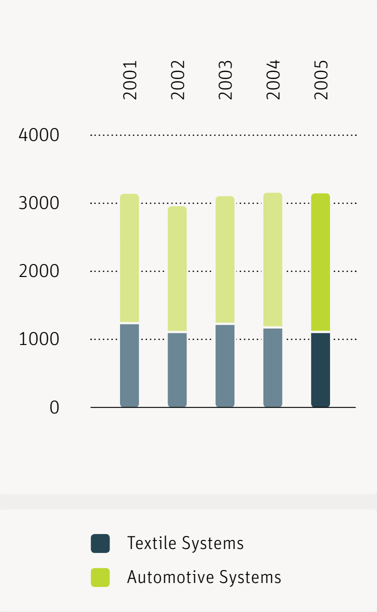
RIETER

Close to the customer Annual Report 2005

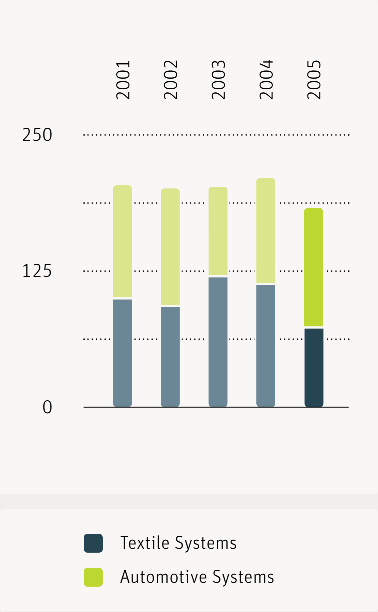
Key figures >

Rieter at a glance

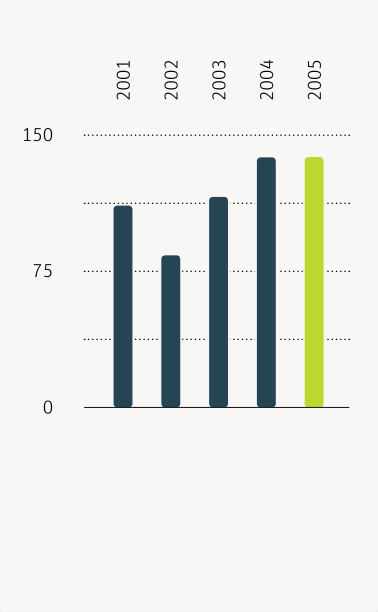
Sales in CHF million



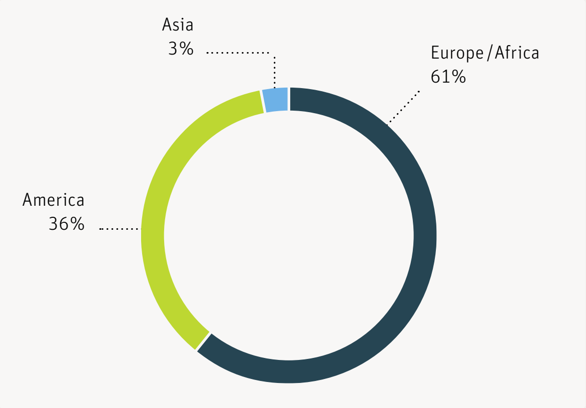
EBIT in CHF million



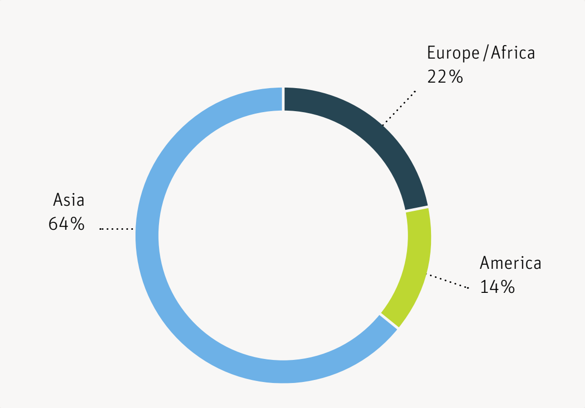
Net profit in CHF million



Automotive Systems
Sales by geographical region (2036.7 CHF million = 100%)



Textile Systems
Sales by geographical region (1 109.0 CHF million = 100%)



Financial highlights

CHF million		2005	2004	Change in %
Rieter Group				
Orders received		3 233.6	3 088.3	4.7
Sales		3 160.0	3 173.2	–0.4
• thereof Textile Systems		1 109.0	1 175.9	–5.7
• thereof Automotive Systems		2 036.7	1 978.9	2.9
Corporate output[1]		3 073.6	3 054.6	0.6
Operating result before interest, taxes, depreciation and amortization (EBITDA)		313.4	343.1	–8.7
• in % of corporate output		10.2	11.2	
Operating result before interest and taxes (EBIT)		183.0	210.5	–13.1
• in % of corporate output		6.0	6.9	
EBIT Textile Systems		74.7	114.1	–34.5
• in % of corporate output		7.0	10.2	
EBIT Automotive Systems		111.4	98.3	13.3
• in % of corporate output		5.6	5.1	
Net profit		138.1	137.8	0.2
• in % of corporate output		4.5	4.5	
Cash flow[2]		256.9	281.8	–8.8
• in % of corporate output		8.4	9.2	
Investments in tangible fixed assets and intangible assets		182.3	120.8	50.9
Assets		2 714.7	2 490.0	9.0
Long-term assets		1 159.6	944.5	22.8
Shareholders' equity before appropriation of profit		1 262.2	1 147.6	10.0
Number of employees at year-end[3]		14 652	13 557	8.1
Rieter Holding Ltd.				
Share capital		22.3	22.3	
Net profit		49.3	43.7	12.8
Gross distribution		41.7[4]	41.2	1.2
Number of registered shares, paid-in		4 450 856	4 450 856	0.0
Average number of registered shares outstanding		4 120 304	4 020 633	2.5
Price of registered shares (high/low)	CHF	328/393[5]	350/293[5]	
Number of registered shareholders on December 31		6 757	7 708	–12.3
Market capitalization on December 31		1 624.1	1 361.2	19.3
Data per registered share				
Earnings per share	CHF	30.80	31.04	–0.8
Equity (group)[6]	CHF	286.29	260.37	10.0
Gross distribution (Rieter Holding Ltd.)	CHF	10.00[4]	10.00	0.0

1. Sales, adjustments for sales deductions and own work capitalized and changes in inventories of products manufactured by the company (cf. page 60).
2. Net profit plus depreciation and amortization (cf. page 89).
3. Excluding apprentices and temporary employees.
4. Proposed by the Board of Directors (cf. page 102).
5. Source: Bloomberg.
6. Shareholders' equity attributable to shareholders of Rieter Holding Ltd. per share outstanding on December 31.

The Rieter Group

An industrial group based in Winterthur, Switzerland, and operating in all regions of the world, Rieter is a leading supplier to the textile, automotive and plastics industries. Since it was established in 1795, Rieter's innovative momentum has been a powerful driving force for industrial progress. Products and solutions are ideally tailored to its customers' needs and are increasingly also produced in customers' markets. Rieter has a presence in 20 countries with some 70 manufacturing facilities and has a total worldwide workforce of approximately 14 600 employees, 13% of whom are based in Switzerland. The company comprises two divisions: Textile Systems and Automotive Systems.

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

Rieter Textile Systems

Rieter Textile Systems develops and produces machinery and integrated systems for converting fibers and plastics into yarns, nonwovens and pellets. Rieter Textile Systems' core business is staple fiber machinery. Rieter is the leading supplier of integrated installations for short staple spinning mills, from the spinning preparation stage to the final spinning process. Rieter is also active in the fields of man-made fiber and nonwovens machinery, and is one of the world's leading suppliers of technology components and service offerings. The Textile Systems Division posted sales of 1 109.0 million CHF or 35% of total group sales in 2005.

Manufacturing locations Textile Systems (incl. Graf and Suessen)

Belgium Stembert **Brazil** São Paulo **China** Changzhou **Czech Republic** Boskovice, Ústí nad Orlicí, Žamberk **Germany** Grossostheim, Ingolstadt, Süssen **France** Montbonnot, Valence, Wintzenheim **India** Coimbatore, Pune **Italy** Bergamo **Netherlands** Enschede **Spain** Santa Perpètua de Mogoda **Switzerland** Effretikon, Pfäffikon, Rapperswil, Sirnach, Winterthur

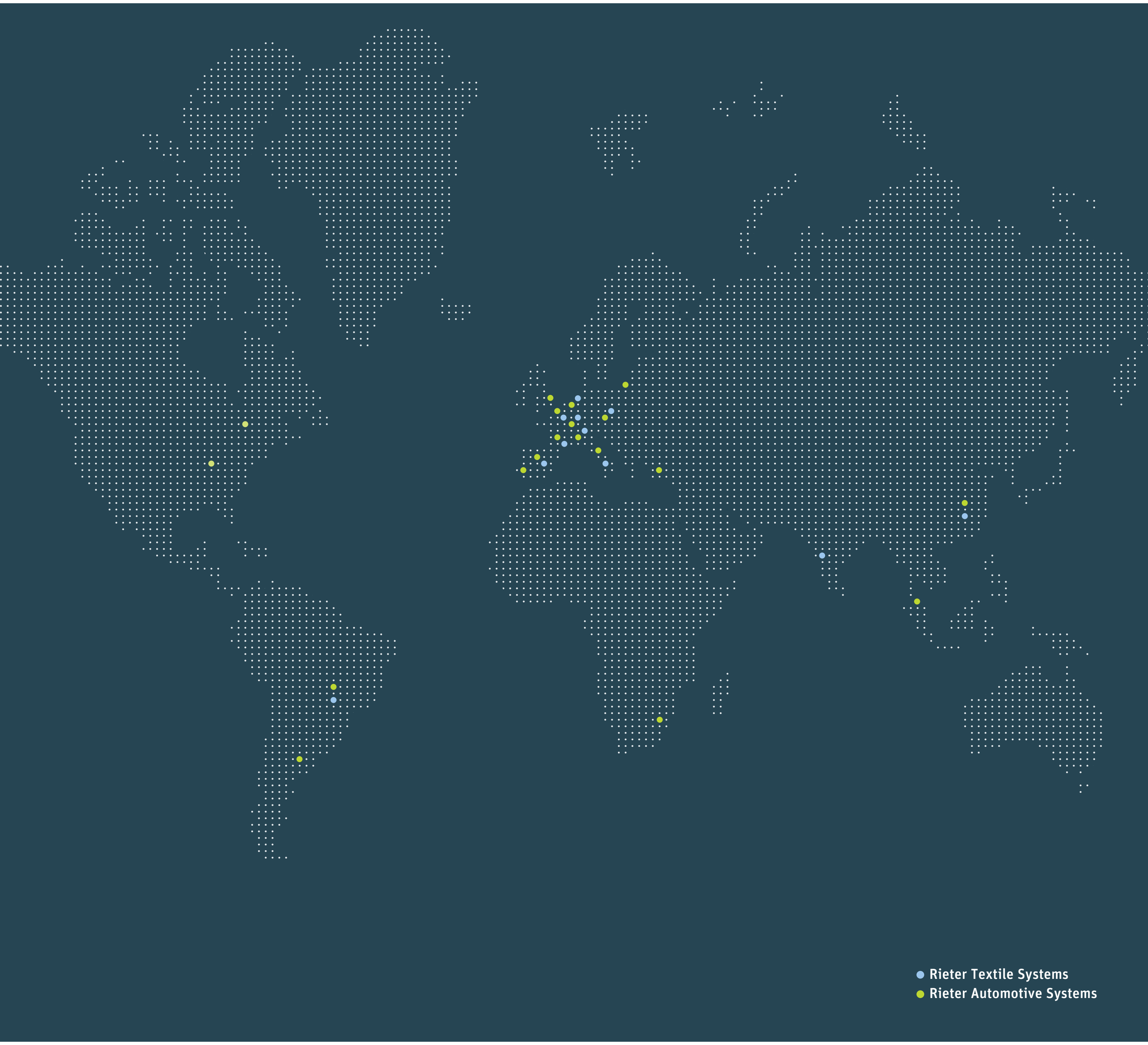
Rieter Automotive Systems

As a partner and supplier to automotive manufacturers, Rieter Automotive Systems develops and manufactures components, modules and total systems for acoustic comfort and thermal management in motor vehicles, based on fibers, plastics and metals. Automotive Systems' customers include all the world's major automotive manufacturers. Rieter Automotive manufactures in the countries in which its customers produce their vehicles, increasingly also in Eastern Europe and Asia. The division posted sales of 2 036.7 million CHF or 65% of total group sales in 2005.

Manufacturing locations Automotive Systems (incl. Joint Ventures)

Argentina Córdoba **Belgium** Genk **Brazil** Betim, Gravataí, São Bernardo do Campo, Taubaté **Canada** London, Tillsonburg **China** Guangzhou, Tianjin **Czech Republic** Chocen, Hnátnice **Germany** Bebra, Gundershausen **Great Britain** Halesowen, Heckmondwike, Stoke-on-Trent **France** Blainville, Dieppe, Rémy, La Chapelle-aux-Pots, Moissac, Ons-en-Bray **Italy** Desio, Marcianise, Pignataro Maggiore, Santhià, Vicolungo **Netherlands** Weert **Poland** Katowice, Nowogard **Portugal** Setúbal **South Africa** Rosslyn **Spain** A Rúa, Sant Vincenç, Terrassa, Valldoreix **Switzerland** Sevelen **Thailand** Chonburi **Turkey** Bursa **USA** Aiken, Bloomsburg, Chicago Heights, Jackson, Lowell, Oregon, Shreveport, Somerset, St. Joseph, Valparaiso

Manufacturing locations by country



Continued strategic development of the business

Kurt Feller Chairman of the Board of Directors

Hartmut Reuter Chief Executive Officer

Dear shareholder

Despite the high oil price and the rising cost of raw materials, the global economy recorded stronger overall growth in 2005 than had generally been expected at the beginning of the year. The large Asian economies of China and India developed especially vigorously. The US and Japan also proved to be economically robust, while growth rates in the EU countries were considerably lower. The good prospects for the global economy also had a favorable impact on the stock markets.

Orders received by the Rieter Group in 2005 increased by 4.7% to 3 233.6 million CHF. Both divisions contributed to this development.

The textile machinery and automobile markets developed less favorably than the global economy as a whole. Uncertainty in the textile industry caused by China's negotiations with the US and the EU over WTO textile quotas had an adverse impact on investments in textile machinery. In the automotive industry the high fuel prices were a major factor resulting in unstable demand trends.

In this difficult market environment net profit could be maintained, but Rieter did not quite equal the previous year's figures for sales and operating result. The group intensified its efforts in both divisions to develop the core business further, expand its position in the emerging markets of Eastern Europe and Asia, and further improve profitability.

Good trend of business in the second half

Orders received by the Rieter Group in 2005 increased by 4.7% to 3 233.6 million CHF. Both divisions contributed to this development. Following a decline in the first half, which was due primarily to a subdued textile machinery market in Asia, order intake increased considerably in the second six months of 2005, especially at Textile Systems, compared with both the second half of 2004 and the first half of 2005.

Consolidated sales of 3 160.0 million CHF almost equaled the record figure of 3 173.2 million CHF posted in the previous year. Despite the difficult market environment in Western Europe and North America, Automotive Systems achieved sales growth that almost compensated for the cyclical decline in sales at Textile Systems. Exchange rate movements had a slightly positive influence on consolidated sales overall.

At the end of 2005, the Rieter Group employed a workforce of some 14 600 worldwide, about 8% more than at the end of the previous year. The increase was due mainly to the full consolidation of the Suessen Group, the acquisition of the Graf Group and expansion in Eastern Europe and Asia. At the end of 2005, 28% of the workforce were employed in low-cost locations (25% in 2004).

Rieter's net profit of 138.1 million CHF was slightly higher than the previous year's figure (137.8 million CHF).

Operating result

As with sales revenues, the Rieter Group's operating result before interest and taxes in 2005 also did not equal the previous year's figure. The outcome of 183.0 million CHF (210.5 million CHF in 2004) was equivalent to 6.0% of corporate output (6.9% in 2004). Automotive Systems achieved a higher operating result, while the decline at group level was due to the lower figure at Textile Systems. Both divisions posted higher returns in the second half than in the first six months, but this increase in earnings was insufficient to compensate for the decline in the first half.

Net profit and earnings per share

The level of net profit was maintained, despite lower operating profits. It amounted to 138.1 million CHF, equivalent to 4.5% of corporate output (137.8 million CHF or 4.5%, respectively, in 2004). Rieter posted substantially higher net profits in the second half than in the first six months. This was attributable to the good trend of business in the divisions, a lower tax charge and the sustained favorable trend on the financial markets, which Rieter exploited to the full, thus achieving a pleasing financial result. Cash flow fell by 8.8% to 256.9 million CHF (281.8 million CHF in 2004), corresponding to 8.4% of corporate output (9.2% in 2004). Earnings per share of 30.80 CHF almost equaled the previous year's figure of 31.04 CHF.

Dividend

Rieter Holding Ltd. reported a net profit of 49.3 million CHF for the 2005 financial year (43.7 million CHF in 2004). Together with retained earnings brought forward from the previous year, 70.8 million CHF are at the disposal of the Annual General Meeting. On the basis of the net profit reported, the Board of Directors will propose to the Annual General Meeting of Rieter Holding Ltd. on April 27, 2006, that a dividend of 10.00 CHF per share (10.00 CHF in 2004) should be paid. Based on the year-end share price of 390 CHF, this results in a yield of 2.6% on Rieter shares.

Textile Systems: sharp rise in orders received in the second half of the year

The trend of business at Rieter Textile Systems in 2005 reflects two disparate halves. While sales and orders received in the first six months were lower than in the same period of the previous year, they increased in the second half of the year. This was mainly due to stronger demand from India and Turkey, while the Chinese market remained subdued. Total order intake of 1 182.6 million CHF exceeded the figure recorded in 2004; sales were at 1 109.0 million CHF and did not quite reach the previous year's level of 1 175.9 million CHF. The operating result before interest and taxes of 74.7 million CHF also reflected the decline in sales compared with the previous year's high figure (114.1 million CHF). However, the division recorded substantially higher earnings in the second half. Textile Systems is intensifying its efforts to ensure good profitability by taking resolute action. With the acquisition of two manufacturers of technology components, Rieter Textile Systems has further extended its market lead and strategically reinforced a sphere of activity offering steady sales and earnings.

Automotive Systems: higher sales and profitability
Rieter Automotive Systems increased sales by 2.9% to 2 036.7 million CHF and reported higher operating earnings and margins in 2005 (111.4 million CHF or 5.6% of corporate output), despite lower vehicle output in Western Europe and stagnating production figures in North America. This positive development was based on successful products, cost-cutting measures and improved productivity. Higher raw material costs and pricing pressure from the car manufacturers inhibited further progress in profitability.

The Rieter Group's focus on two industrial fields of activity with differing markets and its presence in all economically strong regions of the world again proved its worth in 2005.

More vehicles were manufactured worldwide, but growth was achieved mainly in the new markets of Eastern Europe and Asia, as well as in South America. As a leading supplier of acoustic and thermal management solutions, Rieter Automotive is well positioned in the traditional markets and reinforced its position in the growth markets in 2005.

Ongoing implementation of strategy
The Rieter Group's focus on two industrial fields of activity with differing markets and its presence in all economically strong regions of the world again proved its worth in 2005. The market-related weakness in the trend of business at Textile Systems was largely offset by the Automotive Systems Division with its broad customer base. Rieter will continue to pursue its dual strategy and invest in a global market presence, innovation and the optimization of production and business processes at both divisions. In this way Rieter seeks to adapt continuously to the changing needs of customers which result e.g. from relocating production capacity to Eastern Europe and Asia and to create the preconditions for further profitable growth.

Investment in the sustained further development of the divisions
In 2005 the Rieter Group made substantial investments in the sustained further development of the business at both divisions. At Textile Systems the group invested primarily in intensifying its activities in the new markets and expanding manufacturing capacity in China and India. Investments at Automotive Systems, which were exceptionally high in 2005, were aimed mainly at expansion in Eastern Europe, North America and Asia, and at process improvements to enhance profitability in its Western European plants. Both divisions invested in the launching and further development of new products, materials and processes.

Reinforcement of the Rieter brand

In the 2005 financial year Rieter started to unify the image of the group and the divisions worldwide and further reinforce the prestige of the Rieter brand. Rieter has a corporate history stretching back more than 210 years and has established an exceptionally strong brand. This brand stands both for tradition and for continuous renewal. It represents substantial value for Rieter. The goal of the new image is to represent and entrench Rieter even more effectively on the markets.

In the year under review, Rieter seized opportunities to complement its core business in both divisions with acquisitions.

Acquisitions for profitable growth

The Rieter Group seeks to achieve primarily organic growth and makes acquisitions only when they offer a high probability of making a sustained contribution to profitable growth. In the year under review, Rieter seized opportunities to complement its core business in both divisions with acquisitions that meet these investment criteria. At Textile Systems the components business was reinforced, while at Automotive Systems the carpet business in North America was expanded.

Rieter made two acquisitions in 2005 within the framework of its strategic objective of reinforcing ongoing business in the textile machinery sector. The new members of the Rieter Group operate in the business of technology components and upgrades. At the beginning of 2005 Rieter increased its holding in Spindelfabrik Suessen, which is based in Süssen (Southern Germany), from 19% to 100%. The new activities have been consolidated for the whole of the year under review. Rieter first acquired parts of the Suessen Group in 2001. This transaction included an option to purchase the entire share capital of the company, which Rieter has now exercised. The company had been successfully restructured in recent years. The newly acquired activities include a production facility at the company's base in Southern Germany and a plant in India. On October 3, 2005 (retrospectively as of July 1, 2005), Rieter acquired 100% of the share capital of Hogra Holding AG, the parent company of the Graf Group, based in Freienbach, Switzerland. Graf manufactures key components such as clothing for cards or combs for combing machinery. With this acquisition Rieter Textile Systems further extends its lead as supplier of technology components in the staple fiber machinery sector. The Graf Group was consolidated as of October 1, 2005.

Rieter increased its existing 50% interest in the American automotive components supplier Magee Rieter Automotive Systems to 100% as of January 12, 2005, thus further expanding its business in North America. Magee Rieter Automotive has extensive experience and a strong market position in the carpet sector. This holding had already been fully consolidated in previous years.

Sound, reliable finances

The purchase of the remaining share capital of the Suessen Group, the buyout of minority shareholders at Magee, the acquisition of the Graf Group and other important investments to maintain profitable organic growth were financed from internal resources. Rieter remained on a sound financial foundation at the end of the year under review with net liquidity of 96.7 million CHF (217.5 million CHF in 2004) and an equity ratio of 46.5% (46.1% in 2004). This sound financial foundation, combined

Rieter seeks to adapt continuously to the changing needs of customers by relocating production capacity to Eastern Europe and Asia and to create the preconditions for further profitable growth.

with the ability to continue generating good levels of free cash flow in future, provides a strong basis for successfully pursuing Rieter's strategy, which focuses on profitable growth.

Shareholders and Annual General Meeting
The Swiss banking groups Credit Suisse Asset Management, Zurich, and UBS Fund Management (Switzerland) AG, Basel, increased their holdings in Rieter to more than 5% in the year under review and were thus the largest shareholders on December 31, 2005. No other shareholders held more than 5% of Rieter's shares at the end of 2005. Rieter continues to favor a broad shareholder base.

Chairman Kurt Feller, vice-chairman Rudolf Hauser and Dr. Rainer Hahn were re-elected to the Board of Directors for a three-year term of office at the Annual General Meeting held on April 28, 2005. Dr. Ulrich Dätwyler and Dr. Peter Wirth will stand for re-election at the forthcoming Annual General Meeting on April 27, 2006.

Outlook
The emerging markets in Eastern Europe and Asia are assuming increasing importance for the Rieter Group. For Rieter this means both opportunities for growth and the need to adapt to the new competitive situation. Rieter is strategically well positioned for the most part in both divisions to face these challenges. In view of the good level of orders received at Textile Systems, consolidation of the newly acquired Graf Group for a full year and positive overall prospects for Automotive Systems, Rieter expects to exceed the previous year's sales and earnings figures.

Thanks
On behalf of the Board of Directors and the Group Executive Committee, we wish to thank our shareholders for their loyalty in the past year, and our customers for the confidence they have shown toward us. What has been achieved would also have been impossible without the support of suppliers and other business partners. Our thanks to union and employee representatives for the good cooperative relationship and the willingness to engage in dialog. Finally, our very special thanks to our employees for all their efforts on behalf of our company.

Winterthur, March 21, 2006

Kurt Feller	Hartmut Reuter
Kurt Feller	HReuter
Chairman of the Board of Directors	Chief Executive Officer

Sustainability

Rieter regards sustainability as a very important aspect of corporate management. For Rieter, the concept of sustainability includes acting prudently in the fields of environment and safety as well as in the management and development of personnel. The occupational safety of employees as well as environmentally friendly products and processes take priority in this context.

An environment and safety mission statement that is applicable worldwide has been in effect since 1997. Rieter is continuously engaged in optimizing production processes and infrastructure facilities on the basis of ecological and safety-related criteria. Rieter also devotes close attention to the eco-efficiency of products and services.

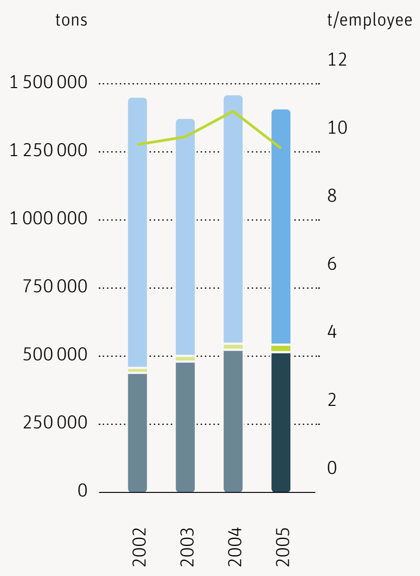
Innovative products and processes preserve the environment

Preservation of the environment and comprehensive 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. Rieter is continuously engaged in optimizing production processes and infrastructure facilities on the basis of ecological and safety-related criteria. Rieter also devotes close attention to the eco-efficiency of products and services. In 2005 both divisions again made substantial progress in developing and introducing environmentally compatible products and manufacturing processes.

In the case of textile machinery most energy is consumed by its daily operation in customers' mills rather than in the manufacturing process. Reducing energy input in the spinning process is an important objective for Rieter Textile Systems. This aspect is taken into account when developing new machines and also in customized modifications and the layout of machine configurations. In the year under review the Textile Systems Division increased energy efficiency in production operations of staple fiber and man-made fiber machinery through technological innovation. One example of this is OMEGAlap, a new technology used in combing operations. Compared with the predecessor model, OMEGAlap enables energy consumption in the mill to be reduced by 33%.

In 2005 Rieter Automotive Systems also pursued the further development of products with the objective of enhancing their environmental compatibility. Examples of this are new applications of the Rieter Ultra Light acoustic system and underfloor modules using abaca fibers. Rieter Ultra Light enables impressive reductions in vehicle weight to be achieved, with consequent fuel savings. Computer simulations utilizing newly developed software enable components to be adapted more effectively to optimum values in terms of noise reduction and material composition and consumption. Abaca natural fibers obtained from banana plants are processed into a novel material. The glass fibers used to date are therefore being replaced by a renewable, recyclable resource.

Waste and Recycling



The generation of waste has been reduced in most plants in recent years. The increase in total waste in 2004 is related to the increase in production, mainly in Eastern Europe. However, we can observe an annual decline in municipal waste and an increase in recycled waste. This is due to the recycling efforts launched throughout the Automotive Division in 2002.

- Waste for Recycling (t)
- Other waste (t)
- Municipal waste (t)
- Total waste/employee (t/employee)

New production processes conserve raw material and prevent waste

Rieter Automotive Systems is continuously engaged in improving the eco-efficiency of production processes. In 2005 the division made further progress in reducing consumption of energy and raw materials and preventing waste at various locations. New investment at the US plants in Bloomsburg and Lowell enabled water consumption to be reduced substantially while at the same time enhancing occupational safety. Also in Bloomsburg, hazardous waste was completely eliminated by replacing the solvents used in component cleaning.

At its La Chapelle-aux-Pôts plant in France, Rieter Automotive has introduced a technology which collects the dust occurring during manufacturing and returns it to the base materials. This new process prevents waste and at the same time reduces raw material consumption. In the plant Jackson in the USA the felt residues occurring during pressing and cutting to size in acoustic components manufacturing are returned to the fiber supplier and recycled, rather than being disposed of as waste. The division thus reduces consumption of primary raw material, prevents some 1000 tonnes of waste and saves the costs otherwise incurred for disposal.

Energy optimization in building infrastructure
In 2005 the Rieter Group again invested in upgrading infrastructure at various locations with the objective of reducing emissions and saving energy. New, energy-optimized heating systems were brought into operation in Ingolstadt (Germany) and Ústí (Czech Republic). In Ingolstadt this will enable heating energy consumption to be reduced by more than 40%. In Changzhou (China) Rieter is installing energy-optimized air conditioning for the offices and assembly premises in the buildings currently under construction. The cooling energy for the air conditioning system is thus generated overnight and the heat energy is derived from the waste heat from a thermal power station. These moves are a small contribution toward slowing the growth in energy consumption in China and preventing energy peaks during the day.

Increasing awareness of environmental issues
35 Rieter Automotive locations have implemented an environmental management system certified for

Rieter Automotive Systems has launched an environmental concept entitled ECO WAY. With this the division is seeking to achieve continuous improvements in the eco-efficiency of its products and the technologies used in development and manufacturing processes. The concept covers the entire life cycle of the products.

compliance with ISO 14001 to date. This corresponds to some two-thirds of all plants in the division, including four new locations. In the years to come Rieter will be making vigorous efforts to obtain further certifications. The intention is to have more than 80% of its locations certified for compliance with ISO 14001 by 2007.

Rieter Automotive Systems has launched an environmental concept entitled ECO WAY. With this the division is seeking to achieve continuous improvements in the eco-efficiency of its products and the technologies used in development and manufacturing processes. The concept covers the entire life cycle of the products. In order to establish and increase employees' awareness of environmental issues, Rieter Automotive Systems has developed and introduced the "ECO WAY Training Tool" interactive learning software.

In the context of ECO WAY the Rieter Automotive Conference – the international acoustics symposium organized by the division – was conceived as a climatically neutral event in 2005: financial support for a climate protection project in Eritrea compensated for the CO_2 emissions generated by the airline travel of those attending the conference. Rieter's contribution will enable 16 solar collectors to be installed in Eritrea and operated for ten years.

Prudent approach to risks

The early identification of risks and a sustainable response to them are cornerstones of Rieter's global risk management. Occupational safety, the safety of industrial manufacturing processes, the products manufactured by Rieter and compliance with legal requirements and internal standards are of key importance for Rieter in this context. Rieter's plants are regularly inspected and assessed with regard to technical risks. The inspections conducted worldwide in the year under review at a total of 50 Rieter manufacturing locations underscore this high degree of risk consciousness.

In countries with a twin-track vocational training system, Rieter offers large numbers of apprenticeships. In addition to local training and development opportunities for employees at all levels, international further training events are provided for young management staff. Alongside the annual international conference for the group's top management, Rieter launched the "Corporate Management Training" scheme in 2005.

Sustainable personnel development

Rieter's performance depends above all on the motivation and skills of its employees. Accordingly, employee commitment figures as one of the three pillars of Rieter's corporate vision. 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.

The Rieter Group has globally applicable guidelines in place, stipulating binding procedures for dealings by personnel and management with their in-house and external target groups. These guidelines, which can be accessed on the Rieter website, also include ethics, non-discriminatory personnel management and occupational safety. Rieter respects the rights of employees and nurtures internal dialog. In this context Rieter's European Works Council assumes an important role at locations in the EU countries and Switzerland.

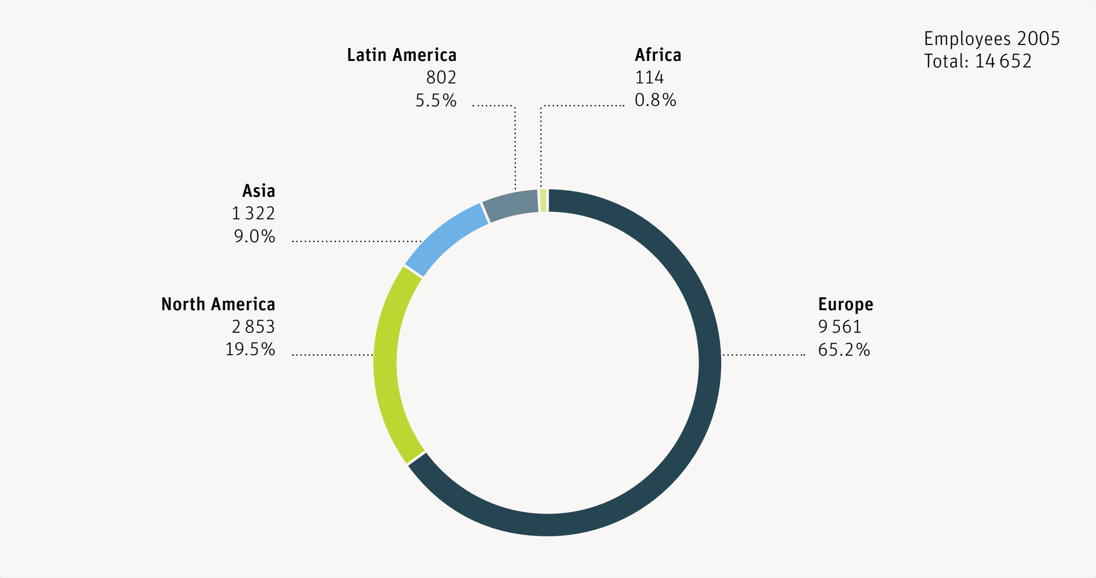
Personnel development is a core concern for Rieter. In countries with a twin-track vocational training system, Rieter offers large numbers of apprenticeships. In addition to local training and development opportunities for employees at all levels, international further training events are provided for young management staff. Alongside the annual international conference for the group's top management, Rieter launched the "Corporate Management Training" scheme in 2005. This group-wide management development program is attended by both experienced and newly appointed mid and senior level managers. Its goal is to communicate in-depth knowledge of the group and divisional strategies to managers, to develop the corporate culture together with the group executive committee, and to familiarize the managers with Rieter's leadership principles and discuss them.

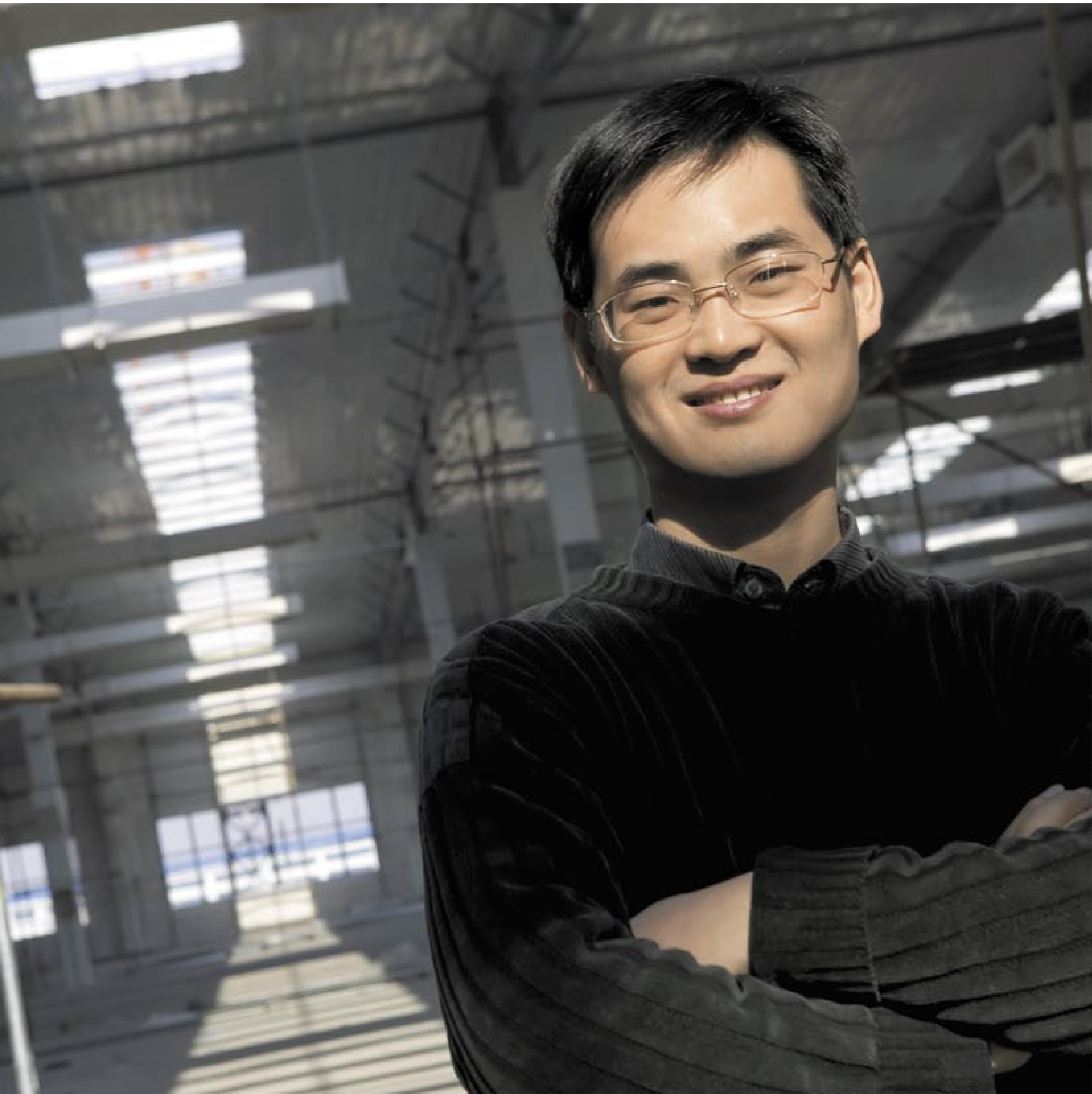
In order to establish operations rapidly in China it was essential to ensure know-how transfer through managers from Europe. The principle of fair and equal treatment at a local level is a challenge faced by companies operating globally. It has been ensured by systematic implementation of Rieter's principles. However, managers and specialists will in future increasingly be recruited locally in Asia and other regions, which is why international further training events in order to integrate the differing cultures assume growing importance.

Retaining the experience of older employees

Rieter seeks long-term, sustained relationships with its employees. More than 40% of its personnel have already worked for Rieter for more than ten years. In the Textile Systems Division with its long-standing tradition the proportion is actually more than 50%. Rieter regards the optimum utilization of older employees' experience in conjunction with the knowledge of younger employees as an important precondition for the company's development.

Employees by geographical region 2005





China is one main motor of today's textile industry, and its development and expansion are still far from complete. Textile machinery engineer Gao Yang also knows this; he has been working since last summer for Rieter Changzhou in the south of China's Jiangsu Province as product manager for Rieter spinning machines, which are manufactured here for the local market and for export. The topping-out ceremony for this third expansion phase of 17 200 m^2 is due to take place soon, and Gao Yang is already looking forward to April. That is when the first Rieter machines should be dispatched from the loading ramps at the new building.

Developments in spinning machinery engineering call for considerable know-how and experience of customers' requirements. Switzerland and Europe are still important locations for developing textile machinery. Graduate textile engineer Fatma Demirtaş works for Rieter Textile Systems in Winterthur. She and her colleagues in Winterthur and at the other European locations devote their efforts to maintaining and expanding Rieter's lead in the field of staple fiber machinery with further innovations, while manufacture of the machines is increasingly taking place directly in the customers' markets, such as China and India.

Rieter Textile Systems

Divisional chief executive
Peter Gnägi

Sales
1 109.0 (1 175.9) CHF million

Operating result before interest and taxes
74.7 (114.1) CHF million
7.0% (10.2%) of corporate output

Number of employees at year-end
5 422 (4 491) employees

Previous year's figures are in brackets.

Capital expenditure of tangible fixed assets
26.4 (35.3) CHF million

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

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. Rieter is a niche 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 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 leading 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.

Upswing in the second half

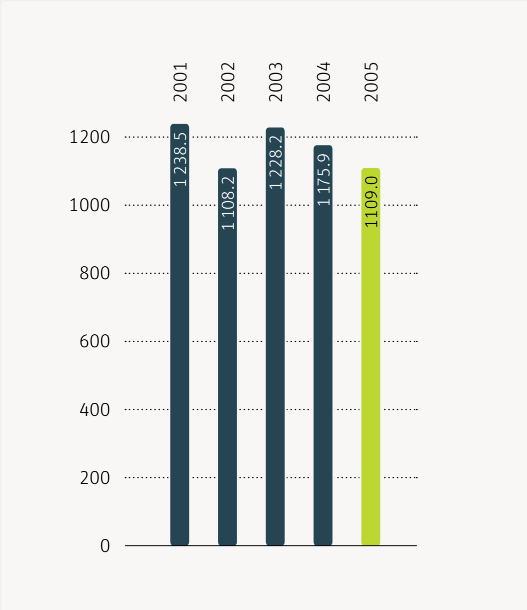
Market development

The textile machinery markets were characterized by disparate trends in 2005. Development in China, the world's largest market for the textile industry, was subdued. This was due mainly to uncertainties regarding the WTO quota rules for textiles and the production capacity built up in preceding years. Partly influenced by these developments in China, there was a capital spending boom in India, which was also fueled by the fact that the textile industry has been defined and promoted by the Indian government as a key sector. The beneficiaries of this boom were western – but especially also local – machinery manufacturers.

Following a subdued first six months, order intake at Rieter Textile Systems in the second half of the year recorded a steep rise of 42.4% compared with the same period of 2004.

The relocation of the textile industry to Asia is continuing. Machinery manufacturers are increasingly being required to develop and produce machines that are specifically designed to meet the needs of these growing markets. Local suppliers have a competitive lead by virtue of their knowledge of the markets and customers, as well as their cost structure. Foreign suppliers can only hold their own if they establish a local presence and focus their activities on local customer needs.

Sales development in CHF million



Due to its long-standing presence in these markets, its strong brand and its role as a technological leader, Rieter Textile Systems is well positioned to continue to maintain successfully its position in this changing business environment.

By completing its acquisition of the Suessen Group and purchasing the Graf Group, Rieter Textile Systems made decisive strategic moves in the sector of technology components.

Sharp rise in orders received in the second half
Following a subdued first six months, order intake at Rieter Textile Systems in the second half of the year recorded a steep rise of 42.4% compared with the same period of 2004. The overall increase amounted to 8.4%, to a total of 1 182.6 million CHF. The positive development in the second half was mainly due to strong demand from India and Turkey. Both countries benefited from free market access for their textile exports to Europe and the US, whereas China was subject to new restrictions. Orders received from China were therefore lower than in the previous year. The four most important markets for Rieter Textile Systems in 2005 were India, Turkey, China and Pakistan.

Rieter recorded higher order intake especially for machinery and components for staple fiber installations and machinery for manufacturing nonwovens. The man-made fiber machinery business continued to decline in a difficult market environment.

As a result of lower order intake in the second half of 2004 and the first half of 2005, overall sales by the division in the year under review were 5.7% lower, at 1 109.0 million CHF.

Although Textile Systems recorded significantly higher sales in the second half of 2005 than in the first six months, this did not quite compensate for the setback at the beginning of the year. Full consolidation of the Suessen Group (as of January 1, 2005) and the acquisition of the Graf Group (consolidated as of October 1, 2005) together contributed 84.6 million CHF to the division's sales total in 2005.

Low profitability in the man-made fiber machinery business
The operating result before interest and taxes in 2005 did not equal the previous year's very good figure. The outcome of 74.7 million CHF was equivalent to 7% of corporate output (114.1 million CHF and 10.2%, respectively, in 2004). This development is attributable in particular to the decline in sales in the first half, an unfavorable product mix and the weak earnings performance of the man-made fiber business. The division recorded significantly improved earnings in the second half of the year. Textile Systems is making vigorous efforts to enhance the flexibility of its manufacturing operations further and improve its cost position in order to maintain and reinforce profitability.

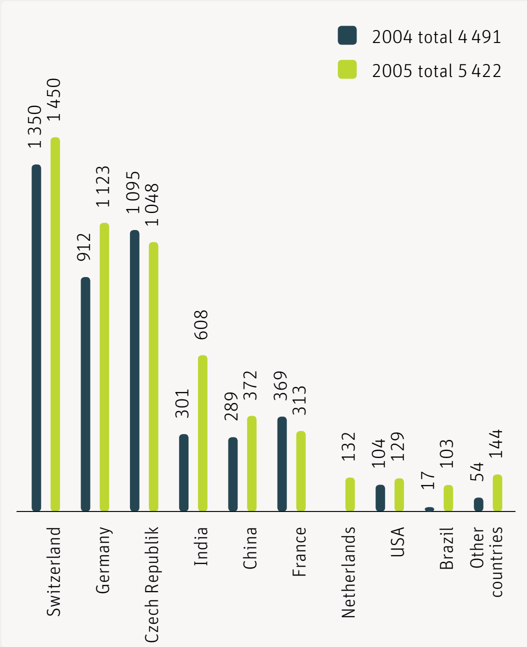
Strategic reinforcement of the components business

By completing its acquisition of the Suessen Group and purchasing the Graf Group, Rieter Textile Systems made decisive strategic moves in the sector of technology components, upgrades and service facilities in 2005 and further extended its global market lead. This sector is less affected by the demand cycles that are typical of the textile machinery business and thus enables ongoing sales and earnings development to be maintained.

At the beginning of the year Rieter exercised its option to acquire the remaining share capital of Spindelfabrik Suessen GmbH, based in Süssen, Southern Germany, and thus increased its interest in this company from 19% to 100%. Suessen develops and manufactures primarily technology components for ring and rotor spinning machines and supplies these both to all major machinery manufacturers and directly to spinning mills. Deliveries to Rieter companies in 2005 accounted for about one-fifth of sales. Suessen employs a workforce of 250 at the parent plant in Germany and 350 at a production facility in Pune, India.

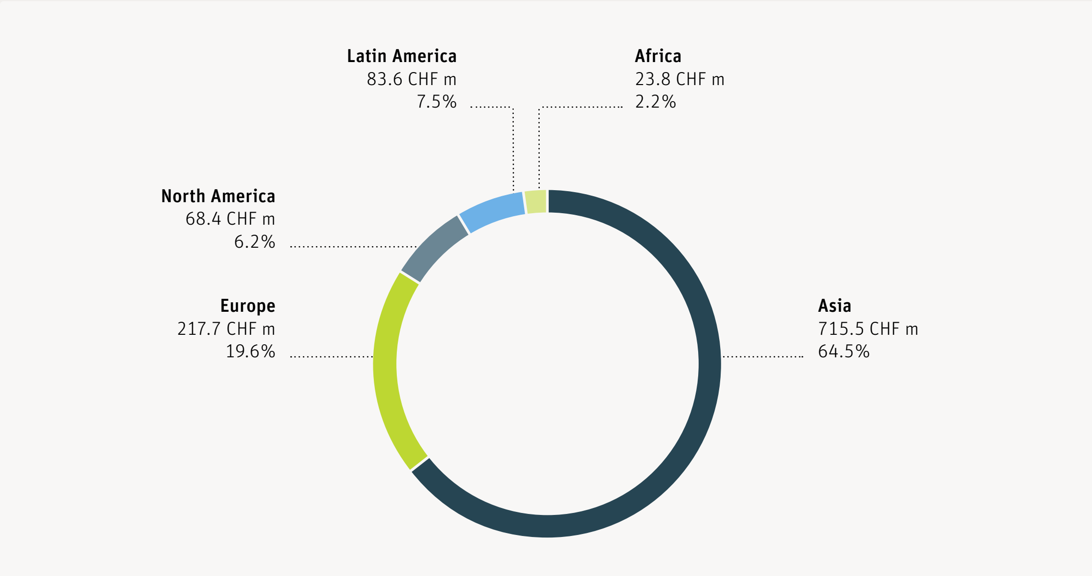
With Suessen and Graf, Rieter Textile Systems now has at its disposal a comprehensive offering of the key components required for staple fiber machinery.

Number of employees at year-end



Rieter acquired 100% of the share capital of the Graf Group in October 2005, thus significantly reinforcing its position in the components business. Graf is a technology and market leader engaged in developing, manufacturing and distributing card clothing, combs for combing machinery worldwide as well as service machines for clothing maintenance. The company is also strongly positioned as a

Sales by geographical region 2005



supplier of components for nonwovens production machinery. Graf's customers are both manufacturers of spinning machines and spinning mills. Graf and Rieter are linked by a long-standing and close development partnership. Some 6% of Graf's sales are made to Rieter companies. Graf employs a total workforce of some 600, 180 of whom are based in Switzerland.

With Suessen and Graf, Rieter Textile Systems now has at its disposal a comprehensive offering of the key components required for staple fiber machinery. These component manufacturers trade independently under their own names on the textile machinery market and for organizational purposes are combined in a separate business unit. This enables the innovation potential for core technologies within the division to be utilized to the full and decisive competitive advantages to be achieved for customers.

Innovation – a strategic success position
Early identification of market and customer needs through proximity to the customer, and their rapid implementation in marketable products, play a crucial role nowadays. Rieter Textile Systems therefore invests some 5% of its corporate output in research and development.

The Textile Division pursues innovations that help customers to reduce costs and at the same time reinforce their competitiveness, especially in the following fields:

- machinery and systems to achieve improved yarn and product quality
- machinery and systems featuring higher productivity
- machinery and systems with lower operating costs and lower raw material and energy consumption.

Compact spinning, developed by Rieter for the manufacture of high-quality yarns, is continuing to gain in importance. Yarns produced on compact spinning machines have become the standard in various spheres of application.

Strong position in staple fiber machinery
The world market for staple fiber machinery was subdued in the first half of 2005, with demand from China especially weak. The market revived considerably in the second six months, but remains highly competitive, with Chinese and Indian suppliers playing an increasingly important role. Rieter Textile Systems held its own well overall in this difficult business environment.

Textile Systems exhibited a wide range of innovations at ITMA Asia in Singapore and at other trade fairs throughout the world. These included new technologies in spinning preparation and in final spinning machinery. A new and more productive blowroom line and the innovative integration of cotton fine cleaning in the card feed chute were exhibited. This shortens the spinning process and saves raw material. The new version of the drawframe also surprised industry experts with a further increase in performance and many user-friendly additional functions. A new technology for combing preparation that enables productivity to be increased significantly while maintaining the same high yarn quality attracted particular interest.

Compact spinning, developed by Rieter for the manufacture of high-quality yarns, is continuing to gain in importance. Yarns produced on compact spinning machines have become the standard in various spheres of application. In addition to new machines, technology components from Suessen launched under the Elite name have also been in especially strong demand. Existing ring spinning machines can be upgraded to compact spinning machines with Elite retrofits. Elite components are appreciated especially by customers who own ring spinning installations in good condition and can upgrade these with the new technology at relatively modest expense.

The market for rotor spinning machinery declined, but Rieter is well positioned here with its innovative technologies. A new technology enables yarn to be produced without disturbing piecings on rotor spinning machines. More technical applications with a hard, non-elastic core for Rotona core yarn spun on Rieter rotor spinning machines were successfully tested in 2005. Rotona is a new and unique type of yarn which can be used in a wide variety of applications.

Weak man-made fiber market due to excess production capacity
Under the influence of high crude oil prices and due to excess production capacity the markets for man-made fiber machinery remained weak throughout 2005. Rieter also launched a number of innovations in this product segment. The new Universal Twister UT 50 provides manufacturers of technical applications with a very flexible machine that is ideal for frequent product changes in industrial applications. The unique flexibility of this innovation in this niche segment has attracted considerable interest from customers.

In 2005 Rieter Textile Systems further expanded its presence in Asia, especially in the key markets of India and China.

Strategic cooperation with NSC in the nonwovens sector
Rieter also made a major strategic move in 2005 in the field of production machines for the nonwovens sector. Rieter signed an agreement with the NSC Group, based in Guebwiller, France, to cooperate in the development and manufacture of nonwovens production systems. Together, NSC Nonwoven and Rieter are able to supply customers with turnkey installations for complete nonwovens production processes. Through this cooperation with NSC, Rieter has become a systems supplier of machinery for carded nonwovens. New applications are continuously being developed for nonwovens, so that this process offers substantial growth potential in the medium and long term.

Further expansion in India and China
In 2005 Rieter Textile Systems further expanded its presence in Asia, especially in the key markets of India and China. With the full integration of the Suessen Group and its production facility in Pune as of January 1, 2005, the division has further reinforced its position in India.

Despite the declining market trend in China in the year under review, Textile Systems also expanded its presence in this market. The sales organization has been reinforced and local marketing activities have been considerably increased. Through the expansion of the plant in Changzhou, which commenced in mid-year, the division aims to extend its global manufacturing network and increase the potential for developing and manufacturing market-specific products. Establishing business relationships with local suppliers takes high priority in this process. Rieter continues to play a leading role on the Chinese market alongside strong local competitors.

Strategic success factors

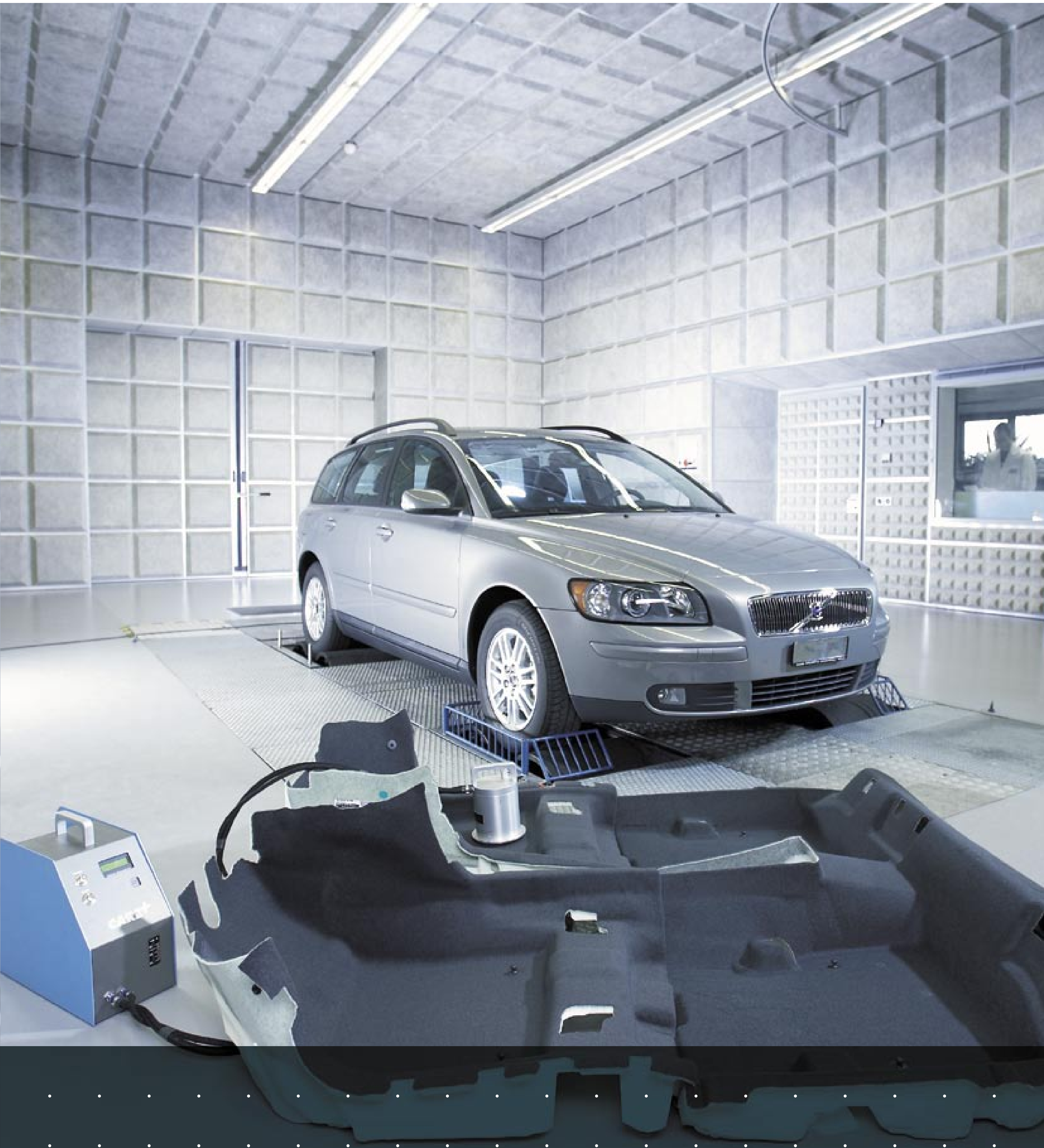
Rieter Textile Systems occupies a leading position on the market for key machines worldwide. In conjunction with its extensive sales and distribution network, this facilitates access to customers. At the same time Rieter Textile Systems supplies entire spinning systems from a single source, complemented by reliable and proficient customer service and the development and manufacture of technology components and upgrade parts that enable older machines to be maintained at the latest state of the art for a prolonged period or adapted to new customer requirements. The expansion of the division's presence in key markets such as China, India and Turkey is continuing.

Outlook

The textile machinery markets are undergoing a process of rapid change; the importance of markets in Asia is continuing to grow. Rieter Textile Systems will continue to adapt to the changing competitive situation in these markets. Order intake in our core business with machinery and components for staple fiber machinery has revived considerably since mid-2005. At the same time, demand in the man-made fiber sector remains at an unsatisfactory level. Rieter expects a significant overall improvement in sales and result from operating activities in the 2006 financial year, to which the consolidation of the newly acquired Graf Group for a full year will also contribute.

Poland has many faces, as Waldemar Miklaszewicz also knows; as General Manager of Rieter Automotive Poland, he commutes regularly between his plant in Katowice and the recently completed production facility for car carpets in Nowogard. It is obvious to him that Rieter as component suppliers has to adapt to the needs of the customers. Shorter supply chains, direct connections, improved logistics and the cost position were decisive criteria for establishing this new plant at the end of 2005. Waldemar Miklaszewicz is quite certain: “Geographical proximity to our customers will simplify cooperation in many respects.”

A carpet is a carpet… is what a driver thinks when he gets into a new car in his wet shoes without a second thought. That's not how Des O'Regan, Product Manager for Interior Floor Systems at Rieter Automotive, thinks of it. A specific solution has to be developed for each vehicle in Rieter Automotive's development centers in Europe and North America. This is to ensure that not only the cleanability but also the acoustics of the passenger compartment, material composition, aesthetic impression and last but not least the cost of the entire floor system can be optimized.



Rieter Automotive Systems

Divisional chief executive
Erwin Stoller

Sales
2 036.7 (1 978.9) CHF million

Operating result before interest and taxes
111.4 (98.3) CHF million
5.6% (5.1%) of corporate output

Number of employees at year-end
9 098 (8 940) employees

Previous year's figures are in brackets.

Capital expenditure of tangible fixed assets
154.3 (84.5) 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

Rieter Automotive Systems is one of the world's leading 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 cooperates 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.

Higher sales and earnings in stagnating markets

Market trends

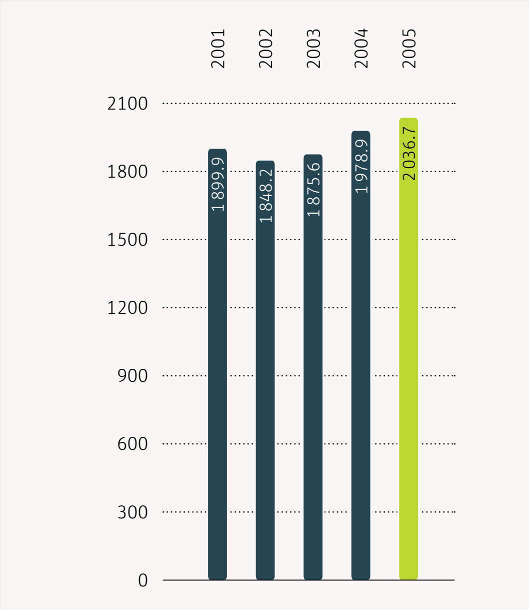
2005 was a year of diverse challenges for the automotive industry. The competitive and pricing pressures that have already prevailed for some years were joined by rising raw material prices, which had an impact on manufacturing costs, and high fuel prices, which influenced consumers' decision-making in many markets.

Global automobile output in 2005 rose by some 3% to 63.2 million vehicles. In Rieter Automotive Systems' two main markets production either declined slightly (Western Europe) or stagnated (North America). Growth was registered mainly in Eastern Europe, Latin America and the emerging Asian automobile markets.

In Europe the relocation of the automotive industry and the shift in Rieter markets from Western to Eastern Europe continued in 2005. Vehicle output in Europe as a whole was flat, and in Western Europe was actually lower. 16.1 million vehicles were produced there, 1.7% fewer than in 2004. Vehicle output in Eastern Europe recorded strong growth. Eastern Europe has gained considerably in importance for the automotive industry in recent years. This region's share of European vehicle production is now some 20%. Some of the vehicles assembled in Eastern Europe are sold in Western Europe, but they are also being sold in increasing numbers in the local markets.

In North America the number of automobiles and light commercial vehicles produced in 2005 (15.8 million) was virtually the same as in 2004 (15.7 million). As in previous years, some Japanese manufacturers achieved double-digit growth rates, while of the large American suppliers, previously known as the "Big Three", only DaimlerChrysler posted growth in output. Unfavorable cost structures and the persistent price war in recent years, have resulted in earnings problems for certain manufacturers, necessitating extensive restructuring programs. The car-makers' price war also has consequences for the automotive supply industry. Major market players (also in the acoustic sector) have suffered such heavy losses that they have had to apply for protection from creditors.

Sales development in CHF million

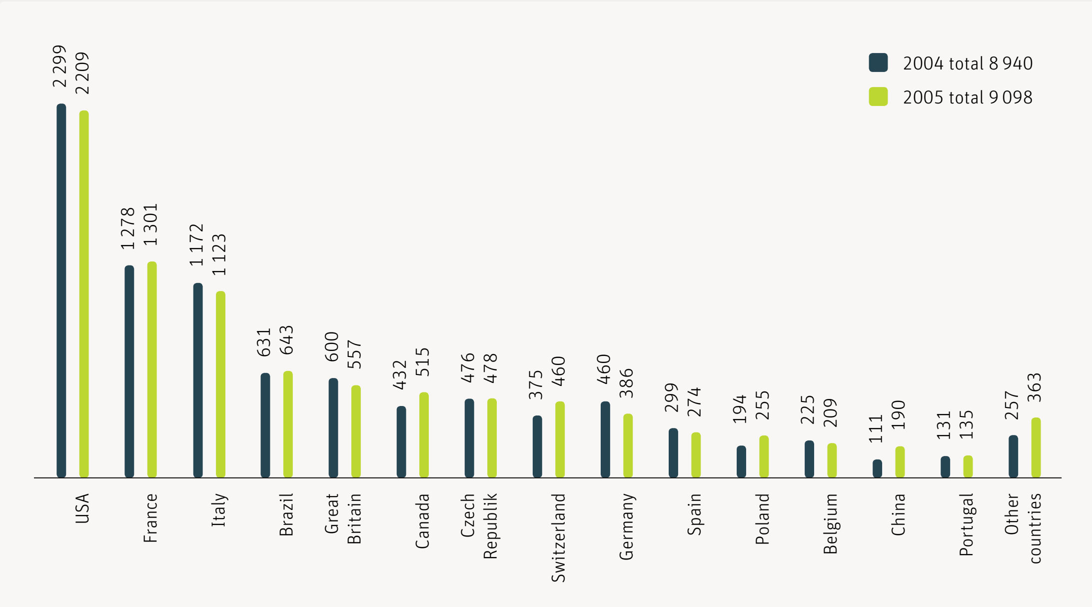


Automotive output continued to grow in Asia, led by China with +15.1% and South Korea with +7.9%. In Japan 10.3 million vehicles were produced, after a figure of 10.2 million in 2004.

Higher sales and profitability

Despite declining vehicle output in Western Europe and sluggish production figures in North America, Rieter Automotive Systems posted a 2.9% increase in sales in the 2005 financial year, to 2 036.7 million CHF. Exchange rate movements had a slightly positive influence on this outcome. Growth was entirely organic. In contrast to the decline in the market as a whole, the division recorded above-average growth in North America. This was due primarily to Rieter Automotive's strong position with Japanese manufacturers. Rieter also benefited from successful model launches by North American manufacturers. Rieter Automotive's sales declined in Europe. This was due especially to lower output by automotive manufacturers in Southern Europe and to model changes in vehicles incorporating large volumes of Rieter components. In Eastern Europe Rieter benefited from growth in vehicle output in this emerging region.

Number of employees at year-end



The operating result before interest and taxes rose by 13.3% compared with the previous year, to 111.4 million CHF, which is equivalent to 5.6% of corporate output (98.3 million CHF or 5.1% in 2004). Automotive Systems therefore succeeded in increasing margins in a difficult business environment and despite high raw material prices. This positive

The operating result before interest and taxes rose by 13.3% compared with the previous year, to 111.4 million CHF, which is equivalent to 5.6% of corporate output.

development is based mainly on a stronger competitive position, innovative products, the success of cost-cutting programs launched in previous years and productivity improvements.

Further expansion of the business in North America

As of January 12, 2005, Rieter increased its existing 50% interest in the American automotive component supplier Magee Rieter Automotive Systems to 100%, thus further expanding its business in North America. Magee Rieter Automotive produces carpets and has a strong market position. This holding had already been fully consolidated in previous years. The UGN joint venture is developing positively due to production increases by Japanese customers. A new plant came into operation at year-end in Somerset, Kentucky, mainly to produce carpets for Japanese customers.

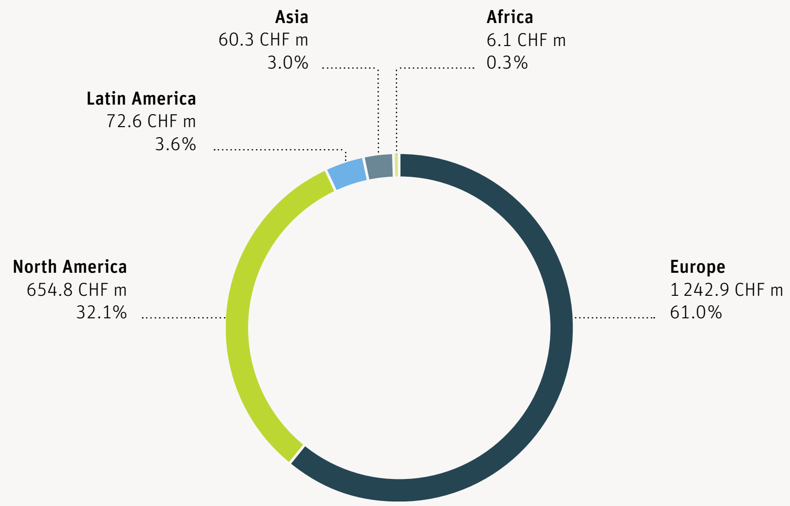
Market and industry trends

The trend toward niche vehicles and individualized automobiles is persisting in Western Europe and North America. However, growth in the new markets in Asia and Eastern Europe is also influencing the development of new models: consumers in these countries tend to prefer smaller and less expensive cars. Growth in the classical sedan segment has come to a halt in recent years. Light commercial vehicles such as pick-ups and heavy off-road vehicles, so-called Sport Utility Vehicles (SUVs), are still selling well in the main markets. However, demand for SUVs showed a decline in the US following many years of growth. This trend is likely to continue if gasoline prices rise further.

Further success for the “Roadmap to Profitable Growth” program

In the 2005 financial year Automotive Systems made further progress with its “Roadmap to Profitable Growth” program launched in 2003. This program is aimed at achieving sustained growth in profitability. It includes a stronger focus on specific customer needs, productivity improvement, lower procurement costs, reduced fixed costs and expansion of locations in lower-cost countries in Eastern Europe and Asia.

Sales by geographical region 2005



Reinforced presence in regional markets

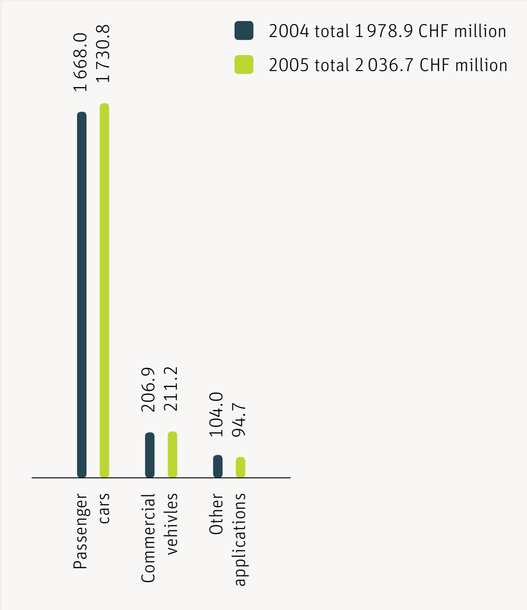
The automobile manufacturers expect their component suppliers to have a global presence and to be innovative and financially stable. One of Rieter Automotive Systems' core strengths is the ability to develop and manufacture innovative products worldwide. Rieter Automotive operates wherever automobile manufacturers maintain production locations. Rieter is thus following its customers into the growth markets of Eastern Europe and Asia, and has continuously expanded its presence in these regions. In Eastern Europe the existing production facility in the Czech Republic is being expanded; a second plant is about to be opened in Poland. Automobile manufacturers are moving from Western to Eastern Europe in response to the favorable cost structure in the Eastern European locations and to the huge market potential of these emerging economies.

Rieter Automotive's activities in China are also developing positively. The plant opened with Japanese joint venture partner Nittoku in the southern Chinese province of Guangdong in 2004 developed so well in 2005 that new premises have already had to be added. This plant supplies Japanese automobile manufacturers in China. A further plant operated jointly with Nittoku in the north of the country will commence production in 2006. Rieter Automotive also has a presence in Thailand through a joint venture. The Division has also established a network of licensing partners in Taiwan and Australia to cooperate in manufacturing and development and is in the process of intensifying cooperation with Korean car manufacturers. These offer a range of small, inexpensive models and are correspondingly successful in the new markets.

However, Rieter Automotive is investing not only in the new markets. The need to be close to customers is also being met in existing main markets. In England, Rieter Automotive is building a new plant in Stoke-on-Trent in order to supply local facilities of Japanese and European vehicle manufacturers in a growing industrial region. A plant is also under construction in Northwest Spain in order to provide better service for the Western European automotive manufacturers who have now commenced operations in this region. This has enabled the facilities at the existing location in Barcelona to be optimized. Rieter Automotive has also focused its organization more closely on its customers' needs in Germany. Three new sales offices located close to the automobile manufacturers facilitate closer cooperation and even better support for customers.

Rieter Automotive operates wherever automobile manufacturers maintain production locations. Rieter is thus following its customers into the growth markets of Eastern Europe and Asia, and has continuously expanded its presence in these regions.

Sales by product group



Success factors of innovation and quality
Rieter Automotive Systems' powerful innovative drive in the development of acoustic and thermal management solutions and its comprehensive expertise in the production of systems, modules and components are acknowledged by customers worldwide and give it a decisive competitive lead. In 2005 Rieter Automotive launched a series of new products and introduced new manufacturing processes and technologies.

Rieter Ultra Light technology enables acoustic systems to be manufactured which absorb noise more effectively and are nevertheless lighter than comparable products. Weight reduction is one of the main challenges facing automotive engineering. Since its launch, Rieter Ultra Light has set new standards in vehicle acoustics industry-wide. With the further development of Rieter Ultra Light Eco Plus, Rieter Automotive worked closely with customers on new applications in 2005.

New sales offices and new production plants located close to the automobile manufacturers facilitate closer cooperation and even better support for customers.

Rieter Automotive again received a number of awards in recognition of outstanding achievements in the fields of innovation and quality in 2005. US-based Magee Rieter, which supplies carpets to automobile manufacturers, was again presented with GM's "Supplier of the Year" QSTP Award. Only two suppliers worldwide have received this accolade 13 times in succession without interruption. Rieter plants also received further awards for quality, for example from customers Ford, Toyota and Fiat.

Rieter Automotive received the JEC Composites Innovation Award 2005 in the Ground Transport category, a prestigious award in the composite materials industry, for the development of components incorporating abaca natural fibers. This innovation has been developed by Rieter in cooperation with DaimlerChrysler and Manila-Cordage in the Philippines. Instead of glass fibers, fibers from banana plants are processed into a composite material for the underfloor module. This material is based on a renewable commodity and is energy-efficient in manufacture. Rieter Automotive also received the "Environmental Leadership Award" from DaimlerChrysler and the United Nations Environmental Program (UNEP) for its floor module made from abaca fibers. The abaca project also qualifies as a contribution to the preservation of biodiversity and provides jobs for the rural population in the Philippines.

The biennial Rieter Automotive Conference was held in Zurich, Detroit and Tokyo in 2005. It offers development partners in all major automobile markets a forum for exchanging know-how. At this symposium acoustics specialists from automotive manufacturers and Rieter, together with scientists from universities, present topical research findings and offer them for discussion. The Rieter Automotive Conference has an excellent reputation in the industry and is always well attended.

Outlook

Rieter expects vehicle production worldwide in 2006 to be slightly higher, with growth rates in the traditional manufacturing regions of North America, Western Europe and Japan rather lower than in the emerging regions of Eastern Europe and Asia. At unchanged exchange rates, Rieter foresees sales slightly higher than in the previous year and an improved operating result.

Board of Directors

Kurt Feller Chairman

Rudolf Hauser Vice-chairman

Dr. Rainer Hahn

Dr. Ulrich Dätwyler

Dr. Dieter Spälti

Dr. Peter Wirth

Group Executive Committee


Hartmut Reuter Chief Executive Officer


Erwin Stoller CEO Automotive Systems

Peter Gnägi CEO Textile Systems


Urs Leinhäuser Chief Financial Officer

Corporate Governance in the Rieter Group

Transparent reporting creates the basis for trust. As a group with an international scope, Rieter undertakes to pursue a transparent information policy and good corporate management vis-à-vis stakeholders.

The basis for the contents of following chapter is provided by the Articles of Association of Rieter Holding Ltd. and the Management Regulations of Rieter as well as the guidelines issued by the Swiss Stock Exchange. The structure of this report conforms to the corporate governance guidelines issued by the SWX Swiss Exchange (in force since July 1, 2002) and the pertinent commentaries, 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, 2005.

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 70 to 72.

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

More than 90 companies worldwide belong to the Rieter Group. A list of the main companies can be found on pages 92 to 93. 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, 2005, Rieter was aware of the following shareholders with more than 5% of all voting rights in the company:

- Credit Suisse Asset Management
- UBS Fund Management (Switzerland) AG

As of January 25, 2006, the holding of UBS Fund Management (Switzerland) AG is less than 5%. As of March 14, 2006, the holding of Credit Suisse Asset Management is also less than 5%.

There are no cross-holdings in which the interests exceed 5% in terms of capital or voting rights. You will find further information on shareholdings on page 106.

2 Capital structure

Share capital

On December 31, 2005, 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, 2005, was 1 624.1 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 pre-emptive 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 capital on December 31, 2005.

Changes in share capital
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 105.

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

Shares held in a fiduciary capacity are not entered in the shareholders' register. As an exception to this rule, Anglo-Saxon nominee companies are entered in the register if the company in question has concluded a nominee agreement with Rieter. The nominee company exercises voting rights at the Annual General Meeting of shareholders. At Rieter's request, the nominee is obliged to disclose the name of the person on whose behalf it holds shares.

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

For details of 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.

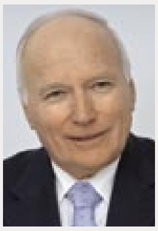
3 Board of Directors

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 2005 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	2008	Executive from 1994 to 2002, non-executive since 2003
Rudolf Hauser*	CH	Vice-chairman	1937	1987	2008	Non-executive
Dr. Ulrich Dätwyler*	CH	Member	1941	1994	2006	Non-executive
Dr. Rainer Hahn	DE	Member	1940	1999	2008	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 2008, 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.
- Vice-chairman of the Board, Geberit AG, Jona; Vice-chairman of the Board and lead director, Ciba SC AG, Basel; Board member, Scintilla AG, Solothurn.

Rudolf Hauser (1937)

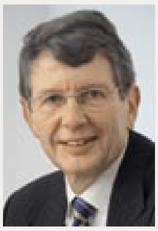
- Vice-chairman and non-executive, independent Board member since 1987, term of office expires in 2008, chairman of the audit committee, member of the personnel committee.
- Swiss national.
- Dipl. Ing. ETH Zurich, MBA Insead; Managing director, Bucher Industries AG, Niederweningen, until 2001; Chairman 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 2006, member of the audit committee and the personnel committee.
- Swiss national.
- Dr. oec. HSG; CEO SIG Holding AG until 1996.

Rainer Hahn (1940)

- Non-executive, independent Board member since 1999, term of office expires in 2008, 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, Elring Klinger 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”;

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.

Group Secretary

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

Election and term of office

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

The terms of office of Dr. Ulrich Dätwyler and Dr. Peter Wirth expire at the Annual General Meeting to be held on April 27, 2006. 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 of Directors has a quorum if a majority of members are present. Motions are approved by a simple majority. In the event of a tie, the chairman has the casting vote. The board has formed an audit committee and a personnel/nominations committee to assist it in its work. However, decisions are made by the Board of Directors as a whole.

The Board of Directors met for six regular meetings in the 2005 financial year, each lasting a full day. All board members attended all the board meetings. One extraordinary meeting of the whole board was 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. In the year under review the Board of Directors undertook a week-long visit to China to inform itself of the progress of both divisions in this important market. The members of the Group Executive Committee also usually attend the meetings of the Board of Directors and present the strategy as well as the results of their operating units and the projects requiring the approval of the Board of Directors.

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

The audit committee currently consists of three members of the board. Its chairman is Rudolf Hauser, the other members are Kurt Feller and Dr. Ulrich Dätwyler. In the 2005 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.

The audit committee met for two regular meetings in 2005. The meetings last between half a day and a full day. All committee members attended all the meetings.

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 2005. 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.

The personnel committee met for two regular meetings in 2005. The meetings last between half a day and a full day. All committee attended all the meetings.

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 projects approved by the Board of Directors are monitored in the context of special project controlling.

The members of the audit committee, the CEO, the CFO, and appointed members of the management, receive the internal audit reports. Internal audit conducted 33 audits in 2005. 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.

Risk Management

A corporate risk council has been established at group level. This body consists of the CFO, the head of Group Legal Services /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. This report sets out the individual risks existing in the group with regard to their consequences and probability. The steps taken to reduce the risk positions are also explained. So-called risk maps are used as the basis for identifying risks. Risk reporting is part of the internal monitoring system, which also includes the elements of Management Regulations, Financial Reporting and Internal Audit.

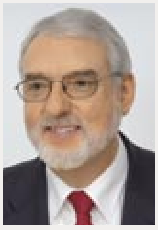
Code of Conduct

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 (Inside Rieter ›› Corporate Profile).

4 Group Executive Committee

The Group Executive Committee had four members on December 31, 2005: 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	1992	2002
Peter Gnägi	CH	Head of the Textile Systems Division	1954	1990	2002	2002
Urs Leinhäuser	CH	Chief Financial Officer & Head Corporate Center	1959	2003	2003	2004

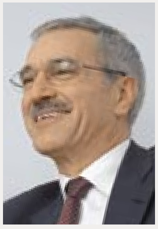


Hartmut Reuter (1957)

- 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 1992, head of the Business Group Spun Yarn Systems 1992–1996, 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, Division Piping Systems; 1999–2003 Chief Financial Officer of Mövenpick Holding; with Rieter since April 2003 as head of Group Controlling and member of the Group Executive Committee, in his present function since January 2004.
- 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 upper level of group management – a total of some 124 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 its managers 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 management 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

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 54.

Remuneration of serving directors and officers

The members of the Board of Directors receive a fixed annual remuneration. The Board members received 1 462 Rieter registered shares in the 2005 financial year in the context of the share purchase plan (1 752 shares in the previous year). None of the shares alloted to the directors in the context of the share purchase plan can be resold for three years. The cash remuneration of the Board of Directors in the 2005 financial year totaled 805 000 CHF.

To the members of the Group Executive Committee a remuneration totaling 3 588 000 CHF was disbursed for the 2005 financial year. This sum comprises the basic salary (including employer's contributions to pension fund, excluding employer's contribution to state social security funds), the deferred bonus 2005 and the discount on Rieter shares purchased in 2005.

Remuneration of former directors and officers

No remuneration was disbursed to former directors and officers.

Shareholdings

The directors held 13 231 Rieter shares on December 31, 2005. The members of the Group Executive Committee held 14 664 shares. These figures include the shareholdings of the respective individuals, their spouses and minor children. 16 463 of these shares cannot be sold for three years.

Options

The members of the Group Executive Committee were allotted a total of 3 513 options in the context of the option plan in the 2005 financial year.

In 2005 a total of 3 322 options were exercised and 2 824 options expired without being exercised.

Summary of option holdings:

	Issue date	Number of options	Exercise price in CHF	Blocked until	Expiry date
	2001	4 071	419.00	2003	2006
	2003	4 238	244.00	2005	2008
	2004	3 856	318.15	2006	2009
	2005	3 513	381.85	2007	2010
Total options		**15 678**			

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 2005, nor were severance payments disbursed to any member of the Board of Directors or the Group Executive Committee in 2005.

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 2005 financial year was 346 000 CHF. The company also allotted to this member of the Board 375 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 $33^1/_3$ 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 3.4 million CHF for services in connection with auditing the annual financial statements of the group companies and Rieter's consolidated accounts in the 2005 financial year. PwC, KPMG and other auditors invoiced some 1.4 million CHF for additional services. 0.4 million of this total were for services closely related to the audit (e.g. assistance with acquisitions), 0.7 million CHF for tax consulting and 0.3 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.

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 2006	April 27, 2006
• Disbursement of dividends to the shareholders	May 4, 2006
• Semi-annual report 2006	August 15, 2006
• Publication of sales 2006	February 1, 2007
• Deadline for proposals regarding the agenda of the Annual General Meeting 2007	March 9, 2007
• Results press conference	March 27, 2007
• Annual General Meeting 2007	May 10, 2007

Contacts for specific queries regarding Rieter are:

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Financial report

Comments on the 2005 financial report

Sales and corporate output

Rieter's sales of 3 160.0 million CHF in the year under review almost equaled the previous year's record figure of 3 173.2 million CHF. Corporate output improved by 0.6% to 3 073.6 million CHF. Sales growth of 2.9% at the Automotive Systems Division almost offset the cyclical decline of 5.7% in sales at the Textile Systems Division. Currency translation effects on consolidated sales amounted to +1.1%, with the appreciation of the Canadian, Brazilian and Eastern European currencies relative to the Swiss franc having a positive impact on reported sales. Full consolidation of the Suessen Group (as of January 2005) and the acquisition of the Graf Group (consolidated as of October 2005) contributed 84.6 million CHF to sales by the Textile Systems Division and the Rieter Group. The main sales markets for Textile Systems in 2005 were again in Asia; they accounted for 64.5% of the division's sales (69.5% in 2004). Development of the business with machinery and components for staple fiber systems and machinery for manufacturing nonwovens was encouraging, while man-made fiber machinery activities declined again in a difficult market environment. Growth at Automotive Systems was entirely organic. The division's expansion in North America was due to its strong position with Japanese automotive manufacturers. However, sales in Europe declined as a result of lower output by southern European carmakers and model changes in vehicles featuring a large proportion of Rieter components.

EBIT and EBITDA

In the year under review the operating result before interest, taxes, depreciation and amortization (EBITDA) declined by 8.7% to 313.4 million CHF and the operating result before interest and taxes (EBIT) by 13.1% to 183.0 million CHF. At the same time the relevant operating margins as a proportion of corporate output were 1.0 and 0.9 of a percentage point lower, respectively; the EBITDA margin in 2005 amounted to 10.2%, while the EBIT margin was 6.0%. Automotive Systems posted a 13.3% increase in operating result to 111.4 million CHF, corresponding to an EBIT margin of 5.6% (5.1% in 2004). Operational improvements and higher volumes more than compensated for the effects of significant price increases for raw materials and the pressure imposed on prices by the automotive manufacturers. As a result of lower sales and a less favorable product mix at Textile Systems, EBIT declined to 74.7 million CHF, corresponding to an operating margin of 7.0% (10.2% in 2004). The first-time inclusion of Suessen and Graf contributed a total of 5.6 million CHF to EBIT in 2005.

Financial result

Rieter reported a positive net financial result of 22.6 million CHF in the year under review (3.5 million CHF in 2004). In addition to a reduction of some 0.7 million CHF in financial expenses, 37.2 million CHF (20.6 million CHF in 2004) of income from marketable securities and other financial income in particular made a positive contribution. Rieter took full advantage of the opportunities offered by a positive market environment. At the end of 2005 Rieter held securities totaling 232.0 million CHF (141.2 million CHF in 2004). The increase was due mainly to the asset structure of the portfolio and a progressive increase in the equity content in the second semester. Compared with the previous year, valuation reserves included in shareholders' equity for marketable securities available for sale and investments increased by 7.7 million CHF to 15.8 million CHF at the end of 2005.

Taxes

The tax charge declined by 8.7 million CHF to 67.5 million CHF on pre-tax profit that was 8.4 million CHF lower. The higher net financial result included in pre-tax profit, together with improvements in the tax structure, helped to reduce the corporate tax rate to 32.8% (35.6% in 2004).

Net profit and earnings per share

Rieter's net profit increased slightly (+0.2%) to 138.1 million CHF (137.8 million CHF in 2004) with a higher net financial result, a lower tax charge and a reduction in EBIT. The net profit margin remained at the previous year's level of 4.5%. Earnings per share of 30.80 CHF almost equaled the previous year's figure of 31.04 CHF.

Cash flow and net liquidity

Free cash flow amounted to –1.4 million CHF in the year under review (215.2 million CHF in 2004). The main reasons for the reduction were the utilization of 76.7 million CHF of funds for the acquisitions made in 2005 (no acquisition in 2004), the higher level of capital spending, totaling 182.3 million CHF (120.8 million CHF in 2004), especially at the Automotive Division, and the small increase of 17.9 million CHF in net working capital (reduction of 69.7 million CHF in 2004). Net liquidity declined by 120.8 million CHF to 96.7 million CHF.

Balance sheet

Total assets grew by 9.0% to 2 714.7 million CHF, due mainly to acquisition-related additions to both fixed and current assets. Net working capital excluding acquisitions increased by only 17.9 million CHF. Bank borrowings increased by 0.8 million CHF to a total of 110.2 million CHF. Shareholders' equity of 1 262.2 million CHF at the end of 2005 (1 147.6 million CHF in 2004) resulted in an equity ratio of 46.5% (46.1% in 2004); this figure was at the upper end of the target range. Goodwill at the end of 2005 amounted to 151.0 million CHF (140.4 million CHF in 2004). This increase was due mainly to exchange rate movements rather than acquisitions. In compliance with IFRS 3, goodwill was for the first time no longer amortized regularly in 2005 (9.7 million CHF in 2004). The results of the impairment tests indicated that there was no need for recognition of any impairment in the year under review.

Proposed dividend

With a net profit for the year of 49.3 million CHF reported by Rieter Holding Ltd. (43.7 million CHF in 2004), a total of 70.8 million CHF (63.1 million CHF in 2004) is at the disposal of the Annual General Meeting to be held on April 27, 2006. The Board of Directors will propose the payment of a dividend of 10.00 CHF per registered share (10.00 CHF in 2004). This will maintain an attractive payout ratio of one-third of net profit after deduction of minority interests; this is equivalent to a distribution of 41.7 million CHF and a dividend yield of 2.6%, respectively.

Share price

The price of Rieter shares rose by 18.2% to 390 CHF in 2005 (330 CHF in 2004). In 2004 the share price rose from 286 CHF to 330 CHF, resulting in a total price rise of 36.4% for the years 2004 and 2005 (cf. p. 105).

Consolidated income statement

CHF million	Notes[1]	2005	%*	2004[2]	%*
Sales revenue from deliveries and services		3 122.0		3 136.6	
Other income		38.0		36.6	
Sales	(3)	**3 160.0**		**3 173.2**	
Sales deductions		–112.3		–116.2	
Change in semi-finished and finished goods		22.3		–5.1	
Own work capitalized		3.6		2.7	
Corporate output		**3 073.6**	**100.0**	**3 054.6**	**100.0**
Material costs		–1 372.3	44.6	–1 384.4	45.3
Employee costs	(4)	–942.5	30.7	–909.5	29.8
Operating expenses		–445.4	14.5	–417.6	13.7
Depreciation and amortization	(5)	–130.4	4.2	–132.6	4.3
Operating result before interest and taxes (EBIT)		**183.0**	**6.0**	**210.5**	**6.9**
Financial income	(6)	43.8		25.4	
Financial expenses	(7)	–21.2		–21.9	
Profit before taxes		**205.6**	**6.7**	**214.0**	**7.0**
Taxes	(8)	–67.5		–76.2	
Net profit		**138.1**	**4.5**	**137.8**	**4.5**
Attributable to:					
Shareholders of Rieter Holding Ltd.		126.9		124.8	
Minority interests		11.2		13.0	
Earnings per share • average number of registered shares outstanding: 4 120 304 (4 020 633 in 2004)	CHF	30.80		31.04	
Diluted earnings per share • average number of shares to calculate diluted earnings per share[3]: 4 121 735 (4 020 633 in 2004)	CHF	30.79		31.04	

* in % of corporate output.
1. Refer to the notes starting on page 64.
2. After new classification due to IAS 1 revised.
3. Including dilution impact in connection with option plan (2004 adjusted).

Consolidated balance sheet

CHF million	Notes	December 31, 2005	December 31, 2004[1]
Assets			
Tangible fixed assets	(10)	835.8	651.3
Intangible assets	(11)	198.2	145.7
Financial assets	(12)	115.0	137.3
Deferred tax assets	(8)	10.6	10.2
Non-current assets		**1 159.6**	**944.5**
Inventories	(13)	426.0	350.1
Trade receivables	(14)	573.2	527.2
Other receivables	(15)	125.4	121.4
Marketable securities	(16)	232.0	141.2
Cash and cash equivalents	(17)	198.5	405.6
Current assets		**1 555.1**	**1 545.5**
Assets		**2 714.7**	**2 490.0**
Shareholders' equity and liabilities			
Share capital		22.3	22.3
Share premium account (capital reserve)		27.5	27.5
Group reserves		1 142.4	1 020.0
Equity attributable to shareholders of Rieter Holding Ltd.		**1 192.2**	**1 069.8**
Equity attributable to minority interests	(18)	70.0	77.8
Total shareholders' equity		**1 262.2**	**1 147.6**
in % of total shareholders' equity and liabilities		46.5%	46.1%
Bonds	(19)	200.0	200.0
Other long-term financial debt	(19)	64.8	92.9
Deferred tax liabilities	(8)	69.9	43.0
Provisions	(20)	175.3	162.8
Other non-current liabilities		5.0	0.2
Non-current liabilities		**515.0**	**498.9**
Trade payables		431.8	380.5
Advance payments by customers		125.9	137.0
Short-term financial debt	(19)	69.0	36.9
Current tax liabilities		23.8	20.9
Other current liabilities	(21)	287.0	268.2
Current liabilities		**937.5**	**843.5**
Liabilities		**1 452.5**	**1 342.4**
Shareholders' equity and liabilities		**2 714.7**	**2 490.0**

1. After new classification due to IAS 1 revised.

Consolidated statement of cash flows

CHF million	Notes	2005	2004[1]
Net profit		138.1	137.8
Depreciation and amortization of tangible and intangible fixed assets		130.4	132.6
Other non-cash income and expenses		–11.6	11.4
Change in inventories		–19.5	19.3
Change in trade receivables		–9.9	–5.1
Change in other receivables		2.9	15.6
Change in provisions		3.8	–13.4
Change in trade payables		31.4	–6.4
Change in advance payments by customers and other liabilities		–22.8	46.3
Cash provided by operations		**242.8**	**338.1**
Capital expenditure on tangible and intangible assets		–182.3	–120.8
Proceeds from disposals of tangible and intangible assets		20.9	4.7
Investments in financial assets		–10.2	–16.1
Proceeds from disposals of financial assets		4.1	9.3
Change in holdings of marketable securities		–78.6	2.7
Acquisitions	(22)	–76.7	0.0
Cash used for investing activities		**–322.8**	**–120.2**
Dividend paid to shareholders of Rieter Holding Ltd.		–41.5	–34.5
Change in holding of own shares		8.5	75.4
Dividends to minority interests		–3.8	–8.7
Buyout of minority interests		–60.2	0.0
Change in short-term financial debt		12.9	–10.5
Change in long-term financial debt		–38.9	–1.4
Cash used for financing activities		**–123.0**	**20.3**
Changes in basis of valuation, currency effects and consolidation items		–4.1	–7.6
Change in cash and cash equivalents		**–207.1**	**230.6**
Cash and cash equivalents at beginning of the year		**405.6**	**175.0**
Cash and cash equivalents at end of the year		**198.5**	**405.6**
Interest paid		18.3	19.2
Taxes paid		53.9	73.8
Interest received		5.3	4.3
Dividends received		1.3	0.5

1. Restated due to new classification of minority interests.

Changes in consolidated equity

CHF million	Share capital	Own shares	Share premium account	Valuation reserves	Retained earnings	Total attributable to Rieter share-holders	Attribut-able to minority interests	Total
At December 31, 2003	22.8	–1.9	27.5	245.9	623.7	918.0	79.6	997.6
Dividend of Rieter Holding Ltd.	0.0	0.0	0.0	0.0	–34.5	–34.5[1]	0.0	–34.5
Dividends to minority interests	0.0	0.0	0.0	0.0	0.0	0.0	–8.7	–8.7
Currency effect, other	0.0	0.0	0.0	–17.8	0.0	–17.8	–6.1	–23.9
Net profit	0.0	0.0	0.0	0.0	124.8	124.8	13.0	137.8
Share repurchase	–0.5	0.0	0.0	0.0	–34.6	–35.1	0.0	–35.1
Change in holding of own shares	0.0	1.8	0.0	0.0	108.8	110.6	0.0	110.6
Change in marketable securities available for sale	0.0	0.0	0.0	3.8	0.0	3.8	0.0	3.8
At December 31, 2004	**22.3**	**–0.1**	**27.5**	**231.9**	**788.2**	**1 069.8**	**77.8**	**1 147.6**
Dividend of Rieter Holding Ltd.	0.0	0.0	0.0	0.0	–41.5	–41.5[2]	0.0	–41.5
Dividends to minority interests	0.0	0.0	0.0	0.0	0.0	0.0	–3.8	–3.8
Buyout of minority interests	0.0	0.0	0.0	0.0	–38.4	–38.4	–21.8	–60.2
Currency effect, other	0.0	0.0	0.0	49.1	0.0	49.1	6.6	55.7
Net profit	0.0	0.0	0.0	0.0	126.9	126.9	11.2	138.1
Change in holding of own shares	0.0	0.0	0.0	0.0	18.6	18.6	0.0	18.6
Change in marketable securities available for sale	0.0	0.0	0.0	7.7	0.0	7.7	0.0	7.7
At December 31, 2005	**22.3**	**–0.1**	**27.5**	**288.7**	**853.8**	**1 192.2**	**70.0**	**1 262.2**

1. CHF 8.60 per registered share.
2. CHF 10.00 per registered share.

Valuation reserves include valuation gains of 15.8 million CHF (8.1 million CHF in 2004) on marketable securities available for sale and investments.

Notes to the consolidated financial statements

1 Principles of consolidation and accounting principles

Principles of consolidation

The basis for the consolidated financial statements are the financial statements of the individual group companies at December 31, 2005. These are formed using uniform accounting policies. The consolidated financial statements of the Rieter Group prepared in accordance with the consolidation and accounting principles set out below are based on fair value for the financial instruments and historical costs for other assets and liabilities, and they conform to International Financial Reporting Standards (IFRS).

The International Accounting Standards Board (IASB) has published numerous new and revised standards which came into effect on January 1, 2005:

According to revised IAS 1 "Presentation of Financial Statements", minority interests must be stated in the consolidated financial statements as a component of shareholders' equity and not as a separate item as hitherto. This change resulted in an increase of 79.6 million CHF in total shareholders' equity stated as of January 1, 2004. Minority interests are no longer deducted when calculating net profit. Earnings per share will continue to be calculated solely on the basis of the net profit attributable to shareholders of Rieter Holding Ltd.

A stipulation of IFRS 2 "Share-based Payment" is that the fair value of equity instruments granted to employees must be accounted for as an expense. Rieter operates a share purchase plan for its managers. An option plan is also provided for members of the Group Executive Committee. The application of IFRS 2 to the share purchase plan resulted in a charge to income of 1.2 million CHF in 2005. No rights from share purchase plans in previous years remained unvested on January 1, 2005. The application of IFRS 2 to the option plan resulted in a charge to income of some 0.1 million CHF in 2005. The impact of applying IFRS 2 to option plans from previous years is immaterial (0.1 million CHF); the previous year's figures were therefore not restated.

Alongside other requirements, IFRS 3 "Business Combinations" stipulates as of January 1, 2005, that goodwill is no longer amortized regularly but continues to be tested for impairment. The 2005 income statement therefore no longer includes goodwill-amortization. The 2004 income statement included goodwill amortization of 9.7 million CHF.

Rieter has assessed the impact of the other new and revised standards and established that they have no material influence on consolidated shareholders' equity and net profit.

Assumptions and estimates

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

Scope of consolidation

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

Holdings of 20% to 49% are included in the consolidated financial statements using the equity method. Holdings of less than 20% are included in the balance sheet at fair value. The significant subsidiaries and associated companies are listed on pages 92 and 93.

Change in the scope of consolidation

Spindelfabrik Suessen GmbH in Germany with its subsidiary Suessen Asia Private Ltd. in India and the companies of the Graf Group were added to the scope of consolidation in the year under review. The impact of these two acquisitions on the consolidated financial statements is shown in Note 22 (page 84).

Currency translation

The financial statements of the foreign group companies are drawn up in local currency and translated into Swiss francs for purposes of consolidation. Year-end exchange rates are used for the balance sheet, average exchange rates for the income statement.

Currency differences arising from translation are posted directly to equity without any impact on income. In the event of the disposal or liquidation of foreign group companies, the accumulated currency differences are offset against sale or liquidation proceeds. Exchange rates for currencies in high-inflation countries take due account of monetary depreciation in the local currency.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at acquisition cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over their estimated useful lives. Land is written down only in the event of ongoing impairment of value. Investment property is also included in the balance sheet at acquisition cost less depreciation on a straight-line basis.

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

factory buildings, investment property	20–50 years
machinery/plant and equipment	5–15 years
tools/data processing equipment/ furniture	3–10 years

Investment grants and similar subsidies are taken to income in the period corresponding to the related depreciation.

The various categories of assets also include assets financed by long-term contracts (finance leasing). The related liabilities are included in the balance sheet under long-term financial debt. The costs of assets held under operating leases are charged to income in the period in which they are incurred.

Intangible assets

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

Research and development

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

Goodwill

Goodwill represents the difference between the purchase price of an acquired company and the estimated market value of its net assets. It is capitalized on the date, control of the acquired company is assumed and carried in the currency of the relevant acquisition. Under IFRS 3 it is assumed as of January 1, 2005, that goodwill has an indefinite useful life. Goodwill is therefore no longer regularly amortized, but subjected to an impairment test at least once a year. Until December 31, 2004, goodwill was amortized against income on a straight-line basis over its estimated useful life, not exceeding 20 years.

Cash and cash equivalents

Cash and cash equivalents include bank accounts and short-term time deposits.

Marketable securities

Marketable securities are acquired in accordance with the group's portfolio management policy. They are valued at fair value on balance sheet date. Changes in the value of marketable securities held for trading purposes are posted to income. Changes in the value of marketable securities available for sale are recorded in shareholders' equity until they are sold. When these securities are sold, these changes in value are shown in the income statement. Any impairment in the value of marketable securities available for sale is charged to income.

Trade receivables
Receivables are stated at original invoice value less allowances to reduce them to net realizable value. Valuation adjustments on trade receivables are included if there is reliable evidence to suggest that the amount originally invoiced will not be paid, or not in full. The valuation adjustment represents the difference between the payment expected and the invoiced amount.

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

Provisions
If legal or constructive obligations are incurred as a consequence of past events, provisions are made to cover the expected outflow of funds. Provisions are classified as pension provisions, guarantee and warranty provisions, environment provisions and other provisions.

Pension provisions arise from unfunded pension commitments or deficits on funded plans.

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

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

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

Income taxes
The expected tax charge is calculated and accrued on the basis of the results in the year under review which are relevant for taxation purposes.

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

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

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

Pension funds
Employee pension plans are operated by certain subsidiaries, depending upon the level of coverage provided by the government pension facilities in the various countries in which they operate. Some of these are provided by independent pension funds. As a rule, pensions are funded by employees' and employer's contributions. Pension plans exist on the basis of both defined contributions and defined benefits. Pension liabilities arising from defined-benefit plans are calculated according to the "projected unit credit method" and are usually appraised annually by independent actuaries. If the actual assets and pension liabilities differ by more than 10% from the projected values, these actuarial gains or losses are posted to income on a straight-line basis over the remaining service life of the employees covered. In the case of defined-contribution pension plans, the contributions are recorded as expenses in the period in which they are incurred.

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

Financing costs
Financing costs are recognized in the income statement.

Standards adopted but not yet applied
The International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have published numerous new and revised standards and interpretations which do not yet have to be applied to the 2005 consolidated financial statements. Rieter has not adopted early any of these new provisions, and on the basis of an initial estimate does not expect them to have any material impact on consolidated shareholders' equity and net profit when they come into effect.

Financial risk management
Business activities are exposed to market risks such as fluctuations in exchange rates and interest rates, as well as volatile stock market prices. These risks are monitored on the basis of risk reporting procedures.

Exchange rate risks
Risks arising from exchange rate fluctuations due to the group's global operations have an impact on the financial position and cash flows presented in Swiss francs. Internal forward foreign exchange contracts are concluded when the relevant underlying business transactions are entered into in order to cover transaction risks arising from operational activities. Hedging transactions are entered into with external counterparties with investment-grade international credit ratings and are posted to income at fair value.

Credit risks
Collection risks at the Textile Systems Division are usually hedged by insurance, advance payments, letters of credit or other instruments. The business relationships of the Automotive Systems Division are mostly with well-known manufacturers.

Banking relationships depend on the credit rating and range of services of the relevant institutions.

Market and interest rate risks
Balance sheet items and financial assets or liabilities are hedged against market and interest rate risks centrally at group headquarters. Forwards, options or swaps are used for this purpose.

2 Segment information by division

The group comprises two divisions: Textile Systems develops and produces machinery and integrated systems for converting fibers and plastics into yarns, nonwovens and pellets. Automotive Systems develops and produces components, modules and integrated systems in partnership with automotive manufacturers, in order to provide acoustic and thermal comfort in motor vehicles.

Sales

CHF million	2005	2004
Textile Systems	1 109.0	1 175.9
Automotive Systems	2 036.7	1 978.9
Other activities	14.3	18.4
Total	**3 160.0**	**3 173.2**

There were no material inter-divisional sales.

Operating result (EBIT)

CHF million	2005	2004
Textile Systems	74.7	114.1
Automotive Systems	111.4	98.3
Other activities, incl. group costs	–3.1	–1.9
Total	**183.0**	**210.5**

Assets

CHF million	2005	2004
Textile Systems[1]	834.1	606.5
Automotive Systems[1]	1 299.6	1 143.5
Other activities and assets not allocated to the divisions	581.0	740.0
Total	**2 714.7**	**2 490.0**

1. Segment assets excluding financial and income tax related positions.

Liabilities

CHF million	2005	2004
Textile Systems[1]	396.2	361.0
Automotive Systems[1]	602.4	555.5
Other activities and liabilities not allocated to the divisions	453.9	425.9
Total	**1 452.5**	**1 342.4**

1. Segment liabilities excluding financial and income tax related positions.

Capital expenditure on tangible and intangible assets

CHF million	2005	2004
Textile Systems	26.7	35.3
Automotive Systems	155.1	84.9
Other activities	0.5	0.6
Total	**182.3**	**120.8**

Depreciation and amortization of tangible and intangible assets

CHF million	2005	2004
Textile Systems	34.0	34.6
Automotive Systems	95.7	97.8
Other activities	0.7	0.2
Total	**130.4**	**132.6**

Number of employees at year-end

	2005	2004
Textile Systems	5 422	4 491
Automotive Systems	9 098	8 940
Other activities	132	126
Total	**14 652**	**13 557**

Segment information by geographical region

Sales

CHF million	2005	2004
Europe	1 474.8	1 483.8
Asia incl. Turkey	775.9	875.4
North America	723.2	674.3
Latin America	156.2	96.9
Africa	29.9	42.8
Total	**3 160.0**	**3 173.2**

Assets

CHF million	2005	2004
Europe	1 631.8	1 728.8
Asia incl. Turkey	125.2	61.5
North America	899.0	666.6
Latin America	45.5	26.7
Africa	13.2	6.4
Total	**2 714.7**	**2 490.0**

Capital expenditure on tangible and intangible assets

CHF million	2005	2004
Europe	110.3	86.2
Asia incl. Turkey	18.1	9.3
North America	47.0	24.0
Latin America	1.8	0.8
Africa	5.1	0.5
Total	**182.3**	**120.8**

Number of employees at year-end

	2005	2004
Europe	9 561	9 155
Asia incl. Turkey	1 322	823
North America	2 853	2 835
Latin America	802	683
Africa	114	61
Total	**14 652**	**13 557**

3 Sales

Change in sales

CHF million	2005	2004
Change in sales due to volume and price, Textile Systems	–156.5	–50.4
Change in sales due to volume and price, Automotive Systems	27.1	126.7
Change in sales due to volume and price, other activities	–4.2	3.8
Change in the scope of consolidation	84.6	0.0
Currency effects	35.8	–25.2
Total change in sales	**–13.2**	**54.9**

4 Employee costs

CHF million	2005	2004
Wages and salaries	767.1	746.5
Social security and other personnel expenses	175.4	163.0
Total	**942.5**	**909.5**

5 Depreciation and amortization

CHF million	2005	2004
Tangible fixed assets	125.8	121.7
Goodwill	0.0	9.7
Other intangible assets	4.6	1.2
Total	**130.4**	**132.6**

6 Financial income

CHF million	2005	2004
Income from marketable securities and other financial income	37.2	20.6
Interest income	5.3	4.3
Income from non-consolidated investments	1.3	0.5
Total	**43.8**	**25.4**

7 Financial expenses

CHF million	2005	2004
Interest cost	19.9	19.3
Other financial expenses and foreign exchange differences, net	1.3	2.6
Total	**21.2**	**21.9**

Part of the securities holdings are held as marketable securities available for sale. As in the previous year, the change in market value of this portion of the securities portfolio required no value adjustment in the income statement in the year under review.

8 Taxes

CHF million	2005	2004
Current taxes	63.0	77.7[1]
Deferred taxes	4.5	–1.5
Total	**67.5**	**76.2**

1. 2004 including 13.5 million CHF of other taxes.

The tax charge in the year under review was 8.7 million CHF lower than in the previous year, on a pre-tax profit 8.4 million CHF lower, resulting in a corporate tax rate of 32.8% (35.6% in 2004). The reduction in the tax charge as a proportion of pre-tax profits was due mainly to the improvement in the financial result.

Reconciliation of expected and actual tax expenses:

CHF million	2005	2004
Expected income taxes on pre-tax profits of 205.6 million CHF (214.0 million CHF in 2004) at an average rate of 21.3% (22.7% in 2004)	43.8	48.5
Impact of losses and loss carry-forwards	6.6	14.9
Impact of changes in tax rates and tax legislation	–2.3	–0.6
Non-periodic and other effects	19.4	–0.1
Total	**67.5**	**62.7**

Deferred taxes

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

CHF million	Deferred tax assets 2005	Deferred tax liabilities 2005	net 2005	net 2004
Tangible fixed assets	2.1	–38.3	–36.2	–31.4
Inventories	6.3	–9.6	–3.3	–4.5
Other assets	7.1	–28.1	–21.0	–7.7
Provisions	8.3	–1.2	7.1	3.5
Other liabilities	14.6	–12.3	2.3	11.9
Valuation adjustments on deferred tax assets	–24.8		–24.8	–26.1
Tax loss carry-forwards and tax credits	16.6		16.6	21.5
Total	30.2	–89.5	–59.3	–32.8
Offsetting	–19.6	19.6		
Deferred tax assets/liabilities	**10.6**	**–69.9**	**–59.3**	**–32.8**

Capitalized or not capitalized deferred taxes resulting from tax loss carry-forwards and tax credits, presented by year of expiry.

CHF million	capitalized 2005	not capitalized 2005	Total 2005	Total 2004
Expiry in 1–3 years	0.3	3.0	3.3	2.4
4–6 years	4.0	5.1	9.1	7.5
7 and more years	12.3	97.3	109.6	77.8
Total	**16.6**	**105.4**	**122.0**	**87.7**

The increase of the tax loss carry-forwards resulted mainly from the initial consolidation of the acquired activities.

9 Research and development

144.7 million CHF was spent on research and development (135.4 million CHF in 2004).

Textile Systems focused on the development of new spinning preparation and final spinning machines as well as components for short-staple spinning mills. New generations of machines were launched in 2005 in the blowroom, carding, combing, ring spinning and rotor spinning sectors. In the field of filament spinning machines the focus was on the development of a new generation of carpet extrusion lines as well as extrusion lines for technical filaments. In the field of cabling and twisting machines, new machines for tire cord and carpet yarn were launched in 2005 as well as twisting machines for technical filaments. The meltblown process was added to the already established spunbond and spunlace nonwovens process. The hot die face cutting process was added to the range of pelletizing machines.

Developments at Automotive Systems included applications for new models and customized acoustic products, carpets and underbody components for automotive manufacturers in Europe, America and Asia. Automotive Systems also invests continuously in new processes and materials in order to increase quality and provide customers with cost benefits, and has intensified its synergies with Textile Systems in this field.

As in the previous year, no development costs were capitalized in 2005.

10 Tangible fixed assets

CHF million	Land and buildings	Machinery, equipment and tools[1]	Data processing equipment	Vehicles and furniture[2]	Machinery and tools under construction	Total tangible fixed assets
Net book value at December 31, 2003	228.3	375.8	14.7	16.0	32.1	666.9
Reclassifications	0.3	26.3	0.1	0.3	–27.0	0.0
Additions	13.1	66.4	5.4	5.6	29.9	120.4
Disposals	–2.6	–1.0	–0.1	–0.2	0.0	–3.9
Depreciation	–13.7	–94.6	–7.1	–6.3	0.0	–121.7
Currency effects	–2.6	–6.9	–0.1	–0.2	–0.6	–10.4
Net book value at December 31, 2004	**222.8**	**366.0**	**12.9**	**15.2**	**34.4**	**651.3**
Accumulated depreciation at December 31, 2004	261.2	931.2	51.4	64.8	0.0	1 308.6
Cost at December 31, 2004	484.0	1 297.2	64.3	80.0	34.4	1 959.9
Reclassifications	0.0	15.2	0.2	0.0	–15.4	0.0
Additions by acquisitions	51.1	41.1	1.0	2.7	0.5	96.4
Other additions	38.1	87.0	5.5	5.2	45.5	181.3
Disposals	–2.4	–3.4	–0.4	–1.0	0.0	–7.2
Depreciation	–15.4	–96.6	–7.1	–6.7	0.0	–125.8
Currency effects	11.7	25.3	0.5	0.7	1.6	39.8
Net book value at December 31, 2005	**305.9**	**434.6**	**12.6**	**16.1**	**66.6**	**835.8**
Accumulated depreciation at December 31, 2005	311.1	1 144.9	58.1	88.6	0.0	1 602.7
Cost at December 31, 2005	617.0	1 579.5	70.7	104.7	66.6	2 438.5

1. Including machinery and operating facilities.
2. Including pilot machines.

Land and buildings

CHF million	2005	2004
Land in operational use	52.4	26.8
Buildings in operational use	236.2	176.4
Investment property	17.3	19.6
Total	**305.9**	**222.8**

Buildings in operational use were insured at the replacement value of 1 265.5 million CHF at balance sheet date (1 169.6 million CHF in 2004) and investment property at the replacement value of 32.6 million CHF (39.3 million CHF in 2004).

Investment property

CHF million	2005	2004
Net book value at January 1	19.6	21.2
Disposals	–2.2	–1.4
Depreciation	–0.1	–0.2
Net book value at December 31	**17.3**	**19.6**
Market value at December 31	25.8	28.4

A net income value with an anticipated average gross yield of 6.8% (7.0% in 2004), less prospective taxes in the event of sale, was established as the market value of the investment property on the basis of estimates of future rental income calculated by the company.

11 Intangible assets

CHF million	Goodwill	Patents/ trademarks	Other intangible assets	Total intangible assets
Net book value at December 31, 2003	154.6	4.7	1.4	160.7
Additions/disposals	–0.8	0.0	0.4	–0.4
Amortization	–9.7	–0.9	–0.3	–10.9
Currency effects	–3.7	0.0	0.0	–3.7
Net book value at December 31, 2004	**140.4**	**3.8**	**1.5**	**145.7**
Accumulated amortization at December 31, 2004	51.3	8.0	0.7	60.0
Cost at December 31, 2004	191.7	11.8	2.2	205.7
Additions by acquisitions	4.3	45.3	0.0	49.6
Other additions/disposals	0.0	0.1	0.9	1.0
Amortization	0.0	–4.2	–0.4	–4.6
Currency effects	6.3	0.1	0.1	6.5
Net book value at December 31, 2005	**151.0**	**45.1**	**2.1**	**198.2**
Accumulated amortization at December 31, 2005	–[1]	12.2	3.2	15.4
Cost at December 31, 2005	151.0	57.3	5.3	213.6

1. In accordance with IFRS 3, accumulated amortization of goodwill at January 1, 2005, was eliminated with a corresponding decrease in cost of goodwill.

Goodwill has been allocated to the cash-generating units as follows:

CHF million	2005	2004
Textile Systems Division	99.6	92.9
Automotive Systems Division, Business Group Europe	28.0	27.8
Automotive Systems Division, Business Group Americas	23.4	19.7
Total	**151.0**	**140.4**

The impairment test on goodwill was performed in the second half of the financial year. The recoverable amount of each cash-generating unit was determined by a value-in-use calculation. This calculation was based on mid-term financial plans approved by the Board of Directors covering a three-year period. The calculation of the residual value was based on the expected long-term growth. These growth expectations correspond to today's best estimate by the management in charge. For the value-in-use calculation future cash flows were discounted with the weighted average cost of capital of 8%. Based on the impairment tests, there was no need for recognition of any impairment in the 2005 financial year.

12 Financial assets

CHF million	2005	2004
Investments in non-consolidated companies	18.9	28.2
Long-term interest-bearing receivables	23.9	42.1
Other long-term receivables	25.0	19.8
Pension funds	47.2	47.2
Total	**115.0**	**137.3**

Prepaid contributions and overfunding of personnel pension plans have been accrued for the expected future benefit and amount to 47.2 million CHF (as in the previous year).

13 Inventories

CHF million	2005	2004
Raw materials and consumables	66.3	45.3
Purchased parts and goods for resale	94.2	90.1
Semi-finished and finished goods	109.3	82.0
Work in progress	156.2	132.7
Total	**426.0**	**350.1**

14 Trade receivables

CHF million	2005	2004
Trade receivables	597.9	559.8
Allowance for doubtful receivables	–24.7	–32.6
Total	**573.2**	**527.2**

15 Other receivables

CHF million	2005	2004
Prepaid expenses and deferred charges	37.0	32.9
Advance payments to customers	17.6	13.8
Short-term, interest-bearing receivables	0.0	0.5
Other short-term receivables	70.8	74.2
Total	**125.4**	**121.4**

16 Marketable securities

CHF million	2005	2004
Securities held for trading	122.5	69.5
Securities available for sale	109.5	71.7
Total	**232.0**	**141.2**

Securities are stated at fair value, of which 8.1 million CHF (1.8 million CHF in 2004) was invested in options. These were mainly call options. 74.8% of the equity portfolio (71.7% in 2004) was invested in Swiss shares. Investments in marketable securities are primarily in listed companies in the industrial, banking and service sectors. The investment risks of the securities portfolio are periodically reviewed.

17 Cash and cash equivalents

CHF million	2005	2004
Cash and banks	190.1	296.9
Time deposits	8.4	108.7
Total	**198.5**	**405.6**

The majority of cash and cash equivalents are managed centrally in Swiss francs in order to limit currency risk. A netting system and group cash pools further reduce currency exposure. Most of the bank balances held by group companies were in their local currencies. The valuation risks of the investments in foreign currencies are reviewed periodically.

18 Minority interests

The main minority interests held by third parties are in UGN (USA), Rieter Saifa (Spain) and Rieter-LMW Machinery Ltd. (India).

In January 2005 a purchase agreement was signed for the 50% minority interest in Magee Rieter. Rieter Magee has been wholly owned by Rieter since January 12, 2005. As Magee Rieter had already been fully consolidated before the purchase of the remaining 50%, the difference between the purchase price and the minority interest stated before the acquisition was charged to shareholders' equity.

19 Financial debt

CHF million	less than 1 year	1 to 5 years	Maturity over 5 years	Total 2005	Total 2004
4% bonds 2001/2007	0.0	200.0	0.0	200.0	200.0
Bank debt	57.2	52.6	0.4	110.2	109.4
Finance leasing obligations	2.0	5.8	3.1	10.9	11.0
Other financial debt	9.8	2.3	0.6	12.7	9.4
Total	**69.0**	**260.7**	**4.1**	**333.8**	**329.8**

The 200.0 million CHF of 4% bonds are due for repayment in 2007. 125.0 million CHF of these bonds were issued in 2001 and 75.0 million CHF were added in 2002. Interest is payable annually on June 21.

By currency, financial debt is divided up as follows:

CHF million	2005	2004
CHF	209.9	208.3
EUR	66.7	61.1
USD	29.7	29.2
Other	27.5	31.2
Total	**333.8**	**329.8**

20 Provisions

CHF million	Pension provisions	Guarantee and warranty provisions	Environment provisions	Other provisions	Total provisions
Provisions at December 31, 2004	**67.0**	**43.6**	**9.5**	**42.7**	**162.8**
Change in the scope of consolidation	19.6	0.7	0.0	2.9	23.2
Utilization	–3.0	–8.8	–0.1	–14.8	–26.7
Release	–0.6	–27.9	–0.3	–5.2	–34.0
Additions	5.1	25.2	3.2	14.2	47.7
Currency effects	1.1	0.5	0.1	0.6	2.3
Provisions at December 31, 2005	**89.2**	**33.3**	**12.4**	**40.4**	**175.3**

21 Other current liabilities

CHF million	2005	2004
Accrued expenses	144.0	129.9
Sales commissions	22.9	19.7
Other short-term liabilities	120.1	118.6
Total	**287.0**	**268.2**

22 Changes in the scope of consolidation

In 2005 Rieter reinforced and expanded the components business of the Textile Systems Division with two acquisitions:

Rieter acquired the remaining shares of Spindelfabrik Suessen GmbH in Germany and its subsidiary Suessen Asia Private Ltd. in India as of January 1, 2005. Rieter thus increased its equity holding from 19% to 100% and consolidated Suessen for the first time as of January 1, 2005. Suessen develops and manufactures primarily technology components for ring and rotor spinning machines and supplies these to all major machinery manufacturers as well as directly to spinning mills.

Rieter acquired the entire share capital of the Graf Group as of October 3, 2005. The Graf Group develops, manufactures and distributes card clothing, combs and clothing for combers as well as service machines for various spinning processes in the staple fiber sector. Its two largest manufacturing locations are in Switzerland and the Netherlands.

Individually, the impact of the two above-mentioned acquisitions on consolidated assets and liabilities is immaterial. In aggregate, the assets and liabilities arising from the acquisitions are as follows:

CHF million	Fair Value	Adjustments	Book value before adjustments
Tangible fixed assets	96.4	13.3	83.1
Patents and trademarks	45.3	45.2	0.1
Financial assets	4.2	1.0	3.2
Inventories	43.0	2.5	40.5
Receivables	21.4		21.4
Cash and cash equivalents	6.3		6.3
Long and short-term financial debt	–29.4		–29.4
Deferred tax liabilities	–21.6	–16.7	–4.9
Provisions and other non-current liabilities	–36.2		–36.2
Other current liabilities	–30.4		–30.4
Net identifiable assets and liabilities	**99.0**	**45.3**	**53.7**
Acquired cash and cash equivalents	–6.3		
Goodwill	4.3[1]		
Minority participation before assuming control	–10.3		
Purchase price settled by shares of Rieter Holding Ltd.	–10.0[2]		
Cash used for acquisitions	**76.7**		

1. The goodwill arising out of the acquisitions reflects the value of expected synergies.
2. 26 148 shares at CHF 382.44.

Initial accounting for the Graf group was determined provisionally. In accordance with IFRS 3, adjustments to the fair values assigned to the identifiable assets acquired and liabilities assumed can be made within 12 months of the acquisition date.

Professional fees and related costs for the acquisitions amounted to 0.1 million CHF.

In 2005, the acquired activities contributed 84.6 million CHF to sales and 5.6 million CHF to operating profit before interest and taxes since the acquisition date. If both acquisitions had occurred on January 1, 2005, group sales would have been some 60 million CHF higher.

There were no changes in the scope of consolidation in 2004.

23 Pension plans

The expense for pension plans is included in employee costs.

Defined-contribution plans

Expenses for defined contribution plans amounted to 8.6 million CHF (9.5 million CHF in 2004).

Defined-benefit plans

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

Pension costs of defined-benefit plans

CHF million	2005	2004
Current service cost	17.8	12.4
Interest cost	32.4	38.6
Expected return on plan assets	–36.8	–33.8
Employees' contributions	–6.1	–6.2
Amortisation of actuarial losses	2.3	0.0
Expense for defined-benefit plans	**9.6**	**11.0**

Funded status of defined-benefit plans

CHF million	2005	2004
Actuarial present value of defined-benefit obligation • unfunded plans	–71.4	–56.3
• funded plans	–1 016.7	–878.3
Fair value of plan assets	1 240.9	1 010.7
Recognized in the balance sheet • as assets	61.3	50.4
• as pension provisions	–78.8	–56.3
Net asset/(liability) at December 31	**–17.5**	**–5.9**

Actuarial gains are capitalized under financial assets to the extent that the company will be able to utilize them. Pension plan assets included 86 092 Rieter shares (136 092 shares in 2004) and loans to group companies of 0.3 million CHF (0.3 million CHF in 2004).

Movements in balance sheet items

CHF million	2005	2004
Net asset/(liability) at January 1	**–5.9**	**–7.2**
Change in the scope of consolidation	–19.6	0.0
Expense for defined-benefit plans	–9.6	–11.0
Employer's contribution	20.2	12.3
Change in unrecognized actuarial differences	–2.6	0.0
Net asset/(liability) at December 31	**–17.5**	**–5.9**

Actuarial assumptions

in %	2005	2004
Discount rate	3.5	3.9
Expected return on plan assets	4.2	3.8
Future wage growth	1.6	1.6
Future pension growth	1.0	0.9

The assumptions are shown as a weighted average for all pension plans.

24 Share-based payments

Rieter has established a share purchase plan for its managers. Between May 9 and June 30, 2005, 76 participants purchased 15 053 shares at a price of 267.00 CHF per share (20 134 shares at 223.00 CHF in 2004). The average market value of shares granted was 349.90 CHF (323.36 CHF in 2004). At least two-thirds of these shares cannot be sold for three years. The shares for this program were taken from the holdings of Rieter Holding Ltd.

In addition, the members of the Group Executive Committee could subscribe to one additional free option for each share which was purchased and subject to restrictions on sale under the above plan. Each option entitles the holder to purchase a share after two years at a price of 381.85 CHF (318.15 CHF in 2004). There are no vesting conditions.

The estimated fair value of each share option granted is 28.40 CHF. This value was calculated by applying an adapted model of the Black-Scholes option pricing model. The following inputs have been made to the model:

Share price on the date granted	CHF	355.00
Exercise price	CHF	381.85
Expected volatility (based on historical data)		17%
Option life		5 years
Risk-free interest rate		1.45%
Dividend yield		3.00%

Change in options granted

	Number of options	Weighted average exercise price in CHF
Outstanding at January 1, 2005	**18 311**	**350.87**
Granted	3 513	381.85
Expired	–2 824	471.50
Exercised	–3 322	339.16
Outstanding at December 31, 2005	**15 678**	**338.57**
Exercisable at December 31, 2005	**8 309**	**329.74**

The options outstanding at December 31, 2005, had an exercise price between 244.00 CHF and 419.00 CHF and a weighted average contractual life of 2.67 years.

The application of IFRS 2 to the share purchase plan resulted in a charge to the income statement of 1.2 million CHF in the reporting period. On January 1, 2005, there were no unvested rights from share purchase plans of previous years. The application of IFRS 2 to the option plan resulted in a charge to the income statement of 0.1 million CHF in the reporting period. The impact of the application of IFRS 2 to the option plans of previous years is immaterial (0.1 million CHF). Therefore, prior year financial statements have not been restated.

Long-service rewards are also granted in the form of shares at some group companies, and 10 345 shares are reserved for this purpose (11 369 shares in 2004).

25 Related parties

The members of the Board of Directors receive a fixed annual remuneration. The directors received 1 462 Rieter registered shares in the 2005 financial year in the context of the share purchase plan (1 752 shares in 2004). None of the shares allotted to the directors in the context of the share purchase plan can be resold for three years. The cash remuneration of the Board of Directors in the 2005 financial year totalled 0.8 million CHF (0.8 million CHF in 2004).

To the members of the Group Executive Committee a remuneration totaling 3.6 million CHF was disbursed for the 2005 financial year (3.7 million CHF in 2004). This sum comprises the basic salary (including employer's contributions to pension fund, excluding employer's contributions to state social security funds), the deferred bonus for 2005 and the discount on Rieter shares purchased in 2005. In the context of the share purchase plan (see note 24) 3 513 Rieter shares and options were allotted (3 856 shares and options in 2004).

26 Other commitments

Commitments from future minimum lease payments under non-cancellable operating leases were as follows:

CHF million	2005	2004
up to 1 year	8.7	6.6
2–5 years	16.3	10.9
over 5 years	2.9	0.1
Total	**27.9**	**17.6**

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

27 Cash flow

CHF million	2005	2004
Net profit	138.1	137.8
Depreciation and amortization of tangible and intangible assets	130.4	132.6
Other non-cash income and expenses	–11.6	11.4
Cash flow	**256.9**	**281.8**
Change in provisions	3.8	–13.4
Net cash flow	**260.7**	**268.4**
Change in net working capital	–17.9	69.7
Capital expenditure on tangible and intangible assets, net	–161.4	–116.1
Change in financial assets, net	–6.1	–6.8
Acquisitions	–76.7	0.0
Free cash flow	**–1.4**	**215.2**

28 Net liquidity

CHF million	2005	2004
Cash and cash equivalents	198.5	405.6
Marketable securities	232.0	141.2
Short-term, interest-bearing receivables	0.0	0.5
Short-term financial debt	–69.0	–36.9
Bonds issued	–200.0	–200.0
Other long-term financial debt	–64.8	–92.9
Net liquidity	**96.7**	**217.5**

29 Exchange rates for currency translation

		Average annual rates		Year-end rates	
in CHF		2005	2004	2005	2004
Argentina	1 ARS	0.43	0.42	0.44	0.38
Brazil	1 BRL	0.52	0.43	0.57	0.43
Canada	1 CAD	1.03	0.96	1.13	0.94
China	100 CNY	15.21	15.01	16.34	13.67
Czech Republic	100 CZK	5.20	4.84	5.37	5.07
Euro countries	1 EUR	1.55	1.54	1.56	1.54
Great Britain	1 GBP	2.26	2.28	2.27	2.19
Hong Kong	100 HKD	16.02	15.95	17.00	14.55
India	100 INR	2.83	2.74	2.93	2.60
Poland	100 PLN	38.52	34.17	40.35	38.00
Taiwan	100 TWD	3.87	3.72	4.00	3.55
USA	1 USD	1.25	1.24	1.32	1.13

30 Events after balance sheet date

On January 27, 2006, Rieter announced its intention of discontinuing the operations of Rieter Automotive Nederland B.V. at its manufacturing plant in Weert, Netherlands, in 2007. The total costs of this project will be charged to income in the 2006 financial year when the restructuring plans are finalized.

31 Approval for publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Board of Directors on March 21, 2006. They are also subject to approval by the Annual General Meeting of shareholders. No events have occurred up to March 21, 2006, which would necessitate adjustments to the book values of the group's assets or liabilities, or which require additional disclosure.

Significant subsidiaries and associated companies

at December 31, 2005

			Paid-in capital in local currency	Group interest	Research & development	Sales/trading	Production	Services/financing
Argentina	Rieter Automotive Argentina S.A., Córdoba	ARS	7 070 000	95%		•	•	
Belgium	Rieter Automotive Belgium N.V., Genk	EUR	1 797 228	100%		•	•	
Brazil	Rieter Automotive Brazil-Artefatos de Fibras Texteis Ltda., São Bernardo d.C.	BRL	35 107 344	100%	•	•	•	
	Rieter South America Ltda., São Paulo	BRL	2 172 653	100%		•		
	Graf Maquinas Ltda., São Paulo	BRL	10 220 000	100%		•	•	•
Canada	Rieter Automotive Mastico Ltd., Tillsonburg	CAD	381 000	100%	•	•	•	
	Rieter Magee Automotive Systems Canada, London		[2]	100%		•	•	
China	Rieter Changzhou Textil Instruments Co. Ltd., Changzhou	EUR	10 000 000	100%			•	
	Rieter Nittoku (Guangzhou) Automotive Sound-Proof Co. Ltd., Guangzhou City	USD	9 250 000	51%		•	•	
	Rieter Textile Systems (Shanghai) Co. Ltd., Shanghai	USD	200 000	100%		•		
	Rieter Asia (Hong Kong) Ltd., Hongkong	HKD	1 000	100%		•		
Czech Republic	Rieter CZ a.s., Ústí nad Orlicí	CZK	982 169 000	100%	•	•	•	•
	Novibra Boskovice s.r.o., Boskovice	CZK	40 000 000	100%	•	•	•	
France	Rieter Automotive France SAS, Aubergenville	EUR	8 000 000	100%	•	•	•	
	Rieter Textile Machinery France SAS, Valence	EUR	791 525	100%	•	•	•	•
	Rieter Perfojet SAS, Grenoble	EUR	1 033 600	100%	•	•	•	•
	Rieter France SAS, Valence	EUR	39 852 500	100%				•
	Graf France Sàrl, Illzach	EUR	150 000	100%		•		•
Germany	Rieter Ingolstadt Spinnereimaschinenbau AG, Ingolstadt	EUR	12 273 600	100%	•	•	•	•
	Rieter Automotive Germany GmbH, Rossdorf	EUR	11 248 421	100%	•	•	•	
	Rieter Automatik GmbH, Grossostheim	EUR	7 158 086	100%	•	•	•	•
	Rieter Vertriebs GmbH, Ingolstadt	EUR	15 338 756	100%		•		•
	Rieter Deutschland GmbH & Co. OHG, Ingolstadt	EUR	15 645 531	100%		•		•
	Wilhelm Stahlecker GmbH, Reichenbach im Täle	EUR	255 645	100%	•			
	Spindelfabrik Suessen GmbH, Süssen	EUR	5 050 100	100%	•	•	•	•
	Graf-Kratzen GmbH, Gersthofen	EUR	400 000	100%		•		•
Great Britain	Rieter Automotive Great Britain, Ltd., Heckmondwike	GBP	15 818 461	100%	•	•	•	
India	Lakshmi Machine Works Ltd., Coimbatore[1]	INR	123 692 500	13%	•	•	•	•
	Rieter-LMW Machinery Ltd., Perianaickenpalayam	INR	250 000 000	50%			•	
	Suessen Asia Private Ltd., Wing	INR	409 900 000	100%		•	•	
	Rieter India Pvt. Ltd., New Delhi	INR	10 000 000	100%		•		

			Paid-in capital in local currency	Group interest	Research & development	Sales/trading	Production	Services/financing
Italy	Rieter Automotive Fimit S.p.A., Mailand	EUR	8 400 000	100%	•	•	•	
	Rieter Italiana S.r.l., Mailand	EUR	46 800	100%		•		
	Idea, Institute S.p.A., Turin	EUR	3 500 000	100%	•			•
	Graf Italia S.r.l., Bergamo	EUR	500 000	100%		•	•	•
Netherlands	Rieter Automotive Nederland B.V., Weert	EUR	2 042 010	100%		•	•	
	Graf Holland B.V., Enschede	EUR	113 445	100%		•	•	•
Poland	Rieter Automotive Poland Sp.z.o.o., Katowice	PLN	20 844 000	100%		•	•	
Portugal	Rieter Componentes para Veículos Lda., Setúbal	EUR	598 557	87%		•	•	
Spain	Rieter Saifa S.A., Barcelona	EUR	847 410	50%	•	•	•	
	Graf España S.A., Santa Perpetua de Mogoda	EUR	601 012	100%		•	•	•
Switzerland	Rieter Management AG, Winterthur	CHF	5 000 000	100%				•
	Maschinenfabrik Rieter AG, Winterthur	CHF	8 500 000	100%	•	•	•	•
	Schaltag AG, Effretikon	CHF	400 000	100%	•	•	•	
	Hogra Holding AG, Freienbach	CHF	1 000 000	100%				•
	Graf + Cie AG, Rapperswil	CHF	1 000 000	100%	•	•	•	•
	Rieter Automotive Heatshields AG, Sevelen	CHF	250 000	100%	•	•	•	
	Rieter Automotive Management AG, Winterthur	CHF	1 300 000	100%	•			•
	Rieter Automotive (International) AG, Winterthur	CHF	1 300 000	100%				•
	Tefina Holding AG, Zug	CHF	5 000 000	100%				•
	Bräcker AG, Pfäffikon	CHF	1 000 000	100%	•	•	•	•
	Rieter Immobilien AG, Winterthur	CHF	2 000 000	100%				•
	Rieter Services AG, Winterthur	CHF	3 000 000	100%				•
Taiwan	Rieter Asia (Taiwan) Ltd., Taipeh	TWD	5 000 000	100%		•		
Turkey	Rieter Textile Machinery Trading & Services Ltd., Levent	TRY	25 000	69%				•
	Rieter Erkurt Otomotive Yan Sanayi ve Ticaret AS, Bursa	TRY	700 000	51%	•	•	•	
USA	Rieter Automotive North America, Inc., Farmington Hills	USD	1 000	100%	•	•	•	
	Rieter Corporation, Spartanburg	USD	1 249	100%		•		
	Graf Metallic America Inc., Spartanburg	USD	50 000	100%		•		•
	UGN, Inc., Chicago	USD	1 000 000	50%	•	•	•	
	Magee Rieter Automotive Systems, Bloomsburg	USD	[2]	100%	•	•	•	
	Rieter Acquisition Corporation, Farmington Hills	USD	1	100%				•

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

Report of the group auditors

PRICEWATERHOUSECOOPERS

Report of the group auditors to the General Meeting of Rieter Holding Ltd., Winterthur

As auditors of the group, we have audited the consolidated financial statements (income statement, balance sheet, statement of cash flows, changes in equity and notes on pages 60 to 93) of Rieter Holding Ltd. for the year ended December 31, 2005.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

PricewaterhouseCoopers AG

Christian Kessler   Stefan Haag

Zurich, March 22, 2006

Income statement of Rieter Holding Ltd.

for the financial year from January 1 to December 31

CHF million	Notes	2005	2004
Income			
Income from investments	(1)	92.3	118.5
Income from marketable securities and interest income	(2)	46.0	29.0
Other income	(3)	8.9	9.7
Total income		**147.2**	**157.2**
Expenses			
Financial expense	(4)	11.8	14.3
Administration expense		4.1	4.2
Value adjustments, provisions	(5)	82.0	95.0
Total expenses		**97.9**	**113.5**
Net profit		**49.3**	**43.7**

Balance sheet of Rieter Holding Ltd.

at December 31, before appropriation of profit

CHF million	Notes	2005	2004
Assets			
Investments in and loans to subsidiaries	(6)	586.2	542.8
Non-current assets		**586.2**	**542.8**
Accrued income and prepayments	(7)	2.6	2.7
Receivables from third parties	(8)	2.7	2.8
Receivables from subsidiaries	(9)	43.2	28.2
Receivables		**48.5**	**33.7**
Liquid funds	(10)	198.1	281.0
Current assets		**246.6**	**314.7**
Total assets		**832.8**	**857.5**
Shareholders' equity and liabilities			
Share capital		22.3	22.3
Legal reserves			
• General reserve	(11)	27.5	27.5
• Reserve for own shares	(12)	0.2	1.7
Other reserves	(13)	272.8	253.0
Retained earnings	(14)		
• Balance brought forward		21.5	19.4
• Net profit for the year		49.3	43.7
Shareholders' equity		**393.6**	**367.6**
Short-term liabilities	(15)	223.0	273.0
Accrued liabilities	(16)	4.9	5.6
Current liabilities		**227.9**	**278.6**
Bonds	(17)	200.0	200.0
Provisions	(18)	11.3	11.3
Non-current liabilities		**211.3**	**211.3**
Liabilities		**439.2**	**489.9**
Total shareholders' equity and liabilities		**832.8**	**857.5**

Notes to the accounts of Rieter Holding Ltd.

1 Income from investments

This consists of dividends paid by subsidiaries and associated companies.

2 Income from marketable securities and interest income

As a result of the good stock exchange performance, income from marketable securities in particular showed a significant increase.

3 Other income

There was no material change in the contractually agreed compensation payments by group companies.

4 Financial expense

While interest on bond issues remained unchanged, the cost of interest payable to the cash pool was reduced.

5 Value adjustments, provisions

The value adjustment for general business risks was increased by 82.0 million CHF and deducted from investments in and loans to subsidiaries.

6 Investments in and loans to subsidiaries

The main subsidiaries and associated companies are listed on pages 92 and 93. These investments are held directly or indirectly by Rieter Holding Ltd. The increase in investments in subsidiaries was due mainly to the acquisition of Hogra Holding AG (Graf Group). In the year under review some loans to subsidiaries were also converted into equity capital.

CHF million	**2005**	**2004**
Investments in subsidiaries	205.3	129.5
Loans to subsidiaries	380.9	413.3
Total	**586.2**	**542.8**

7 Accrued income and prepayments

Accrued income and prepayments include accrued interest income on bond holdings and loans granted, as well as prepaid financing costs.

8 Receivables from third parties

These consist of receivables from a loan and from withholding taxes and current account relationships with foundations.

9 Receivables from subsidiaries

Current account credits or advances on market terms and conditions are granted in the context of central cash management.

10 Liquid funds

CHF million	2005	2004
Cash and cash equivalents	52.9	139.3
Marketable securities	145.2	141.7
Total	**198.1**	**281.0**

11 General reserve

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

12 Reserve for own shares

Shares held by all group companies

	Number
Registered shares held at January 1, 2005	16 063
Purchases January–December 2005 (average price CHF 366.75)	99 601
Sales January–December 2005 (average price CHF 347.17)	105 082
Registered shares held at December 31, 2005	10 582

A reserve for own shares has been made at the acquisition cost of 0.2 million CHF. This amount was deducted from other reserves.

13 Other reserves

CHF million	2005	2004
Opening balance	253.0	176.3
Transfer to reserve for own shares	1.5	111.4
Share repurchase	0.0	–34.6
Premium received on shares issued	18.3	0.0
Other	0.0	–0.1
Total	**272.8**	**253.0**

50 000 shares were issued in connection with the acquisitions made in the year under review and the share purchase plan. These shares were taken from the holding at the disposal of the Board of Directors.

14 Retained earnings

Including the balance brought forward, the Annual General Meeting has a total of 70.8 million CHF at its disposal (63.1 million CHF in 2004).

15 Short-term liabilities

CHF million	2005	2004
Liabilities to group companies	222.3	272.3
Liabilities to third parties	0.7	0.7
Total	**223.0**	**273.0**

Rieter Holding Ltd. manages liquid funds for group companies in the central cash pool. These liabilities were reduced inter alia by offsetting dividend payments by subsidiaries.

16 Accrued liabilities

These consist mainly of accrued interest on the bond issue and accruals for forward foreign exchange contracts.

17 Bonds

CHF million	2005	2004
4% bonds maturing 2007	200.0	200.0
Total	**200.0**	**200.0**

The 200 million CHF of 4% bonds are due for repayment in 2007 (securities code No. 1236261; Reuters: CH 1236261 = S). Interest is payable annually on June 21.

18 Provisions

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

19 Guarantees to third parties

CHF million	2005	2004
Guarantees	1.2	1.3

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

20 Shareholders

Major groups of shareholders with holdings exceeding 5% of all voting rights (pursuant to Art. 663c of the Swiss Code of Obligations) at December 31, 2005: UBS Fund Management (Switzerland) AG, Basel (223 951 shares, notified on August 9, 2005), and Credit Suisse Asset Management, Zurich (223 889 shares, notified on August 19, 2005).

The holding of UBS Fund Management (Switzerland) AG is less than 5% as of January 25, 2006. As of March 14, 2006, the holding of Credit Suisse Asset Management is also less than 5%.

Rieter Holding Ltd. held 10 582 of its own shares directly or indirectly at December 31, 2005 (16 063 shares in 2004).

Proposal of the Board of Directors

for the appropriation of profit (2005 financial year)

CHF	2005	2004
Net profit for the year	49 267 303	43 696 508
Retained earnings brought forward from previous year	21 894 405	20 582 422
Waiver of dividends on own shares	–376 650	–1 135 965
Retained earnings at the disposal of the Annual General Meeting	**70 785 058**	**63 142 965**
Proposal		
Dividend on registered shares	41 746 970	41 248 560
Retained earnings	29 038 088	21 894 405
Retained earnings at the disposal of the Annual General Meeting	**70 785 058**	**63 142 965**

Upon approval of this proposal by the Annual General Meeting, a dividend for the 2005 financial year of CHF 10.00 will be paid on each registered share of CHF 5.00 p.v. on May 4, 2006. The dividend, less Swiss withholding tax, of CHF 6.50 will be paid into the bank or postal account specified by the holder of the shares.

Report of the statutory auditors

PRICEWATERHOUSECOOPERS

Report of the statutory auditors to the General Meeting of Rieter Holding Ltd., Winterthur

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes on pages 95 to 102 and pages 92 to 93) of Rieter Holding Ltd. for the year ended December 31, 2005.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require that an audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the financial statements. We have also assessed the accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

PricewaterhouseCoopers AG

Christian Kessler   Stefan Haag

Zurich, March 22, 2006

Review 2001 to 2005

Consolidated income statement

		2005	2004	2003	2002	2001
Sales	CHF million	3 160.0	3 173.2	3 118.3	2 976.2	3 170.2
• Europe	CHF million	1 475	1 484	1 473	1 333	1 444
• Asia (incl. Turkey)	CHF million	776	875	792	685	645
• North America	CHF million	723	674	696	794	860
• Latin America	CHF million	156	97	96	120	182
• Africa	CHF million	30	43	61	44	39
Corporate output	CHF million	3 073.6	3 054.6	2 991.3	2 872.2	3 025.4
Operating result before interest, taxes, depreciation and amortization (EBITDA)	CHF million	313.4	343.1	332.7	322.5	337.1
• in % of corporate output		10.2	11.2	11.1	11.2	11.1
Operating result before interest and taxes (EBIT)	CHF million	183.0	210.5	202.4	200.9	203.9
• in % of corporate output		6.0	6.9	6.8	7.0	6.7
Net profit[1]	CHF million	138.1	137.8	116.0	83.8	111.2
• in % of corporate output		4.5	4.5	3.9	2.9	3.7

Consolidated balance sheet

		2005	2004	2003	2002	2001
Non-current assets	CHF million	1 159.6	944.5	982.4	990.1	1 044.9
Current assets	CHF million	1 555.1	1 545.5	1 344.5	1 233.5	1 283.8
Shareholders' equity before appropriation of profit	CHF million	1 192.2	1 069.8	918.0	873.3	907.8
Minority interests	CHF million	70.0	77.8	79.6	66.6	82.4
Non-current liabilities	CHF million	515.0	498.9	515.3	494.7	437.8
Current liabilities	CHF million	937.5	843.5	814.0	789.0	900.7
Total assets	CHF million	2 714.7	2 490.0	2 326.9	2 223.6	2 328.7
Shareholders' equity (%)		46.5	46.1	42.9	42.3	42.5

Consolidated statement of cash flows[2]

		2005	2004	2003	2002	2001
Cash provided by operations	CHF million	242.8	338.1	197.5	240.4	248.4
Cash used for investing activities	CHF million	−322.8	−120.2	−129.5	−80.5	−187.7
Cash used for financing activities	CHF million	−123.0	20.3	−75.6	−135.2	−149.1
Net cash flow	CHF million	260.7	268.4	245.5	172.9	216.8
Free cash flow	CHF million	−1.4	215.2	86.2	100.2	60.7

		2005	2004	2003	2002	2001
Number of employees at year-end		**14 652**	**13 557**	**13 316**	**12 983**	**12 977**

1. Net profits before deduction of minority interests.
2. See pages 62 and 89.

Information for investors

		2005	2004	2003	2002	2001
Share capital	CHF million	22.3	22.3	22.8	22.8	45.7
Net profit of Rieter Holding Ltd.	CHF million	49.3	43.7	36.6	31.1	36.1
Gross distribution	CHF million	41.7[1]	41.2	34.0	35.8	36.5
Payout ratio (as a % of net profit)[2]	in %	33	33	33	52	39
Market capitalization (December 31)	CHF million	1 624	1 361	1 214	1 180	1 485
Market capitalization as a % of						
• sales	in %	51	43	39	40	47
• equity attributable to Rieter shareholders	in %	136	127	132	135	164

1. Proposed by the Board of Directors (cf. page 102).
2. Net profit after deduction of minority interests.

Data per share (RIEN)

			2005	2004	2003	2002	2001
Share prices on the SWX Swiss Exchange, registered shares	high	CHF	393	350	290	404	493
	low	CHF	328	293	237	275	348
Price/earnings ratio	high		12.8	11.3	11.3	23.8	21.4
	low		10.6	9.4	9.2	16.2	15.1
Shareholders' equity (group) per registered share		CHF	286.29	260.37	230.42	214.50	222.55
Tax value per registered share		CHF	390.00	330.00	286.00	278.00	360.00
Gross distribution per registered share		CHF	10.00[1]	10.00	8.60	8.60	8.60
• of which capital repayment		CHF					5.00
Gross yield on registered shares	high	in %	2.5[1]	2.9	3.0	2.1	1.7
	low	in %	3.0[1]	3.4	3.6	3.1	2.5
Earnings per share		CHF	30.80	31.04	25.68	16.95	22.85

1. Proposed by the Board of Directors (see page 102).

Additional information to shareholders

Capital structure

At the end of the year 6 757 shareholders were entered in the shareholders' register of Rieter Holding Ltd. (7 708 in the previous year). The analysis of shareholders is as following:

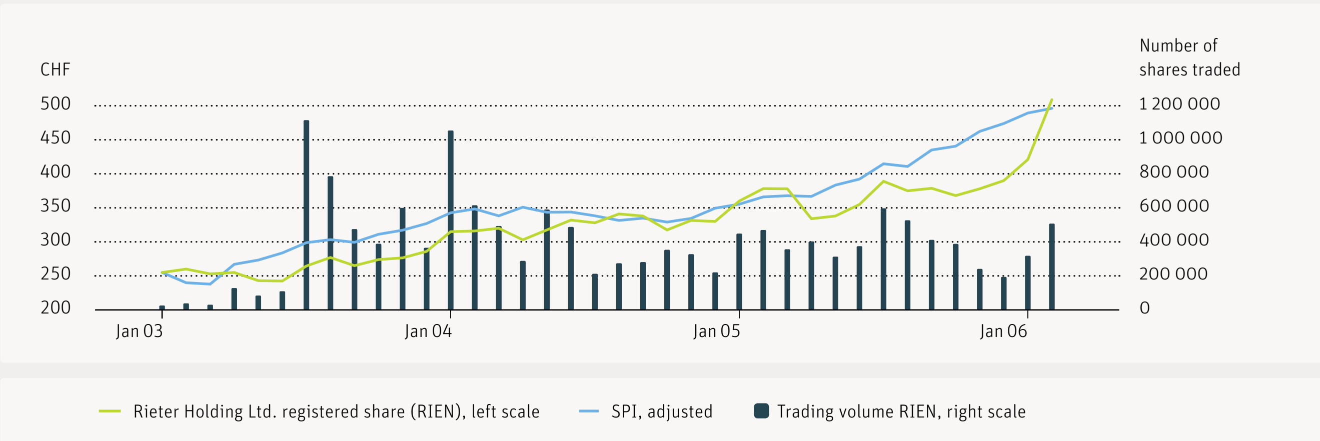
Registered shareholders

	2005 shares in %	2005 holders in %	2004 shares in %	2004 holders in %
Total:				
• Individuals	15.4	90.8	17.7	89.4
• Legal entities	53.5	9.2	55.4	10.6
• Floating shares	31.1	–	26.9	–
Foreign investors				
• Individuals	1.0	6.0	1.1	5.8
• Legal entities	23.3	1.0	20.8	1.3

Rieter registered shares at December 31, 2005 (listed on the Swiss Stock Exchange SWX)

	Number	
Securities code 367144 (Investdata: RIEN; Reuters: RITZN)		
Share capital	4 450 856	registered shares of CHF 5.00 p.v.
Share capital eligible for dividend	4 174 856	• including 159 shares held by Rieter Holding Ltd. • including 10 423 own shares held by group companies
Conditional share capital	396 312	registered shares

Share price development 2003–2006



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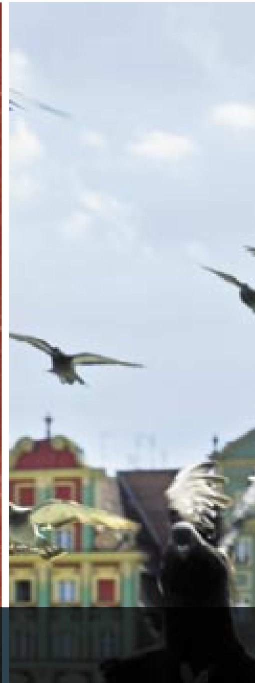

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