as well as in low-cost countries. Today Rieter's workforce in North America is the largest with a share of 20.9% compared to 1.8% in 1994. In the same period the number of employees in Asia rose from less than 1% to some 6%. This trend to create jobs in important customer markets such as China and India will continue.

Equal opportunities, fairness and integrity as well as tolerance and respect are important principles for Rieter. Rieter is opposed to every form of discrimination and is striving for diversity in its workforce adapted to the various locations and work situations. For example, since 1995 the in-house WIR (Women in Rieter) network at Ingolstadt has pursued the goal of identifying and promoting more effectively the potential of women in the company. Last year WIR organized numerous events to provide women with information on company and non-company themes and strengthen the women's network. Rieter holds regular meetings for young women at various locations to smooth the path for school graduates wishing to embark on technical careers.

## Number of employees by country

2004 total 13 557 (100%)







**Identical standards worldwide**

Rieter's Code of Conduct, which is also accessible to outsiders on the Internet, formulates the standards that Rieter maintains in its dealings with internal and external target groups, for example in the fields of ethics, non-discriminatory personnel management, and workplace security. This code is applicable to all Rieter locations worldwide. Rieter respects the rights of its employees, informs them regularly and cultivates in-house dialog with a view to identifying needs in the various business units and divisions at an early stage. Rieter's European Works Council assumes a major function in this process on the European plane. This body was augmented by representatives from Poland and the Czech Republic in 2004 in the context of EU enlargement.

**Personnel training and development**

Personnel training and development are core tasks for Rieter if it is to maintain its position as a technology group in the global competitive environment. In Winterthur, for example, apprentices under training at Rieter account for more than 10% of the workforce, which is above average for the industry. Our own apprentices are not only tomorrow's well-trained employees, they already represent a productive element of the company during their training period. This is reflected in a special way in the "Creative Solutions" company managed by the apprentices themselves: this is where three or four apprentices each year acquire valuable experience in managing a company of their own. In-house development of prospective managers at the German-speaking locations of Textile Systems is reflected in the relatively high proportion of employees under the age of 30.

Rieter provides global in-house development facilities in various programs, thus preparing personnel in international teams for new challenges and management assignments. Rieter is therefore able to fill most in-house management positions with company personnel and to ensure management continuity through systematic succession planning.

Contacts with universities enable Rieter to engage in regular exchanges of knowledge with the research community. Rieter also regularly employs trainees from colleges of advanced technology in order to nurture and utilize these contacts to the full.

While personnel training and development usually take place locally in order to take properly into account the relevant cultural and economic environment, Rieter also provides systematic further training for employees from new locations. These programs – e.g. for Chinese specialist staff and managers – are not only about Western management methods and Rieter corporate culture but also about know-how transfer in the opposite direction; the goal is to have internationally mixed teams who can cooperate in future in an optimal way.

Preserving the environment and reducing the consumption of non-renewable resources as well as integrated risk management are part of Rieter's corporate strategy. An environment and safety mission statement that is applicable worldwide has been in effect since 1997. Environmental protection is regarded as all-embracing: in addition to the optimization of all production processes and infrastructure facilities on the basis of ecological criteria, close attention is also paid to the eco-efficiency of products and services. Eco-efficiency is understood to mean economic and ecological efficiency in general, as a result of which added value is generated and at the same time the burden on natural resources is reduced.

## **Environmental protection through innovative product design**

The automotive industry estimates that the weight of automobiles can be reduced by some 15 to 20% through increased use of lighter fibrous materials and plastics instead of steel. Rieter is making an important contribution to this reduction with its products. Rieter Automotive's underfloor modules are a revealing example of economizing on resources through innovative product design: the use of eco-efficient underfloor modules results in enormous fuel savings due to improved aerodynamics and is therefore both economically and ecologically beneficial. The savings achieved are about ten times the resources consumed in production.

For many years Rieter has developed state-of-the-art spinning systems for the textile industry featuring lower energy consumption due to the use of innovative engineering. These products can be updated with little effort and upgraded to the latest technology available. Their long life cycle reduces the consumption of raw materials per unit of yarn produced. The higher quality of the yarns also facilitates more environmentally friendly downstream processing, since subsequent chemical treatments are eliminated.

## **Ecology throughout the life cycle**

Rieter's greatest contribution to environmental protection is that the products and systems it manufactures conserve energy and resources throughout their life cycle. A socially and ecologically responsible approach starts with the choice of suitable suppliers, which is why Rieter takes their attitude to the environment into account as a selection criterion. Rieter has also issued a declaration requirement for hazardous substances that is applicable to all suppliers; since 2004 this can be completed directly at the suppliers' portal on the Internet at Automotive Systems.

On economic and ecological grounds, Rieter attaches considerable importance to the economical use of raw materials in production. Raw material consumption is reduced further by the use of recycled materials. For example, some 80% of the material used by Rieter Automotive for the production of sound insulation components in a Western European plant is already recycled. In the production of the latest generation of weight-saving Rieter Ultra Light noise control systems all waste products can be recycled.



The stylized globe with the green leaf is the symbol for Rieter's worldwide environmental activities.

In a new DaimlerChrysler passenger car Rieter is using fibers from the abaca banana plant for the first time instead of industrially manufactured glass fibers. This is a unique application in automotive engineering worldwide. The module fulfills all technical and economic requirements as well as those of sustainability: trading in the raw fibers is an additional source of income for farmers in the Philippines, and at the same time they make an important contribution to preventing erosion and restoring the rain forest by cultivating banana plants on areas which have been cleared of trees.

#### **Investment in infrastructure improves efficiency and preserves the environment**

Rieter made substantial investments during the past year in recycling waste products occurring during manufacturing operations and returning them to the production process. For example, in Ons-en-Bray (France) Rieter Automotive brought into operation a new recycling plant which separates 2000 tons of plastic and fibrous waste occurring in production operations annually and returns them to the manufacturing cycle. This not only helps the environment, it is also economically beneficial.

#### **Reducing CO<sub>2</sub> emissions**

In the past year the group's two Swiss subsidiaries – Rieter Machine Works in Winterthur and Rieter Automotive Heatshields in Sevelen – signed the target agreement with the Swiss Business Energy Agency (Energie-Agentur der Wirtschaft – EnAW) relating to energy efficiency, CO<sub>2</sub> loading and CO<sub>2</sub> intensity. Rieter has thus entered into a contractual undertaking to achieve the targets for reducing CO<sub>2</sub> emissions on a voluntary basis. It is planned to reduce CO<sub>2</sub> emissions to the level recorded in 1990 – despite a total increase in energy consumption of 16% compared with 1990 – by 2010. Rieter is on track in these efforts, as the example of Rieter Automotive's production plant in Sevelen shows: in 2003 Rieter saved 16 668 MWh of energy there and reduced CO<sub>2</sub> emissions by 3 480 tons compared with the year 2000. The Rieter plant in Sevelen thus reduced its energy consumption and its CO<sub>2</sub> emissions by much more than required by the Swiss Business Energy Agency. CO<sub>2</sub> emissions at the Winterthur site have also been reduced by 50% since 1990.

**Modernization to improve energy efficiency**

The careful use of energy is a tradition at Rieter. For example, energy consumption at the company's Winterthur site has been declining for 15 years: by almost 40% between 1990 – the reference year for the targets defined in the CO<sub>2</sub> Act – and 2003. CO<sub>2</sub> emissions are as much as 50% lower. This figure does not include the closure of the foundry. During the same period the ratio of energy consumption to sales generated has improved continuously: sales per unit of energy rose from approx. 12 000 CHF/MWh in 1990 to approx. 22 000 CHF/MWh in 2003. One reason for this is the replacement of an older generation of machining system with eleven large machine tools by three very modern machining centers in Winterthur. Annual energy consumption has declined from 1 500 MWh to 750 MWh. The use of closed-circuit lubrication systems has resulted in a reduction of some 60% in consumption of cooling lubricants. Exhaust air is also fully purified.

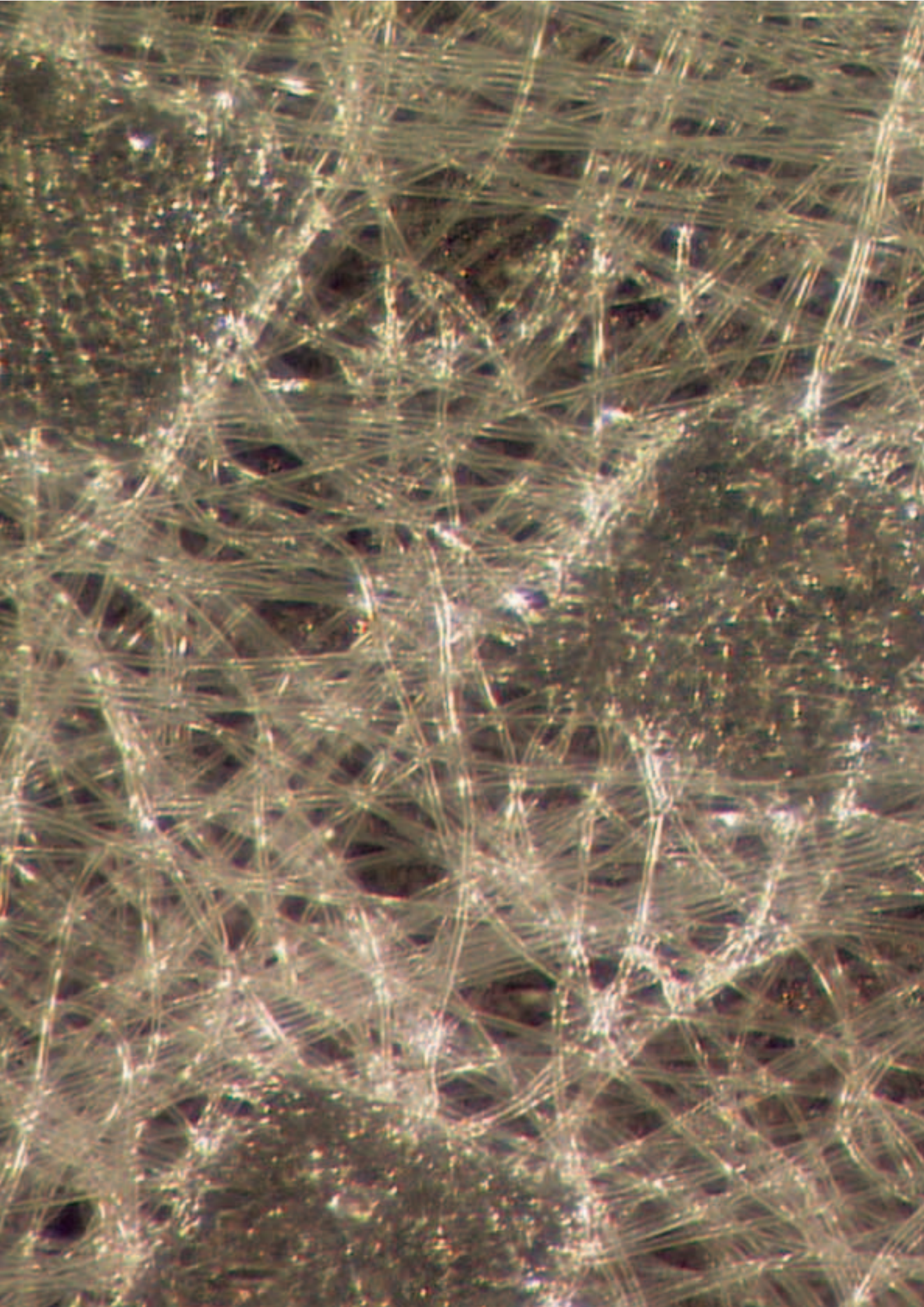
Continuous maintenance of the infrastructure is a principle applicable to all locations worldwide. Last year Rieter replaced a central oil heating system by decentralized gas heating at the Ústí nad Orlicí site in the Czech Republic, thus substantially reducing energy consumption and CO<sub>2</sub> emissions.

**Global risk management has a sustained impact**

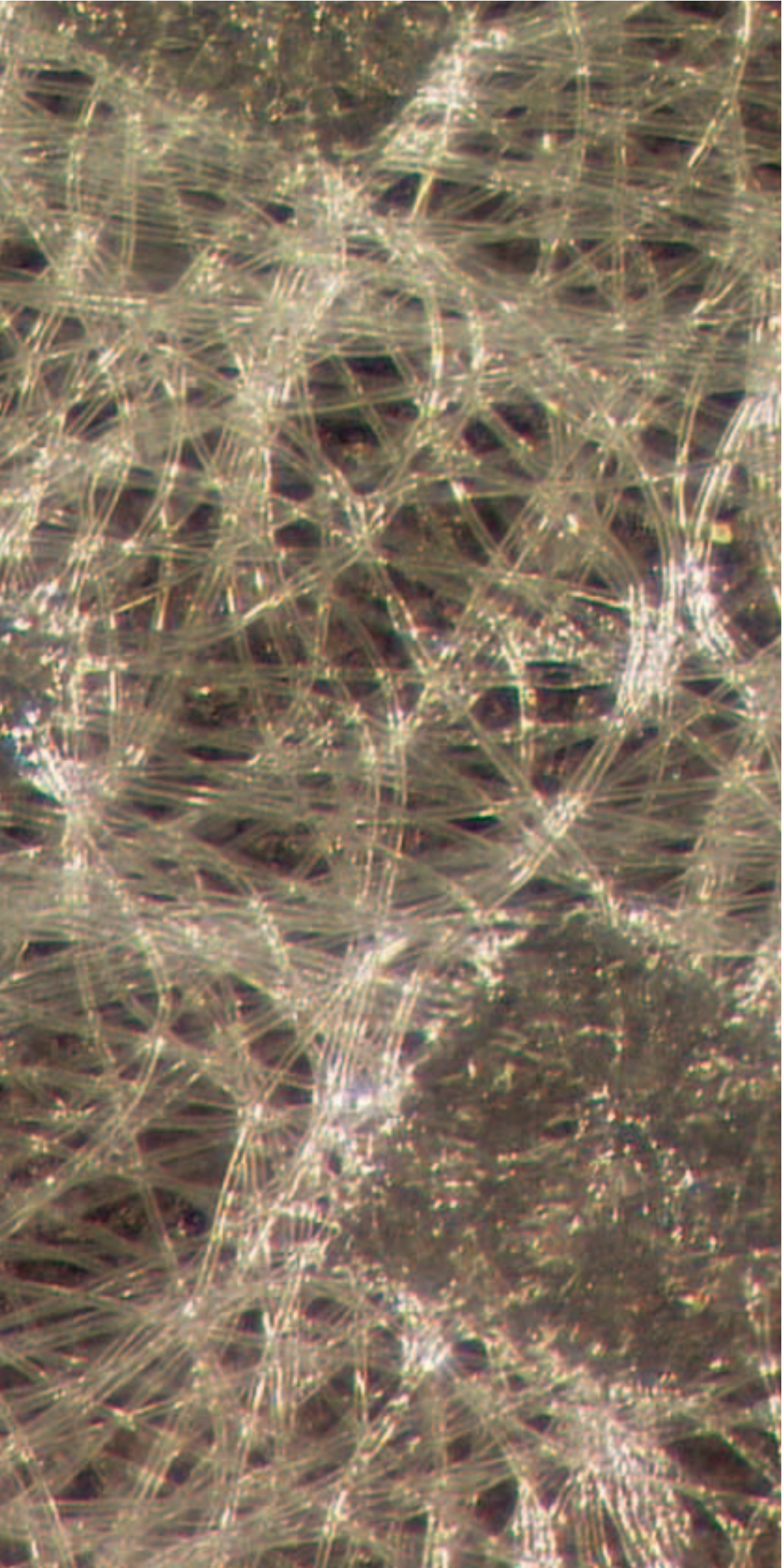
Rieter attaches great importance to dealing carefully with technical risks. The assessment and reduction of risks results in greater safety in operating workflows and production processes, and thus also in safe products for customers. In the past year 49 of the total of some 60 Rieter production sites worldwide were inspected with regard to the management of technical risks. Risk control audits were also performed for the first time in China. These regular inspections again documented an encouragingly high level of risk awareness among Rieter personnel worldwide in the past year.

Dealing responsibly with the natural and social environment and the awareness of risks and their prevention can ultimately only be assured if they are appreciated accordingly by all employees. Rieter has therefore printed an environment and safety diary for all personnel worldwide in 10 languages, including Chinese. This diary provides practical advice and uses easy examples to explain how each and every employee can contribute to the company's environmental protection efforts and to greater safety at the workplace.



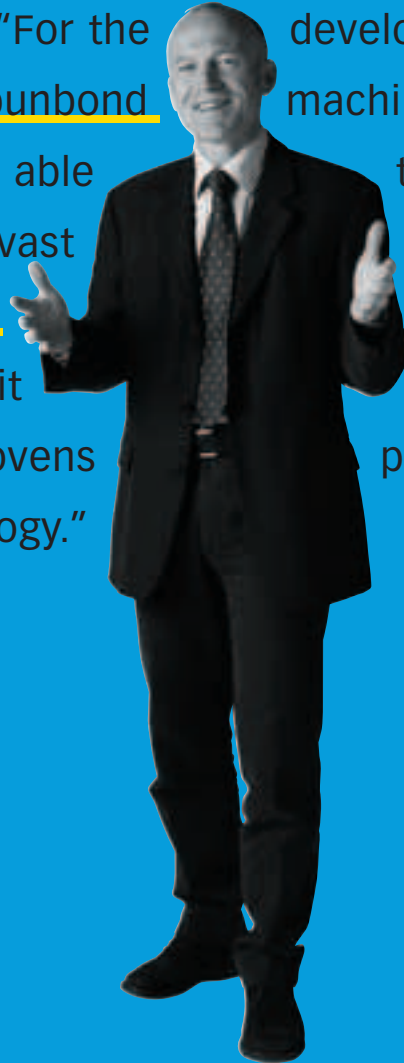






Innovation  
through the combination of  
tradition and modernity

“For the development of  
our spunbond machines,  
we were able to draw on  
Rieter’s vast knowledge in  
fiber technology  
and combine it with the latest  
nonwovens production  
technology.”



**Frédéric Noëlle**  
Head Research, Rieter Perfojet  
Montbonnot, France





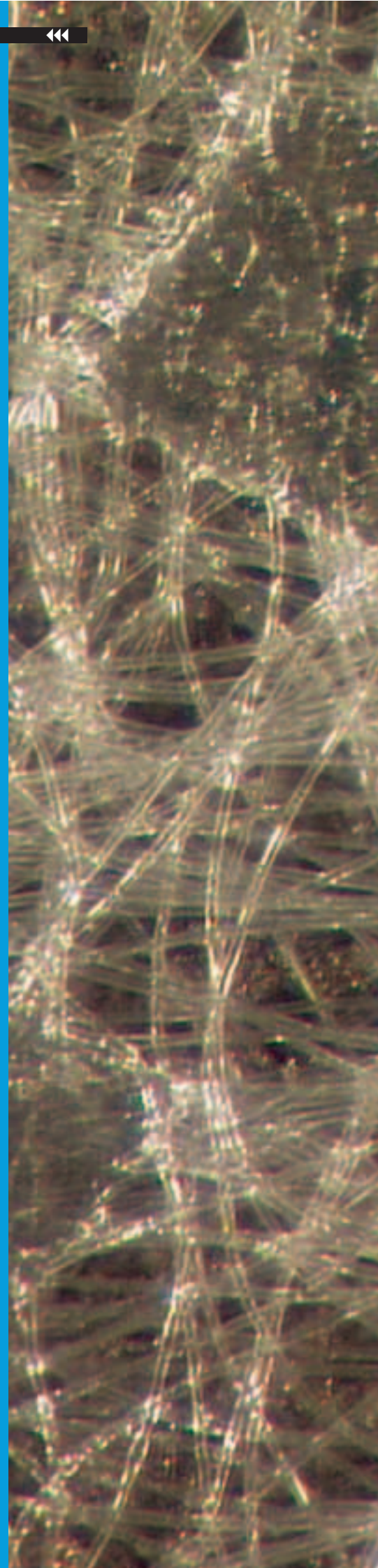
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2

1 Nonwovens are now being used for an increasingly wide range of products. After several years of research, Rieter has entered the market of spunbond technology and is setting new standards with its PerFOBOND 3000.

2 Low production costs and excellent material properties make spunbond nonwovens ideal for single-use applications, such as for hygiene or medical products.







## Innovation through broad-based know-how

“The physical properties  
of fibers and yarns must be  
accurately measured to  
enable new spinning  
processes to be tested.  
Rieter currently  
has one of the best  
equipped measuring and  
testing laboratories  
worldwide.”



**Karin Steiger**  
Textile Laboratory Assistant  
Winterthur, Switzerland





1



2

1 Rieter's Com4spin machines have been setting new standards in yarn quality for years. In the context of continuous further development, Rieter has now developed systems for the compact spinning of man-made fibers.

2 With its smoother yarn structure, higher tenacity and better dyeing affinity in the textile fabric, compact yarn improves downstream processing results in weaving and knitting operations. The ability to process man-made as well as cotton fibers means that the yarns can also be used for functional sportswear.



**Divisional chief executive:**

**Peter Gnägi**

**Sales:**

1 175.9 (1 228.2) CHF million

**Operating result before interest and taxes:**

114.1 (122.7) CHF million

10.2% (10.6%) of corporate output

**Number of employees at year-end:**

4 491 (4 559) employees

**Capital expenditure of tangible fixed assets:**

35.3 (29.3) CHF million

**Products:**

Systems, machines, components and service offerings for processing fibers and plastics into yarns, nonwovens and pellets as well as integrated systems solutions.

Previous year's figures are in brackets.

Rieter Textile Systems is the leading supplier of integrated systems for manufacturing yarns from natural and man-made fibers for all applications. Rieter Textile Systems is the world's only supplier with comprehensive know-how covering the entire spinning process and can therefore develop optimal solutions for customers. Textile Systems is also a leading manufacturer of machinery and systems for producing and finishing continuous man-made yarns. These yarns are used in industrial applications such as tire cord, carpet manufacturing, textiles for clothing and the electronics industry. Rieter Textile Systems supplies technologies for producing nonwovens, a segment that is continually expanding into new applications ranging from agriculture to the industrial and medical sectors.

For the plastics industry, the division develops and produces systems for manufacturing pellets, which are used for further processing into fibers or, for example, for the production of PET bottles.

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

# Very good profitability despite slowdown in the China boom

## Market development

After a subdued start to 2004, the textile machinery industry had a very good first half-year on the whole, with strong demand in Asia. The growth trend in China, the largest market for textile machinery, leveled off in the summer and autumn. Economic activity cooled in response to more restrictive lending policies, rising raw material prices and shortages of steel and energy. Textile manufacturers still planned to expand, but were hesitant to place orders.

Key components of the textile value-added chain continued to shift towards Asia in the past year. Pakistan, India and China in particular benefited from this trend by virtue of local supplies of raw materials and low wages, while Turkey succeeded in maintaining its high degree of input. In India the reduction of import duties on textile machinery also fueled a surge of orders, and in Pakistan Rieter installed its 1000<sup>th</sup> drawframe, compared with a worldwide population of some 20 000 Rieter drawframes, demonstrating its strategic importance.

Rieter Textile Systems is well positioned for the future on the global textile machinery market due to the importance of integrated installations and an ability to deliver on manufacturers' increasing requirements with regard to shorter process chains, higher

## Sales development

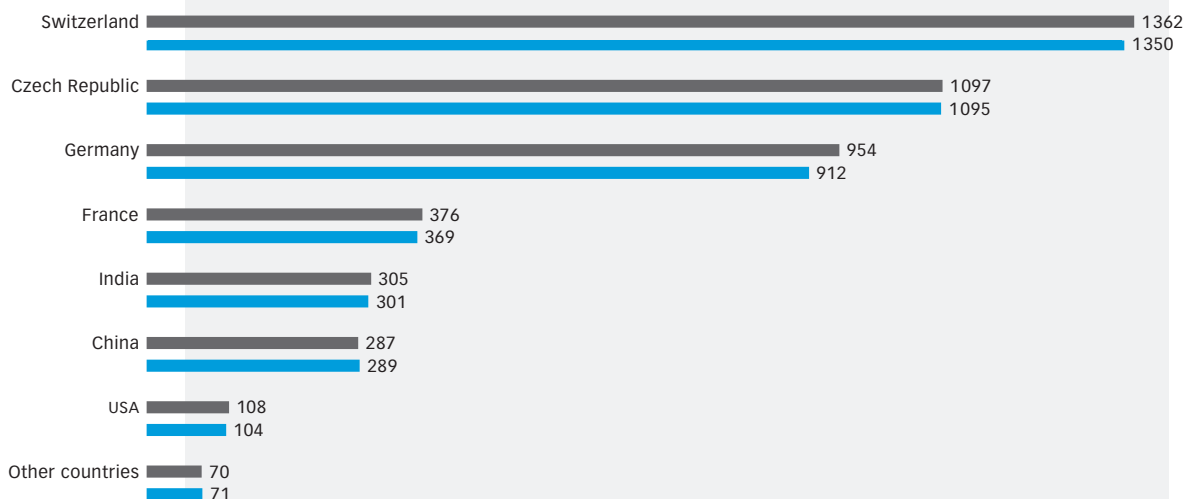
CHF million

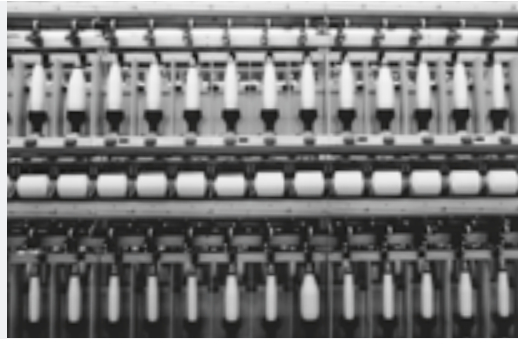


Orders received totalled 1091.0 million CHF in 2004 (1077.8 million CHF in 2003).

## Number of employees at year-end

— 2003 total 4559  
— 2004 total 4491





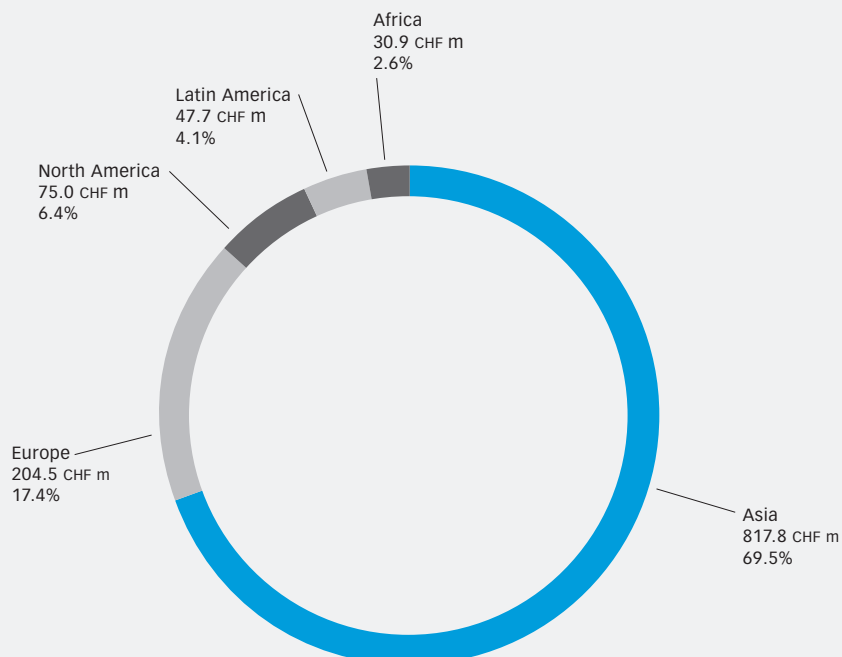
overall productivity, reduced operating and maintenance costs and the development of innovative textile products. As a supplier of machinery and systems for the entire spinning and nonwovens process, Rieter has at its disposal the know-how to plan complete, high-quality manufacturing systems featuring high production performance and superior life cycle performance while occupying the smallest possible space.

#### Higher order intake compared with the previous year

Orders received by the Textile Systems Division increased by 1.2% to 1 091.0 million CHF in 2004. The two halves of the year showed diverging trends. While strong demand in Asia was still the dominant feature of the first six months, with growth of 14% compared with the same period of 2003, fewer orders from China in the second half of the year, together with uncertainties in the textile industry about new tariff regimes after the removal of textile quotas, resulted in weaker order intake compared with the same period of 2003. The more subdued market in China was more than offset in the year under review by higher demand from other Asian markets such as Pakistan and India, as well as more orders from Europe and America.

The decline in sales in China for the first half of 2004, incurred as a result of delays in delivery due to the shortage of resources, was not recouped in the second half, so that sales in the 2004 financial year were 4.3% lower at 1 175.9 million CHF. The largest markets for sales in 2004 were again in Asia; they accounted for almost 70% (some 61%

#### Sales by geographical region 2004







in 2003) of Textile Systems sales. China and Turkey were the largest markets in the year under review.

#### **Continued very good profitability**

Rieter Textile Systems again reported a very good EBIT margin of 10.2% in the year under review. This was due to a strong product base, flexible cost and cycle management and an international manufacturing organization with motivated and flexible personnel. The operating result before interest and taxes (EBIT) declined slightly to 114.1 million CHF (122.7 million CHF in 2003), due primarily to lower sales volumes and higher raw material and energy costs.

#### **Strong presence in China and further expansion in 2005**

Rieter has succeeded in expanding its market share in the strategically important Asian markets. Together with its enlarged manufacturing facility in Changzhou, the sales offices in Peking, Hong Kong, Taipeh, Jinan, Urumqi and Wuhan, and its head office in Shanghai, Rieter Textile Systems has reinforced its local presence in China and is thus well positioned to face competition, also from growing Chinese rivals. A new technology center is also available to staple fiber machinery customers for training purposes and spinning trials. Rieter also maintains local stocks of spare parts, from which Chinese customers can be supplied very rapidly, and a fully equipped service center. Despite a temporary slow-down in demand from China, Rieter will expand its presence further in this strategic market in 2005. For this purpose a new building will be added at the Changzhou manufacturing location, the product range manufactured for China will be broadened and a development center for adapting products to the local market will be expanded. These investments lay the foundation for gaining access to additional customer segments in China. The acquisition of the remaining share capital of Suessen (refer to page 9) also reinforces Rieter's position in the strategically important Indian market.

#### **Innovation – a strategic success position**

Whereas spinning mills used to confine themselves to only a few processes and yarn types, they now offer a variety of products and seek to achieve cost leadership. Continuous innovation and rapid implementation in the form of marketable products are even more important for Rieter now than in the past. Early identification of the needs of markets and customers are a crucial factor here, which is why market research – especially also in the Asian markets – is being intensified. Rieter Textile Systems invests about 5% of corporate output in research and development.

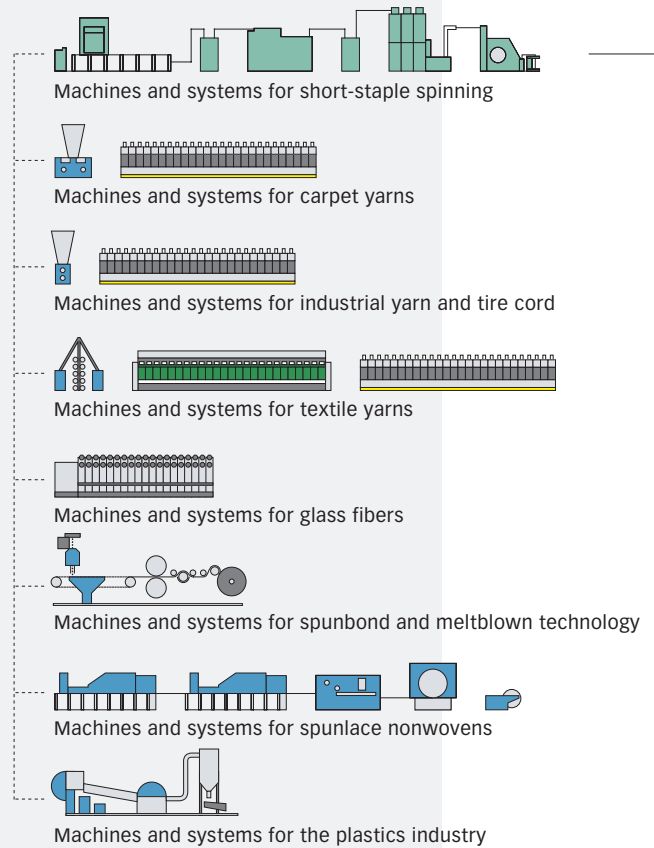
Rieter Textile Systems pursues innovation primarily in the following sectors:

- machinery and systems that enable novel or higher-quality yarns to be produced
- machinery and systems featuring higher productivity
- machinery and systems featuring lower operating costs and reduced energy consumption

Rieter Textile Systems seeks in this way to expand its position of leadership and to continue to support its customers in future with products and systems that assure them of sustained success.



## Machines, components and systems for the textile industry

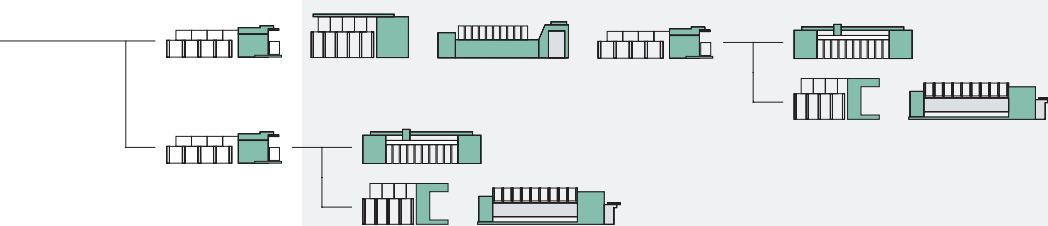


### Reinforced position in staple fiber machinery

In the year under review all business units of Rieter Textile Systems brought new machines onto the market and achieved new milestones. Especially worth mentioning is the world's longest rotor spinning machine with 360 spinning positions and the redesigned C 60 card, which can now be used for all applications with cotton, man-made and blended yarns. Rieter Textile Systems presented these products at various trade fairs and symposia in major markets such as Turkey, Pakistan, China, India, Russia and Vietnam, which resulted in more orders in these markets.

The market for staple fiber machinery remains keenly contested. Compact yarn spinning machines have continued to increase their share of the ring spinning machinery business. As the market leader in staple fiber machinery, Rieter is still by far the largest supplier of compact spinning installations. The yarns produced by customers of Rieter Textile Systems using this process have in the meantime become "standard yarn" for various applications. With 1200 spinning positions, the K 44 is the world's longest compact spinning machine. Polyester microfibers or fiber blends can now also be spun successfully on the K 44 (refer to pages 36 and 37). In addition to compact yarn, machines for producing Rotona elastic yarn mean that Rieter has the technology for a second unique type of yarn which is meeting with a considerable response from customers. The know-how acquired for this forms the basis for further applications in combination with man-made fibers.

The market for rotor spinning machinery remained subdued in the past year. The Rieter Rotor System has established itself as an innovative system for economic manufacturing of high-quality rotor-spun yarns. The fully automated R 40 with the very high production potential of up to 360 spinning positions came onto the market as a new development. The machine delivers superior yarn quality due to the new SC-R spinning box of Suessen and has gained market share in an adverse business environment.



### **Subdued market for man-made fiber machinery**

The man-made fiber machinery market served by Rieter remained at a low level in the past year. In the extrusion spinning machinery sector Rieter recorded a positive trend with carpet yarn machines. The doubling and ply twisting machinery business, in which Rieter is world market leader, reported higher sales than in the previous year. Rieter Textile Systems launched a new generation of ply twisting machines for carpet yarn and tire cord in 2004.

### **Nonwovens: successful move into spunbond technology**

The development and manufacture of machinery for producing nonwovens is a newer branch of the textile industry. Rieter Textile Systems has been active in this promising field since 2000 and has made major advances in the further development of spunlace machines in the new development center in Montbonnot (France). The first spunbond and meltblown installations were delivered and installed in 2004 in addition to the proven spunlace process. The nonwovens sector has considerable potential for the future, despite constrained growth in the past year.

### **Strategic success factors**

Rieter Textile Systems is a world market leader in key machinery segments. This and its extensive distribution network facilitate access to customers worldwide. At the same time Rieter Textile Systems supplies complete spinning systems from a single source, complemented by reliable and professional customer service facilities and the development and manufacture of technology components and upgrade modules to keep older generations of machines up-to-date for prolonged periods or adapt them to customers' new requirements. The service infrastructure is being expanded further in key markets such as China, India and Turkey. As a reliable partner with a long and successful history, Rieter enjoys a high degree of confidence on the part of its customers. This often results in partnerships that last for decades. This combination of products, service and customer loyalty, plus continuous innovation based on intensive research and broad know-how, are the success factors of Rieter Textile Systems.

### **Future business trend**

Textile Systems' ability to adapt on short notice to the changing needs of markets and customers is based on strength innovation, local presence, flexible structures and rigorous cost management. After a relatively weak second half-year 2004 Rieter's assessment of the market environment in general is more confident, and there are good opportunities of achieving sales in 2005 at the previous year's level while maintaining good profitability.









## Innovation through new materials

“The cultivation  
of banana plants contributes  
to the restoration  
of the rain forest. At the  
same time the abaca fiber  
features valuable  
material properties  
and thus reduces the  
use of glass fibers.”



**Jürg Walther**  
Head of Production, Underfloor  
Modules  
Sevelen, Switzerland





1



2

1 Since abaca, the banana plant fiber, has different properties from glass fibers, Rieter's production and process development engineers first had to develop new manufacturing methods for the underfloor modules.

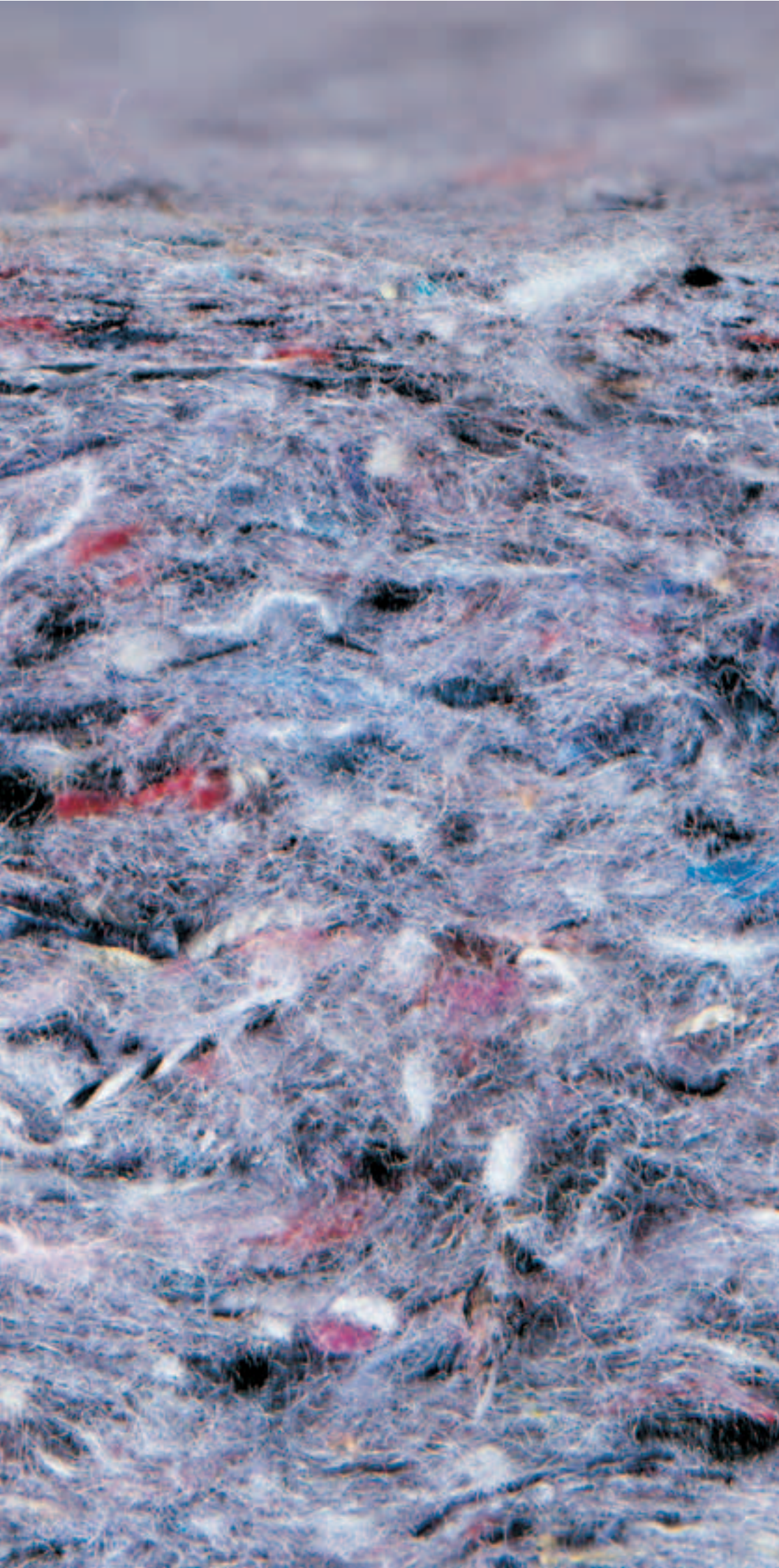
2 Innovative underfloor modules improve vehicle aerodynamics and thus help to reduce fuel consumption. Mercedes relies on Rieter know-how in the use of natural fibers for its A Class models.











Innovation  
through international cooperation

“An international team has been engaged in the further development of Rieter’s acoustic products. The result is Rieter Ultra Light ECO+, a product which sets the benchmark for noise and weight reduction in the automotive industry.”



**Jean-Claude Intile**  
Technical Support,  
responsible for development  
of Rieter Ultra Light in Italy,  
Santhià, Italy





1



2

1 Rieter Ultra Light products combine two different fiber bond densities and are thus lighter while providing better noise reduction qualities than comparable products. That is why they are being used in increasing numbers of cars around the world.

2 The acoustic qualities of Rieter Ultra Light now also make the interior of small cars such as the Lancia Musa quieter and thus much more comfortable to drive.



**Divisional chief executive:**

**Erwin Stoller**

**Sales:**

1 978.9 (1 875.6) CHF million

**Operating result  
before interest and taxes:**

98.3 (84.6) CHF million  
5.1% (4.6%) of corporate output

**Number of employees  
at year-end:**

8 940 (8 629) employees

**Capital expenditure  
of tangible fixed assets:**

84.5 (97.0) CHF million

**Products:**

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

Previous year's figures are in brackets.

Rieter Automotive Systems is one of the world's largest manufacturers of systems for acoustic comfort and thermal insulation in motor vehicles. By virtue of its core competences of acoustic and thermal management in motor vehicles as well as design & engineering, Automotive Systems is a leading supplier of acoustic components and systems for the passenger compartment, the luggage compartment, the underfloor and the engine compartment. The division develops innovative solutions and products under contract to and in close cooperation with all major automotive manufacturers worldwide. Automotive Systems maintains ten acoustics laboratories and six centers of excellence for material, product and module development worldwide with a total of more than 300 research and development specialists. Automotive Systems operates more than 40 production plants in Europe, North and Latin America as well as in South Africa and in China. It also has cooperative ventures with partners for the markets in Japan and other Asian countries. The components, modules and systems developed by Automotive Systems reduce noise and provide thermal insulation in passenger cars and commercial vehicles. They enhance driving comfort and help to reduce fuel consumption by reducing vehicle weight and aerodynamic drag (underfloor). Environmentally friendly manufacturing processes and recyclability take high priority in product development.



## **Asian manufacturers record substantial growth rates – vehicle production in North America and Western Europe at the previous year's level**

2004 was an extremely unsettled year for the automotive industry, featuring sales successes for Japanese and Korean manufacturers and lower volumes at a number of European and American carmakers. Automotive manufacturers are still facing excess overall production capacity. Global car output increased by some 5% last year to a total of 61.1 million vehicles. However, output stagnated in Western Europe and North America – Rieter Automotive's largest markets, where 53% of all vehicles worldwide are still produced – despite the boom in Asia. Significant gains were only recorded in Eastern Europe, South America and Asia, where manufacturers are bringing new capacity into operation.

Compared with 2003, automobile output in Europe increased by a total of some 4% to around 20 million vehicles. However, this increase was largely due to growth in Eastern Europe, where output rose by 24.3% to 3.8 million vehicles, while it stagnated in Western Europe, with a small decrease of 0.1% to about 16.4 million vehicles. The discount campaigns started in North America have also been adopted in certain markets by some manufacturers in Europe.

Automobile production in North America declined slightly in the past year, by 0.7% to around 15.7 million vehicles. While Japanese manufacturers Toyota (+18.8%), Nissan (+30.8%) and Subaru (+22.4%) all posted double-digit growth rates, the two large American producers, Ford and GM, recorded a decline of some 5% in the production of passenger cars and light trucks. With a broad and successful model offensive, the Japanese manufacturers have penetrated the segment of large off-road vehicles and pick-ups, which ten years ago was still completely dominated by the "Big Three". A steeper decline was avoided by offering discounts and financing incentives. Contrary to the statements made by the manufacturers at the beginning of 2004, these discounts actually continued to rise in the year under review.

Automobile production in Asia increased by some 7% to 21.4 million vehicles compared with the previous year. Output of 10.2 million vehicles in Japan was 1.7% higher than in 2003. The growth rate in China eased slightly. After a 35% rise in 2003, automobile output increased by 12.2% to 4.3 million vehicles in 2004. In the year under review the Chinese carmakers published plans for exporting their own vehicles to other countries for the first time.

## **Higher sales and profitability**

Rieter Automotive Systems posted a 5.5% increase in sales to 1978.9 million CHF in the 2004 financial year. Expressed in local currencies, this corresponds to growth of 6.7%. Growth was wholly organic. The acoustic segment supplied by Rieter is continuing to grow faster than vehicle output as a whole, also because acoustic comfort is gaining in im-



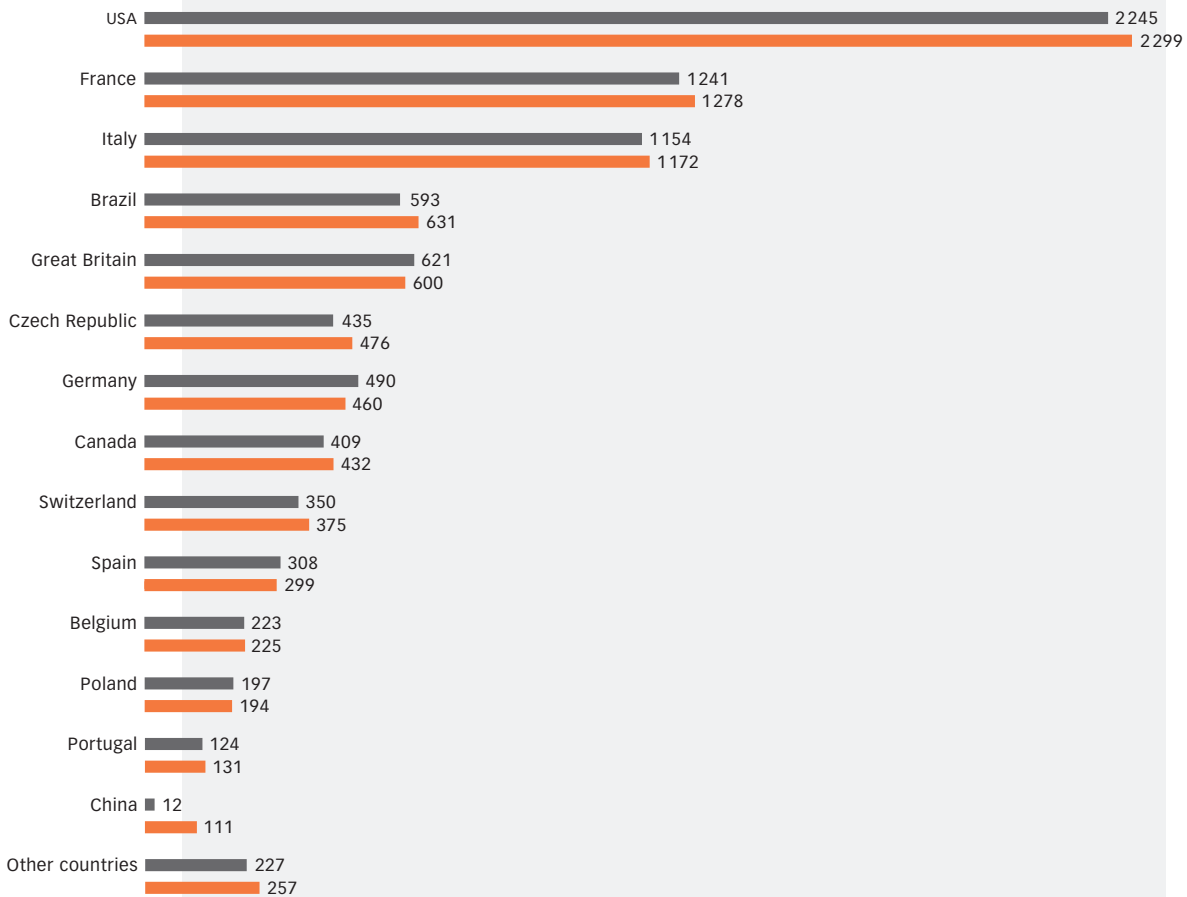
### Sales development

CHF million



### Number of employees at year-end

— 2003 total 8 629  
— 2004 total 8 940



portance in small cars and vehicles in the mid-size category. Rieter improved its market position as the leading supplier of integrated acoustic systems in 2004. The division also benefits from its broad regional spread and global customer base including all major automotive manufacturers and all segments. Due to new models for customers in France, Belgium, the UK, Sweden and Canada, the sales trend was particularly encouraging in these countries. In North America, Rieter Automotive's largest market, strong demand for Japanese cars made a significant contribution to sales growth (in local currencies) in this region.

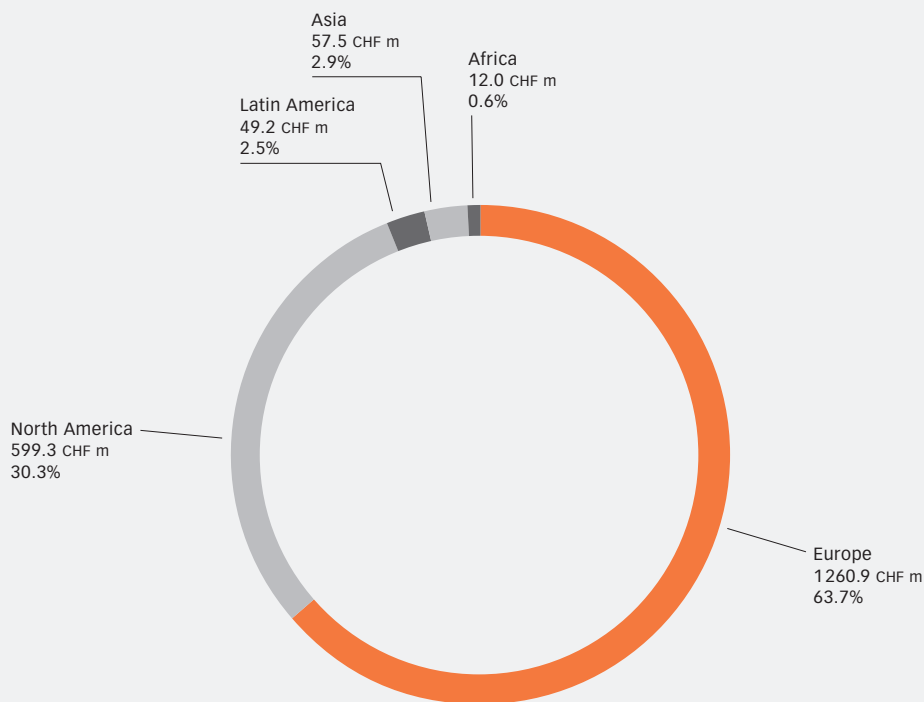


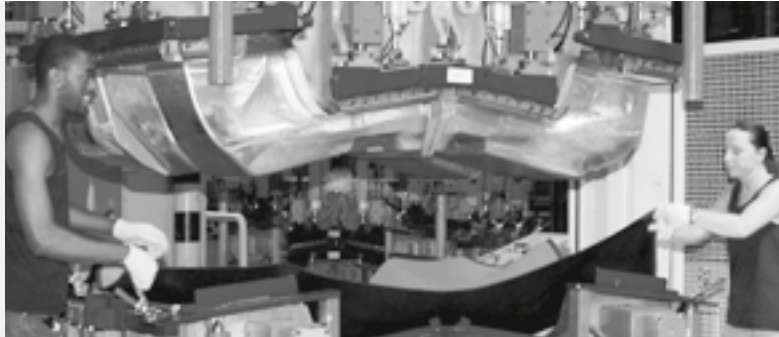
The operating result before interest and taxes (EBIT) rose by 16.2% to 98.3 million CHF (84.6 million CHF in 2003). The operating margin rose to 5.1% (4.6% in 2003). The increase in EBIT is attributable to initial successes of the program initiated in the previous year to reduce costs and increase productivity ("Roadmap to Profitable Growth"). The gains made have not yet reached our targets, since higher raw material and energy costs have not always been offset by price rises or additional rationalization efforts.

### Market trends

The trend toward niche vehicles and individually customized automobiles intensified in the past year. In addition, increasing numbers of model versions derived from the same vehicle platform are appearing. This increase in complexity in conjunction with shorter development lead times for new vehicles represents a growing challenge for component suppliers. In order to keep pace with these trends, Rieter is investing in the latest information technology facilities and the application of virtual design and simulation methods.

### Sales by geographical region 2004





More and more manufacturers entrusted the total development of vehicle interiors to a single partner in 2004. But it is still customary for vehicle interiors to be developed jointly by complementary suppliers, with Rieter being responsible for the acoustic system. Rieter is successfully pursuing the strategy of developing and manufacturing integrated acoustic solutions for automotive manufacturers in the role of acoustic integrator. Due to this focus on acoustic components and overall systems for vehicles, Rieter has a broad range of know-how in the core competence of automotive acoustics and heat management and an extensive product portfolio for this business segment.

The large and relatively expensive Sport Utility Vehicles (SUVs) continue to find favor with consumers not only in North America; European buyers also helped carmakers to achieve growth in this segment in 2004, despite high fuel prices. At the same time, however, a new trend emerged in Europe toward smaller, less expensive vehicles costing less than 10 000 Euros, for example the Dacia Logan manufactured by Renault in Romania. Automotive manufacturers worldwide sought to reduce costs through economy drives, and suppliers were called upon to support this objective with innovative solutions.

#### **Initial successes of the “Roadmap to Profitable Growth” program**

In the year under review Rieter Automotive worked intensively on efforts to improve profitability. The comprehensive “Roadmap to Profitable Growth” program is primarily concerned with evolving specific customer strategies, improving productivity at certain locations, reducing procurement costs and raw materials, reducing fixed costs, and establishing and expanding low-cost locations in Eastern Europe and Asia.

The program to increase profits also includes merging the existing Northern Europe and Southern Europe units into a single Europe Business Group. Unified management and organization will enable synergies to be utilized and customer care throughout Europe to be enhanced. In addition to improving the market interface, the emphasis is on cost management in order to secure growth projects offering good profit opportunities. Rieter Automotive also reinforced its German sales team in the past year and based it closer to its customers.

Rieter’s goal is to establish a global production system, and in order to achieve this production processes are continuously being improved and standardized worldwide. By optimizing integrated acoustic solutions for automotive manufacturers, Rieter can support customers in improving their cost position as well as increasing its own profitability.

Efficient processing of the raw materials proved to be an effective means of reducing costs in the past year. This was achieved through innovative product design and by reducing and recycling production waste. Rieter Automotive initiated appropriate steps last year for increased recycling of waste in manufacturing operations.



**Expansion of production in Asia  
– the market of the future – and especially in China**

After numerous major automobile manufacturers had established production facilities in China in the late 1990s, Rieter Automotive also secured a foothold in the Middle Kingdom in 2001, in the form of license agreements with Chinese manufacturers for the production of heat shields and noise control components. Rieter Automotive launched a joint venture with its Japanese licensee Nittoku and Taiwan-based Chu Chang Rubber Co. in 2003. At the beginning of last year this joint venture – Rieter Nittoku – started manufacture of noise absorption materials in Huadu, in the province of Guangdong in Southern China, for Japanese automotive manufacturers in China; since mid-2004 its product range has also included Rieter Ultra Light products and other acoustic components. Following the completion of the initial startup phase in 2005, Rieter will be producing acoustic components for some 330 000 vehicles annually through this joint venture in China. Plans foresee an increase in production volume to around one million acoustic packages annually by 2006. Rieter has trained a team of some 100 employees, who are responsible for production and for compliance with quality standards at this location. Idea Institute, Rieter's design and engineering subsidiary, opened a new office in Shanghai in the year under review. Idea Institute also provides Chinese automotive manufacturers with engineering and styling assistance in the development of their own automobile models. China will continue to be a growth market for the automotive industry in the years to come. Rieter is therefore planning to expand its activities further in China. In the year under review Rieter formed a joint venture together with Nittoku with the supplier Summit Auto Seats Industry in Thailand in order to supply Japanese customers in this growing market.

**Innovation – the driving force for profitable growth**

In the past year Rieter Automotive expanded its offering with new products and introduced new production processes and technologies. These include, for example, IFP (Injected Fiber Process) technology for manufacturing fibrous components such as dash treatments or floor insulation modules. This new process enables the acoustic properties of the module to be improved, while simultaneously economizing on material and reducing weight. In the past year Rieter Automotive brought two significant innovations

**Sales by product group**

— 2003 total 1875.6 CHF million  
— 2004 total 1978.9 CHF million





## All major vehicle manufacturers are Rieter customers



onto the market in the shape of the products illustrated in the pictorial section (pages 46 and 47) – Rieter Ultra Light Eco plus and underfloor components incorporating environmentally friendly abaca fibers instead of glass fibers. These underscore Rieter's role as an innovation leader for acoustic solutions. Rieter Automotive makes regular investments in research and development in order to remain a leader in the development of new solutions in future. In 2004 Rieter Automotive opened a new development center in Aubergenville (France) to enable it to serve automotive manufacturers in Europe even more effectively.

Rieter Automotive received a major industrial accolade and was nominated for an innovation award in the past year. Magee Rieter Automotive Systems received the "GM Supplier of the Year" award for the 12<sup>th</sup> year in succession. This award is made annually by GM in recognition of suppliers who have distinguished themselves especially with regard to quality, service, innovation and price. Magee Rieter is the only company in North America to have received this award every year since it came into existence. Rieter Automotive was also nominated for the automotive industry's prestigious Pace Award for the development of new simulation software for computing and designing optimum noise control materials and systems. Rieter already received the Pace Award in 2000 for the patented Rieter Ultra Light concept.



With its established manufacturing facilities in Western and Eastern Europe and North and South America, and a growing presence in Asia, Rieter can supply automotive manufacturers throughout the world. These global activities, its concentration on acoustic solutions and thermal management systems, together with a consistently high rate of innovation, make Rieter Automotive the leading supplier in this market today; by virtue of its global research and development activities, Rieter will also continue in future to fulfill challenging customer requirements featuring high standards of quality and innovation.

#### **Future business trend**

As a leading automotive component supplier of noise control and thermal management systems as well as of innovative underfloor modules, Rieter Automotive Systems operates in a sector that is growing faster than automotive production as a whole; in Rieter's main markets this is likely to increase marginally in 2005. The market trend in North America is particularly difficult to assess. Rieter therefore expects sales in 2005 at constant exchange rates to be slightly higher than in the previous year. Due to the steps taken to enhance efficiency, it can be assumed that Rieter Automotive will record a further improvement in operating earnings despite continuing requests for lower sales prices and the higher cost for raw materials.

