RIETER

Annual Report 2016

Committed to Service Excellence

EBITDA
in % of sales

10.1%

Free Cash Flow
in CHF million

76.3

Research & Development expenses
in CHF million

48.0

in CHF million	2016	2015	Change
Orders received	**905.2**	801.6	**+ 13%**
Sales	**945.0**	1036.8	**– 9%**
EBITDA	**95.8**	115.9	**– 17%**
- in % of sales	**10.1**	11.2	
EBIT	**56.5**	73.1	**– 23%**
- in % of sales	**6.0**	7.0	
Net profit	**42.7**	49.8	**– 14%**
- in % of sales	**4.5**	4.8	
Capital expenditure	**30.9**	31.6	**– 2%**
Net liquidity	**263.5**	212.4	**+ 24%**
Dividend per share (in CHF)[1]	**5.0**	4.5	
Equity in % of total assets	**46.2**	44.3	
Number of employees (excl. temporaries)	**5022**	5077	**– 1%**

[1] Proposal of the Board of Directors.

Group report

Remuneration report

Financial report

About Rieter

Rieter is the world‘s leading supplier of systems for short-staple fiber spinning. Based in Winterthur (Switzerland), the company develops and manufactures machinery, systems and components used to convert natural and manmade fibers and their blends into yarns. Rieter is the only supplier worldwide to cover spinning preparation processes as well as all four end spinning processes currently established on the market. With 15 manufacturing locations in nine countries, the company employs a global workforce of some 5 022, about 20% of whom are based in Switzerland.

Rieter is a strong brand with a long tradition. Since it was established in 1795, Rieter‘s innovative momentum has been a powerful driving force for industrial progress. Products and solutions are ideally tailored to its customers’ needs and are mostly produced in customers’ markets.

With a global sales and service organization and a strong presence in the core markets China and India, Rieter as market leader is well positioned in the global competitive environment.

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

The company comprises three business groups: Machines & Systems, After Sales and Components.

2016
86.6

2015
200.6

Americas
Sales
in CHF million

* without China, India and Turkey

2016
40.9

2015
60.2

Europe
Sales
in CHF million

2016
119.4

2015
143.7

Turkey
Sales
in CHF million

2016
286.3

2015
323.8

Asian countries*
Sales
in CHF million

Europe

Switzerland
Winterthur
Pfäffikon
Rapperswil
Belgium
Stembert
Germany
Gersthofen
Ingolstadt
Süssen
France
Wintzenheim
Netherlands
Enschede
Czech Republic
Boskovice
Ústí nad Orlicí

Turkey

Adana
Istanbul

Africa

India

Chandigarh
Koregaon Bhima
Wing

China

Changzhou
Hong Kong
Shanghai
Beijing
Urumqi

Asian countries*

Taipei, Taiwan
Tashkent City, Uzbekistan

2016
43.2

2015
26.7

Africa
Sales
in CHF million

2016
182.1

2015
142.0

India
Sales
in CHF million

2016
186.5

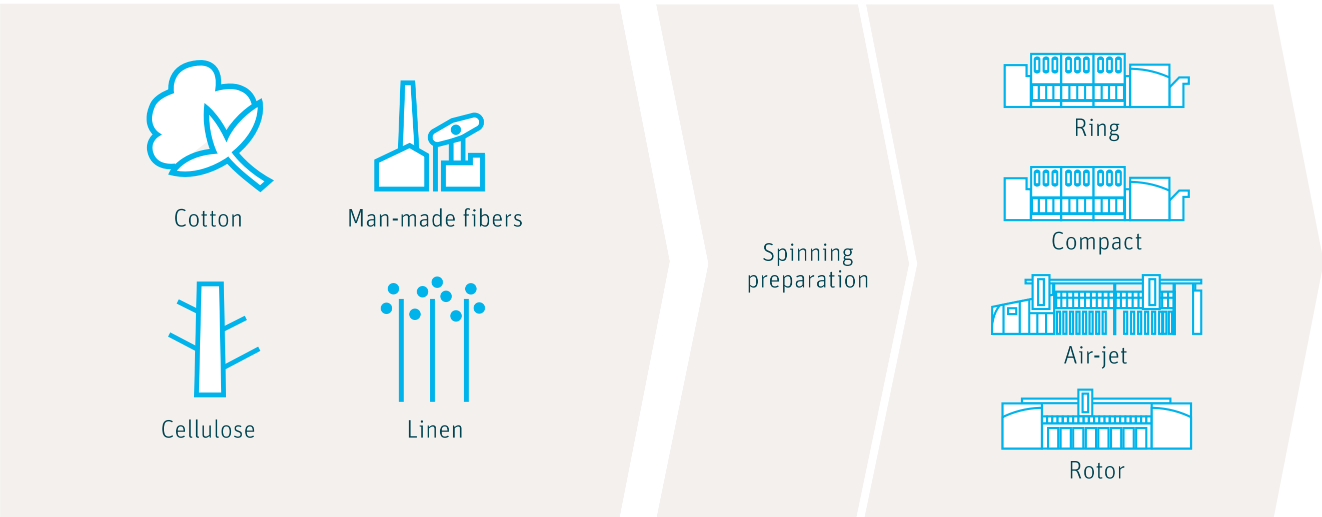
2015
139.8

China
Sales
in CHF million

The Rieter Business Model

Raw materials

Spinning process



Around 94 million tons of fiber are processed annually around the world, for example for clothing, technical textiles or household textiles. Fiber consumption is growing with the world population and disposable income, on average at around 2 to 3% per year.

Yarn production
The process from fiber to textile begins with fiber production. A yarn is produced from the fibers, for example from cotton, polyester or viscose. A textile is then produced from the yarn via various processing steps such as weaving, knitting, dyeing or finishing.

Yarn is produced in two basically different ways. On the one hand, this is done by spinning staple fibers. These are fibers with a staple length of 23 to 60 mm (short-staple fibers) or over 60 mm (long-staple fibers). On the other hand, yarn is produced by processing so-called filaments to make continuous filament yarn. The resulting yarns have different properties. In the clothing industry, the yarn produced from staple fiber predominates because it offers pleasant wearing comfort.

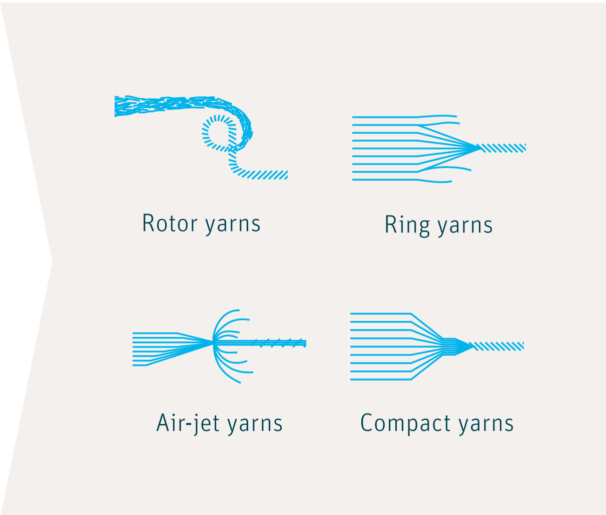
Each of the two types of yarn production accounts for around 50% of world fiber consumption. Rieter is engaged in yarn production from staple fibers. The most important of these are cotton (about 24 million tons per year), polyester (about 16 million tons per year) and viscose (about 5 million tons per year).

The process for producing a yarn from staple fibers consists of two stages: preparation and end spinning.

In the preparation stage, the fibers, which are delivered in bales, are separated, cleaned if necessary, aligned, homogenized and drawn. This is done in three process steps: blowroom/bale opener, carding machine and draw frame. In cotton processing, the combing machine also plays a role: here, short fibers are combed out to produce a higher-quality yarn. At the end of the preparation stage, a uniform sliver has been produced, which is as yet untwisted.

Source: PCI, ITMF, estimate Rieter

Yarn



Capacity

>250

million spindle equivalents worldwide

Spinning process
In the end spinning stage, the fiber mesh is further drawn (up to about 40 fibers in cross-section for very fine yarns) and spun into a yarn by twisting. Twisting takes place either by means of a rotating spindle (ring spinning, compact spinning), by rotation of a rotor (rotor spinning) or by an air flow (air-jet spinning). Compact spinning is a variant of ring spinning, in which, by means of an auxiliary device, a more compact yarn with a higher yarn density is achieved due to improved fiber bonding.

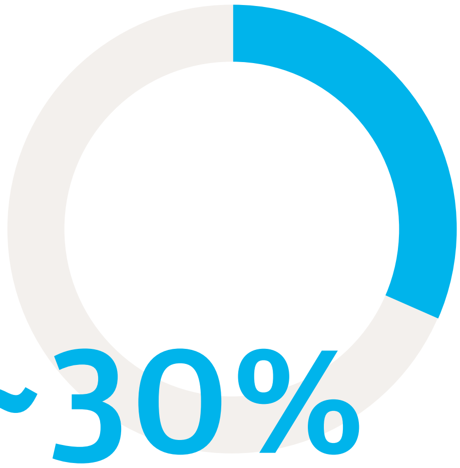
After spinning, imperfections are removed from the yarn. The yarn is then wound, in order to present it in a suitable form for the subsequent process steps in the textile production chain.

Measured variables for capacity
The production capacity for producing yarn from staple fibers is measured in spindle equivalents. The production capacity of a ring spindle serves as the basis. The spinning unit of a rotor spinning machine corresponds to the productivity of five to six ring spindles, whereas that of an air-jet spinning machine corresponds to the productivity of 20 ring spindles.

A total of more than 250 million spindle equivalents are used worldwide to produce yarn from 47 million tons of staple fibers, of which around 100 million are in China, 61 million in India, 52 million in South Asia and 12 million in Turkey. Every year, between 11 and 15 million spindle equivalents are installed worldwide: spinning mill owners invest in rationalization, replacement or expansion. In 2016, Rieter delivered 1.83 million spindle equivalents (1.87 million). In addition, they require wear and spare parts for ongoing operation.

3 200 to 4 000

CHF million is the the world market for staple fiber machines per year.



~30%

Rieter is the market leader with a market share of around 30%.

Market
The world market for staple fiber machines, which is relevant for Rieter, has an annual volume of CHF 3 200 to 4 000 million. Rieter is the market leader with a market share of around 30%.

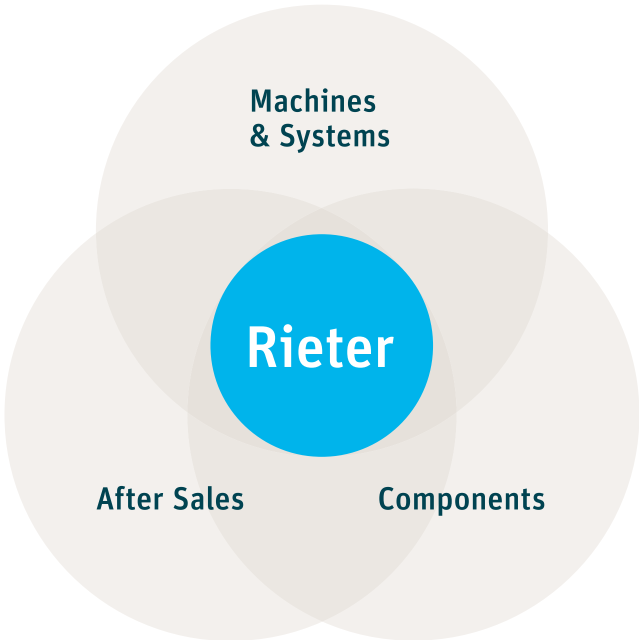
Business with new machines, wear and spare parts
The business with new machines is of a highly cyclical nature. The tendency to invest in the spinning industry is mainly influenced by expectations regarding fiber consumption and the margins that can be achieved by selling yarns. Fiber consumption is dependent on the economy, while the margins for yarn depend on the movement of raw material prices, capacity utilization and the production costs of the spinning mills, foreign exchange rates and government policies.

The business with wear and spare parts is much less cyclical. The basic business is driven by the degree of capacity utilization of spinning mills – operational spinning mills require wear and spare parts. Project business such as the conversion or modernization of entire spinning mills, on the other hand, are subject to the investment cycle described above.

Product and service offering
Rieter plans spinning mills, develops, produces and supplies the machines for both preparation and end spinning, and supervises the installed machines throughout their life cycle.

Rieter with all its brands is established worldwide as a premium supplier. The innovative products and services from Rieter enable spinning mill operators to be more competitive. Success factors are lower yarn costs, as savings can be made on raw materials, energy, labor and depreciation, with the same or better yarn quality, which allows higher

Source: PCI, ITMF, estimate Rieter



prices for the same production costs. The professionalism and availability of the service is also a key aspect when customers decide to buy Rieter products.

Three business groups

The Machines & Systems Business Group develops, produces and distributes new equipment in the spinning systems and single machines sector. Blowroom, carding machines, draw frames and combing machines are used for preparation; ring, compact, rotor and air-jet spinning machines are used for end spinning. The offer is supplemented by planning services as well as material flow and information technology, by means of which the machines are connected to a single system.

The After Sales Business Group develops, produces and distributes spare parts for Rieter machines that do not come into contact with fibers, such as drives, sensors or controllers. After Sales also sells technology components that are not included in the range of products offered by the Components Business Group (see below). After Sales also offers services that enable Rieter customers to improve the efficiency and effectiveness of their spinning mills.

The Components Business Group develops, produces and distributes technology components for spinning machines. Technology components are parts of the machines that come into contact with the fiber during the process. On the one hand, new machines are equipped with these components; on the other hand, they are subject to wear during operation and must be replaced regularly.

Erwin Stoller
Chairman of the Board of Directors

Dr. Norbert Klapper
Chief Executive Officer

Dear shareholder,

The 2016 financial year was characterized by a significantly higher order intake, especially in the first half year, and lower sales compared to the previous year. Despite the decline in sales, Rieter achieved an EBIT margin of 6%. Against the background of the solid financial and earnings position, the Board of Directors proposes to the shareholders to increase the dividend compared to the previous year.

In the full year, order intake rose by 13% year-on-year to CHF 905.2 million. In the first half of 2016, orders were at a good level of CHF 510.7 million, mainly driven by solid demand from Turkey. In the second half of the year, the dynamism in Turkey and India slowed significantly due to increasing political uncertainties, with the result that orders declined to CHF 394.5 million.

Free cash flow of CHF 76.3 million was generated.

Sales decreased to CHF 945.0 million, mainly due to the sluggish demand for machinery and systems in the second half of 2015. The market volume of CHF 3.2 billion in 2016 was roughly 8% down on the previous year. Thanks to its global positioning and attractive service portfolio, Rieter succeeded in achieving a market share of around 29% (30% in 2015).

EBIT margin, net profit and free cash flow

In spite of the 9% decline in sales, Rieter achieved an EBIT margin of 6.0% (CHF 56.5 million) and a net profit of 4.5% of sales (CHF 42.7 million). At CHF 76.3 million, free cash flow was significantly higher than net profit. Rieter further strengthened its balance sheet in the year under review. The equity ratio as of December 31, 2016, was 46.2% (44.3% at December 31, 2015).

Sales by region

Both in China and India, Rieter significantly increased sales in the year under review, by 33% to CHF 186.5 million and by 28% to CHF 182.1 million, respectively. In the other Asian countries, sales declined by 12%, but remained at a good level of CHF 286.3 million. In North and South America, following the completion of deliveries of large orders in the previous year, sales declined to CHF 86.6 million (CHF 200.6 million in 2015). In Turkey, a large portion of the good order intake from the first half year was delivered on schedule by the end of the year. Despite this, sales in Turkey fell to CHF 119.4 million, a reduction of 17% compared to the previous year. In Europe, sales decreased to CHF 40.9 million (CHF 60.2 million in 2015), due to the disposal of the Schaltag group in July 2015.

Business groups

The Machines & Systems Business Group recorded sales of CHF 603.4 million (CHF 702.3 million in 2015) and EBIT of CHF 3.6 million (CHF 14.8 million in 2015), thus compensating for a large portion of the market-related volume effect on earnings. At CHF 591.6 million, order intake was well above the previous year (CHF 457.6 million in 2015). After Sales generated EBIT of CHF 25.5 million (CHF 26.5 million in 2015) on sales of CHF 141.6 million (CHF 139.8 million in 2015). The lower result is due to investments relating to the further expansion of the business. Order intake of CHF 135.2 million was 7% above the previous year (CHF 126.3 million in

2015). Components increased sales to third parties to CHF 200.0 million (CHF 194.7 million in 2015) and improved EBIT to CHF 35.1 million (CHF 33.7 million in 2015). Order intake of CHF 178.4 million was below the previous year's CHF 217.7 million due to the lower volume of major orders from China and India.

CHF 5.00

The Board of Directors proposes to increase the dividend to CHF 5.00 per share.

Improvement program STEP UP

Rieter made significant progress towards the implementation of the STEP UP program. Rieter had launched the program in 2014 to strengthen innovative power, expand the after-sales business and optimize the cost base.

Rieter presented an important innovation in 2016 with the new single-head draw frame generation RSB-D 50. This machine offers unprecedented productivity with the highest quality. Rieter's UPtime Maintenance Solution, an online expert training system for monitoring and optimizing maintenance in the spinning mill, represents a further step towards the digitalization of the spinning industry. Research and development expenditure increased to CHF 48.0 million (CHF 46.6 million in 2015).

In 2016, After Sales further advanced important innovations and thus established more foundations for future expansion. More detailed information can be found on pages 16 and 17 of this report.

The measures launched in 2015 to reorganize production and sustainably increase profitability are almost completed at the Winterthur location. As announced at the beginning of 2017, Rieter plans to relocate production from the Ingolstadt site in Germany to the Ústí site in the Czech Republic.

Winterthur location

Rieter intends to create a modern location in Winterthur, concentrating the customer center, product and technology development, assembly and administration on an area of approximately 30,000 square meters. The necessary planning process is under way. In a later phase, work will begin on developing the remaining area of around 70,000 square meters.

Dividends and dividend policy

The Board of Directors will propose to the Annual General Meeting on April 5, 2017, that the dividend be increased from CHF 4.50 in the previous year to CHF 5.00 per share. Rieter seeks a distribution rate of at least 40% of earnings.

Changes in Group Executive Committee

As of April 1, 2016, Jan Siebert, as a member of the Group Executive Committee, took over the management of the Machines & Systems Business Group. This business group had been managed by Norbert Klapper, Chief Executive Officer, on an interim basis since January 2014.

As announced in February 2017, Werner Strasser intends to retire at his own request. On April 6, Serge Entleitner, as a member of the Group Executive Committee, assumes responsibility for the Components Business Group. Werner Strasser began his career at Rieter in 1994 and was appointed a member of the Group Executive Committee in 2011. The Board of Directors would like to express its heartfelt gratitude to Werner Strasser for his extraordinary contribution to the development of the components business and the Rieter Group.

Board of Directors and Annual General Meeting

At the Annual General Meeting held on April 6, 2016, shareholders approved all motions proposed by the Board of Directors. They elected two new members to the Board of Directors, Roger Baillod and Bernhard Jucker. Erwin Stoller, Chairman of the Board of Directors, and Michael Pieper, This E. Schneider, Hans-Peter Schwald and Peter Spuhler, directors, were each confirmed for a further one-year term of office. This E. Schneider, Hans-Peter Schwald and Erwin Stoller, the members of the Remuneration Committee who were standing for election, were also each re-elected for a one-year term of office. Jakob Baer and Dieter Spälti were no longer available for re-election and were discharged by the Chairman of the Board of Directors with grateful thanks. In addition, the authorized capital was extended to a maximum of CHF 2.5 million or 500,000 shares for two years. The authorized capital gives Rieter greater flexibility to exploit strategic opportunities without delay.

Erwin Stoller has decided not to offer himself for re-election at the 2017 General Meeting. In the almost 40 years of his affiliation with the Rieter Group, he shaped and formed the company for many years and rendered great service to the Rieter Group. During this time, he held various executive positions, including as Executive Chairman from 2009 to 2013, and as Chairman of the Board since 2008. The Board of Directors would like to express its heartfelt thanks to Erwin Stoller for his outstanding achievements in the management and development of the company and for his exemplary commitment to the well-being of Rieter.

The Board of Directors of Rieter Holding Ltd. proposes to the Annual General Meeting on April 5, 2017, to elect Bernhard Jucker as Chairman of the Board of Directors. Bernhard Jucker has been a member of Rieter's Board since 2016 and has many years of experience in the management of global investment goods businesses.

Furthermore, the Board of Directors proposes to the General Meeting to elect Luc Tack and Carl Illi to the Board of Directors. Both gentlemen have extensive experience in the textile industry and the management of international companies.

Outlook

In the first two months, demand for components and spare parts was stable. The order intake for new machines remained at a low level. Rieter expects sales and earnings in the first half-year to be on a par with those of the previous year, and a stronger performance in the second half-year. Despite low visibility in the sales markets, Rieter expects sales and profitability for 2017 to be at the level of the previous year (before restructuring costs). At the appropriate time, Rieter will provide information on the restructuring costs associated with the reorganization concept for the Ingolstadt site in Germany, which was announced on February 1, 2017.

Thanks

The Board of Directors and the Group Executive Committee would like to thank the workforce for their tireless efforts in 2016. We thank customers, suppliers and other business partners for your loyalty to Rieter, and shareholders for your confidence.

Winterthur, March 13, 2017

Erwin Stoller	Dr. Norbert Klapper
Chairman	Chief Executive
of the Board of Directors	Officer

Important dates

Annual General Meeting 2017	**April 5, 2017**
Semi-annual report 2017	**July 20, 2017**
Publication of sales 2017	**January 31, 2018**
Deadline for proposals regarding the agenda of the Annual General Meeting	**February 22, 2018**
Results press conference 2018	**March 13, 2018**
Annual General Meeting 2018	**April 5, 2018**

Business Group Machines & Systems

The Machines & Systems Business Group posted an encouraging increase in order intake for the reporting year. The measures to improve the cost base and increase profitability have been implemented as planned. This fact contributed to the slightly positive operating results with which the business group closed the year, even though there was a significant drop in recorded sales. At both of the major textile machinery trade fairs in 2016, the ITMA Asia in China and the ITME in India, innovative products and systems were of great interest to customers.

2016
603.4

2015
702.3

Sales
CHF million

2016 was characterized by a fluctuating demand for new machines. Overall, Machines & Systems achieved an encouraging increase in order intake of 29% to CHF 591.6 million (CHF 457.6 million in 2015). The positive trend at the end of 2015 continued for the first half-year of the year in review, when Rieter was awarded major contracts for spinning systems. Fewer orders were received during the second half-year, which was partly due to a low demand in Turkey. Machines & Systems recorded sales of CHF 603.4 million, a drop of 14% compared to the previous year. Despite the significant drop in volume that adversely affected the profitability particularly in the first semester, the business group achieved EBIT of CHF 3.6 million or 0.6% of sales.

At the ITMA Asia, which took place in Shanghai in October, Machines & Systems focused on presenting solutions for the spinning of man-made staple fibers and the latest generation of machinery, capable of processing all common types of fiber. Textiles made of man-made fibers and blends have a large share of the Chinese market. The J 26 air-jet spinning machine with a polyester option (P 26) was for the first time presented in China.

The new single-head RSB-D 50 draw frame generation that offers an unprecedented level of productivity while meeting the highest quality standards was exhibited by Machines & Systems in China and also at the ITME trade fair in Mumbai, India, in December 2016. Owing to the patented ECOrized drive technology, among other factors, an increase in delivery speed of up to 33% and a significant reduction in energy consumption can be realized.

The compact spinning process has become established worldwide. As a global leader in compact-spinning technology, Rieter set new benchmarks for quality and efficiency with the K 42 compact-spinning machine in the year under review. The K 42 requires only about 25% of the compacting energy needed by other comparable solutions.

Equipped with the latest technology and offering easy operation, the semi-automatic R 36 rotor-spinning machine enables economical yarn production while featuring a particularly stable running behavior. With 600 spinning units, the R 36 is the longest machine in its class.

During the reporting year and in collaboration with After Sales, the Machines & Systems Business Group designed the Rieter UPtime Maintenance Solution, an expert digital learning system for the optimization of mill maintenance and monitoring.

In CHF million

Orders received

591.6
457.6

Sales

603.4
702.3

Operating result before interest and taxes

3.6
14.8

Capital expenditure

10.0
11.4

Number of employees at year-end

2 516
2 555

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

Previous year's figures are in light green.

Business Group After Sales

The After Sales Business Group has further asserted itself on the market, following its own strategy, the second year after its formation. Customers' responses to the innovative products and services that support system operations throughout the entire life cycle have been very positive. After Sales achieved an increase in order intake and sales in 2016, as compared to the previous year. The business group thus continues to pursue its plan for growth.

2016
141.6

2015
139.8

Sales
CHF million

After Sales’ order intake on a demanding market increased by 7% to CHF 135.2 million in the year under review (CHF 126.4 million in 2015). Growth took place on a broad basis, in geographical terms and concerning products and services. Sales increased by 1% to CHF 141.6 million (CHF 139.8 million in 2015). The growth of the spare parts business and the After Sales services more than compensated for the decline in sales concerning installation services, due to fewer deliveries of the Machines & Systems Business Group. After Sales posted EBIT of CHF 25.5 million or 18.0% of sales in 2016 (CHF 26.5 million or 19.0% in 2015). In 2016, the business group has invested in the creation of service-relevant capacities, training centers and in ensuring spare parts availability to support the mid-term plans for growth.

The After Sales Business Group presented its range of services and comprehensive solutions for the entire production process at the ITM trade fair in Istanbul, the ITMA Asia in China, and the ITME in India. After Sales focused on presenting solutions for the optimization of spinning processes concerning man-made and natural fibers, as well as fiber blends. This also included extensive conversion packages for optimized man-made fiber yarn production processes.

Furthermore, After Sales presented innovative technology components and conversion packages that improve yarn quantity, increase productivity, extend equipment service life and lower energy consumption.

With the UPtime maintenance solution by Rieter, After Sales presented an online expert training system for the optimization of mill maintenance and monitoring. This innovative system can be integrated into existing systems and offers the provisions required for a preventive and foresighted approach to maintenance. Following the introduction of an alarm module used for the quick determination and elimination of faults, and a cockpit module used for the analysis of data independently of time and place, Rieter is presenting the UPtime maintenance solution as a further step towards digitalization in the spinning industry.

The business group is offering mill assessments and more comprehensive After Sales solutions that span all processes to optimize the competitiveness of spinning mills throughout their entire life cycle (see also pages 20 to 23). Rieter’s teams of experts conducted around 180 mill assessments worldwide during the reporting year, and worked out concrete solutions of great benefit to the customers. Furthermore, the business group is offering additional customer-specific services, such as, e.g., repair work packages, electronic and mechanical repair work and training.

In CHF million

Orders received

135.2
126.3

Sales

141.6
139.8

Operating result before interest and taxes

25.5
26.5

Capital expenditure

0.8
0.8

Number of employees at year-end

743
707

Products
After Sales provides comprehensive products and services for spinning mills throughout the product lifecycle of their installations.

Previous year’s figures are in light green.

Business Group Components

The Components Business Group posted a sales increase in the reporting year and showcased important innovations at major exhibitions. Components operates worldwide under four strong brands, firmly established in the industry: Bräcker, Graf, Novibra and Suessen. The business group supplies wear parts and technology components for their original equipment to both, spinning mills and machine manufacturers. Components is the internal supplier of technology components for the products of the Machines & Systems Business Group.

2016
200.0

2015
194.7

Sales
CHF million

The order intake for the Components Business Group fell by 18% to CHF 178.4 million, compared to the extremely strong previous year (CHF 217.7 million in 2015). Components has profited in 2015 from being awarded a large number of major contracts from China and India.

Sales to third parties at Components grew by 3% to CHF 200.0 million, with an increase in segment sales by 5% to CHF 271.3 million (CHF 194.7 million and CHF 258.6 million for the latter in 2015). Key drivers of growth included the EliTe compact solutions and Novibra spindles. With CHF 35.1 million, Components was able to improve its EBIT as compared to the previous year, while the EBIT margin was almost as high with 12.9% of segment sales (CHF 33.7 million or 13.0% of segment sales in 2015).

The business group presented technology components and systems for the economic manufacture of high-quality yarns at the ITMA Asia trade fair in Shanghai. Components' emphasis concerning innovative products was on those products that are well-suited for converting man-made fibers and their blends into yarns. These include the STARLETplus traveller, the ORBIT and redORBIT rings, as well as the new clothing variants for cards. They achieve excellent yarn results, significantly boost production, and offer a longer service life than competing products. High-performance spindles with the underwinding-free CROCOdoff system, the EliTe®CompactSet Advanced compact ring-spinning system, and accessories for rotor spinning completed the range of offerings.

Innovations were also presented by all four brands of Components at the ITME trade fair in Mumbai and positioned as leading premium products on the global market, capable of providing the customer with a clear competitive advantage. The LENA spindle by Novibra offers the highest energy efficiency and speed on the market. The new BERKOL® multigrinder MGL grinding machine, which is flexible in use, was for the first time presented in India. The further advanced EliTe® solution for compact spinning was met with great interest.

In CHF million

Orders received

178.4
217.7

Sales

200.0
194.7

Segment sales

271.3
258.6

Operating result before interest and taxes

35.1
33.7

Capital expenditure

14.7
16.2

Number of employees at year-end

1 390
1 449

Products
Components is the leading global supplier of components for short-staple and long-staple spinning mills, as well as for producers of nonwovens. The business group is represented on the market through four brands: Bräcker, Graf, Novibra and Suessen.

Previous year's figures are in light green.

Service Excellence – One of Rieter's Core Values

+10%

Unique expertise over the entire spinning process – the basis for the service excellence that benefits Rieter customers worldwide. This includes Basyazıcıoglu, a major Turkish yarn producer known under the brand name BAMEN, which in 2016 arranged for its plant to be checked and upgraded. Thanks to the services and advice provided by the Rieter team, this Turkish spinning mill is now again able to efficiently produce high-quality yarns.

Basyazıcıoglu has a spinning plant with ten compact spinning machines K 45 and the associated preparatory facilities. With this plant, the Rieter customer produces high-quality cotton yarns for a wide range of end-use applications. In early 2016, after eight years of operation, the customer commissioned Rieter to subject the plant to an overall inspection. Where necessary, they were asked to demonstrate ways to improve the spinning process with upgrades and new technology components. The customer wanted higher productivity for the plant, with the same or better yarn quality. Similarly, the machines should continue to operate reliably.

As a result, Rieter checked the plant from A to Z, that is from the blowroom for raw cotton – the first step in the production process – to the spinning machines. Overall, the plant was in good condition, however the experts found clear potential for improvement.

The Mill Assessment conducted by Rieter has enabled us to increase our productivity by 10% and improved our competitiveness.

Murat Basyazıcıoglu, CEO

On Rieter's recommendation, the customer made a whole series of adjustments. In particular, the cards were upgraded and the combing machines were completely readjusted and equipped with state-of-the-art components. For the compact spinning machines, Rieter installed newly developed suction tubes. This allows thread breaks to be reduced by 30%.

The overall inspection of the spinning mill resulted in tremendous benefits for Basyazıcıoglu: the productivity of the plant increased by 10%, while the yarn quality also improved. The added value that the customer gains from the upgrades will pay for this investment in less than one year.

Corporate Governance

As a corporate group with an international scope which is committed to creating long-term values, the Rieter Group maintains high standards of corporate governance and pursues a transparent information policy vis-à-vis its stakeholders. Transparent reporting forms the basis for trust.

The Articles of Association of Rieter Holding Ltd. and the regulations governing the organization of the company constitute the basis for the contents of the chapter Group structure and shareholders. Reporting by Rieter conforms to the corporate governance guidelines issued by the SIX Swiss Exchange and the pertinent commentaries. Unless otherwise stated, the data refer to December 31, 2016. All information is updated regularly on the website at www.rieter.com. Some data refer to the financial section of this Annual Report. The remuneration report can be found on pages 42 ff. of the Annual Report.

1 Group structure and shareholders

Group structure

Rieter Holding Ltd. is a company incorporated under Swiss law, with registered office in Winterthur, and as a holding company directly or indirectly controls all companies which are members of the Rieter Group. Some 36 companies worldwide were members of the Rieter Group on December 31, 2016. A list of the companies included in the scope of consolidation of Rieter Holding Ltd. can be found on page 92. The management organization of the Rieter Group is independent of the legal structure of the Group and the individual companies.

Significant shareholders

On December 31, 2016, Rieter was aware of the following shareholders with more than three percent of all voting rights in the company:

- PCS Holding AG, Weiningen, Switzerland, with 19.14%
- Artemis Beteiligungen I AG, Franke Artemis Holding AG and Artemis Holding AG, Hergiswil, Switzerland, with 11.52%
- Rieter Holding Ltd., Winterthur, Switzerland, with 3.01%
- Norges Bank (the Central Bank of Norway), Oslo, Norway, with 3.21%
- BlackRock Inc., New York, USA, with 4.57%

Refer to page 106 for details of these holdings.

All notifications of shareholders with more than three percent of all voting rights in the company have been reported to the Disclosure Unit of the SIX Swiss Exchange Ltd. and published via its electronic publication platform at: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

Cross-holdings

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

2 Capital structure

Share capital

On December 31, 2016, the share capital of Rieter Holding Ltd. totaled CHF 23 361 815. It is divided into 4 672 363 fully paid, registered shares with a par value of CHF 5.00 each. The shares are listed on the SIX Swiss Exchange (securities code 367144; ISIN CH0003671440; Investdata RIEN). Rieter's market capitalization on December 31, 2016, was CHF 799.6 million. Each share entitles the holder to one vote at the general meeting of shareholders.

Contingent and authorized share capital

The Board of Directors is authorized to increase the share capital by up to CHF 2 500 000 through the issue of up to 500 000 fully paid registered shares with a par value of CHF 5.00 each at any time until April 6, 2018. Increases by parts of this amount are permitted. Subscriptions for and purchases of the new shares are subject to the restrictions in §4 of the Articles of Association.

The Board of Directors stipulates the amount of issue, the type of contribution, the date of issue, the conditions for exercising subscription rights and the start of dividend entitlement. The Board of Directors can also issue new shares by means of firm underwriting by a bank or a third party and subsequent offer to existing shareholders. The Board of Directors is then authorized to restrict or preclude trading in subscription rights. The Board of Directors can allow unexercised subscription rights to lapse, can place them or shares for which subscription rights have been granted but not exercised on market terms and conditions or otherwise utilize them in the interests of the company. The Board of Directors is also authorized to limit or cancel subscription rights of existing shareholders and allocate them to third parties in the event of their use

a) for acquiring companies, parts of companies or investments in companies, or for financing or refinancing such transactions or financing new investment projects by the company; or
b) for the purpose of broadening the shareholder structure in certain financial or investor markets, for the participation of strategic partners or in connection with the listing of the shares on domestic or foreign stock markets.

Rieter Holding Ltd. had no contingent share capital outstanding on December 31, 2016.

Convertible bonds and options

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

Participation certificates and dividend-right certificates

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

Board of Directors

Michael Pieper
Member of the Board of Directors

Peter Spuhler
Member of the Board of Directors

Erwin Stoller
Chairman of the Board of Directors

Member of the remuneration committee and the nomination committee

This E. Schneider
Vice Chairman of the Board of Directors

Chairman of the remuneration committee and the nomination committee

Hans-Peter Schwald
Member of the Board of Directors

Member of the audit committee, the remuneration committee and the nomination committee

Bernhard Jucker
Member of the Board of Directors

Member of the audit committee

Roger Baillod
Member of the Board of Directors

Chairman of the audit committee

Board of Directors

Michael Pieper
(1946)
Member of the Board of Directors

Swiss national

First election to Board
Member of the Board of Directors since 2009

Educational and professional background
Lic. oec. HSG; owner and Chief Executive Officer of Artemis Holding AG, Hergiswil.

Other activities and interests
Director at Berenberg Bank (Schweiz) AG, Zurich; Hero AG, Lenzburg; Forbo Holding AG, Baar; Arbonia AG, Arbon; Adval Tech Holding AG, Niederwangen; Autoneum Holding AG, Winterthur; various Artemis and Franke subsidiaries.

Committees
None.

Executive/non-executive
Non-executive.

Peter Spuhler
(1959)
Member of the Board of Directors

Swiss national

First election to Board
Member of the Board of Directors since 2009

Educational and professional background
Owner of Stadler Rail AG, Bussnang.

Other activities and interests
Chairman of the Board at Stadler Rail AG, Bussnang (and several other companies of the Stadler Rail Group), at Gleisag Gleis- und Tiefbau AG, Goldach, at PCS Holding AG, Weiningen; Vice Chairman at Walo Bertschinger AG (WBZ), Zurich, ZLE Betriebs AG (ZSC Lions), Zurich, DSH Holding AG, Weiningen; Member of the Board of Directors at Allreal Holding AG, Zug, at Autoneum Holding AG, Winterthur, at Aebi Schmidt Holding AG, Frauenfeld; member of the council and member of the Executive Committee at Swissmem, Zurich; member of the Executive Committee at LITRA, Berne, member of the Foundation Board at the Stiftung Mühle Schönenberg an der Thur, Kradolf-Schönenberg, at Tele D, Diessenhofen; member of the Swiss federal parliament (Nationalrat) from December 1, 1999 to December 31, 2012.

Committees
None.

Executive/non-executive
Non-executive.

Erwin Stoller
(1947)
Chairman

Swiss national

First election to Board
Member of the Board of Directors and Chairman since 2008

Educational and professional background
Dipl. Masch.-Ing. ETH Zurich; with Rieter since 1978; Chairman of the Board of Directors since 2014; Executive Chairman and member of the Group Executive Committee of the Rieter Holding Ltd., Winterthur, from 2009 to 2013; Head of the Automotive Systems Division from 2002 to 2007; Head of the Textile Systems Division from 1997 to 2002; Head of the Spinning Systems Division from 1992 to 1996. Member of the Group Executive Committee of the Rieter Holding Ltd., Winterthur from 1992 to 2007.

Other activities and interests
Chairman of the Board of Directors, Lienhard Office Group (LOG).

Committees
Member of the remuneration committee and the nomination committee.

Executive/non-executive
Executive from 2009 to 2013.

This E. Schneider
(1952)
Vice Chairman

Swiss national

First election to Board
Member of the Board of Directors since 2009

Educational and professional background
Lic. oec. HSG; Executive Chairman of the Board, Forbo Group, since April 2014; Executive Chairman and CEO, Forbo Group, from 2004 to March 2014; Executive Chairman and CEO of the Selecta Group from 1997 to 2002; member of the Executive Board, Valora Group, as managing director of the Canteen and Catering Division, from 1994 to 1997; Chairman and CEO of listed company SAFAA, Paris, France, from 1991 to 1993.

Other activities and interests
Member of the Board of Directors at Galenica SA, Berne, and at Autoneum Holding AG, Winterthur.

Committees
Chairman of the remuneration committee and the nomination committee.

Executive/non-executive
Non-executive.

Hans-Peter Schwald
(1959)
Member of the Board of Directors

Swiss national

First election to Board
Member of the Board of Directors since 2009

Educational and professional background
Lic. iur. HSG; lawyer; Chairman in the legal practice of Staiger, Schwald & Partner AG, Zurich.

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

Committees
Member of the audit committee, the remuneration committee and the nomination committee.

Executive/non-executive
Non-executive.

Bernhard Jucker
(1954)
Member of the Board of Directors

Swiss national

First election to Board
Member of the Board of Directors since 2016

Educational and professional background
Master of Science in Electrical Engineering, ETH Zurich.

Other activities and interests
ABB Ltd., President Europe Region and Member of the Group Executive Committee; working in various positions for ABB as President Power Products Division and Member of the Group Executive Committee.

Committees
Member of the audit committee.

Executive/non-executive
Non-executive.

Roger Baillod
(1958)
Member of the Board of Directors

Swiss national

First election to Board
Member of the Board of Directors since 2016

Educational and professional background
Degree in Business Economics FH, certified Public Accountant.

Other activities and interests
Member of the Board of Migros-Genossenschafts-Bund, Zurich, and member of the Board of Directors of BKW AG, Berne; Bucher Industries AG, Chief Financial Officer, Member of Group Management until September 2016; self-employed, professional Member of the Board as of January 2017.

Committees
Chairman of the audit committee.

Executive/non-executive
Non-executive.

3 Board of Directors

Members of the Board of Directors

Pursuant to the Articles of Association, the Board of Directors of Rieter Holding Ltd. consists of at least five and at most nine members. In the 2016 financial year, no member of the Board of Directors performed executive duties.

The management structure within the Board of Directors is periodically reviewed.

Group Secretary

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

Election and term of office

Each person elected to the Board of Directors serves a term of office of one year. 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.

Directorships outside the Group

No member of the Board of Directors may hold more than fifteen other directorships, no more than five of which may be with listed companies. This restriction does not apply to the following:

a) directorships with companies controlled by the Group
b) directorships held by a member of the Board of Directors by order of the Group or companies controlled by it
c) directorships with companies which do not qualify as companies within the meaning of Art. 727 para. 1(2) CO
d) directorships with non-profit associations and foundations as well as employee welfare foundations.

Directorships within the meaning of c) and d) are limited to twenty.

Internal organization

The Board of Directors is responsible for the overall 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, makes preparations concerning the Annual General Meeting and makes the necessary arrangements for implementing the resolutions adopted at the Annual General Meeting. The Board of Directors has the following decision-making authority:

- composition of the business portfolio and the strategic focus of the Group
- definition of the Group's structure
- appointment and dismissal of the Chairman of the Group Executive Committee (CEO)
- appointment and dismissal of the other members of the Group Executive Committee
- definition of the authority and duties of the Chairman and the committees of the Board of Directors as well as the members of the Group Executive Committee
- organization of accounting, financial control and financial planning
- approval of strategic and financial planning, the budget, the annual financial statements and the Annual Report
- principles of financial and investment policy, personnel and social policy, management and communications
- signature regulations and allocation of authority
- principles of internal auditing
- decisions on projects involving expenditure exceeding CHF 10 million
- issuance of bonds and other financial market transactions
- incorporation, purchase, sale and liquidation of subsidiaries.

The Board of Directors comprises the Chairman, the Vice Chairman and the other members. The Chairman is elected at the Annual General Meeting; otherwise, the directors allocate their responsibilities among themselves. The Vice Chairman deputizes for the Chairman in the latter's absence. The Board of Directors has a quorum if a majority of members are present. Motions are approved by a simple majority. In the event of a tie, the Chairman has the casting vote. The Board of Directors has formed an audit committee, a remuneration committee and a nomination committee to assist it in its work. However, decisions are taken by the Board of Directors as a whole.

The Board of Directors meets at least six times a year at the invitation of the Chairman, usually for half a day. The Board of Directors had six meetings in the 2016 financial year. In addition, three telephone conferences of the whole Board were held. All members of the Board of Directors attended all meetings of the Board, with the exception of two absences for business and two for personal reasons. The agendas for the Board of Directors meetings are drawn up by the Chairman. Any member of the Board of Directors can also propose items for inclusion on the agenda. The Board of Directors usually makes an annual visit to one group location. In the year under review, the Board of Directors was informed in detail about the situation at the Winterthur location. The members of the Group Executive Committee also usually attend the meetings of the Board of Directors. They present the strategy and the results of their operating units, and also the projects requiring the approval of the Board of Directors. In exceptional cases external consultants can also be invited for discussion of certain items on the agenda.

Once a year the Board of Directors holds a special meeting to review its internal working methods and cooperation with the Group Executive Committee within the framework of self-assessment.

The **audit committee** currently consists of three members of the Board. Its chairman is Roger Baillod, and the other members are Hans-Peter Schwald and Bernhard Jucker.

In the 2016 financial year none of the members of the audit committee performed executive duties. The chairman is elected for one year. The audit committee meets at least twice a year. The Head of Internal Audit, representatives of statutory auditors PricewaterhouseCoopers AG, the Chairman of the Board of Directors, the CEO and the CFO, and other members of the Group Executive Committee and management as appropriate, also attended the meetings in 2016. The main duties of the audit committee are:

- elaborating principles for external and internal audits for submission to the Board of Directors and providing information on their implementation
- assessing the work of the external and internal auditors as well as their mutual cooperation and reporting to the Board of Directors
- assessing the audit reports and management letters submitted by the statutory auditors as well as the invoiced costs
- overall supervision of risk management and acceptance of the Group Executive Committee's risk report addressed to the Board of Directors
- reporting to the Board of Directors and assisting the Board of Directors in nominating the statutory auditors and the group auditors for consideration at the Annual General Meeting
- considering the results of internal audits, approving the audit plan for the following year and nominating the Head of Internal Audit
- the chairman of the audit committee is responsible for receiving complaints (whistle-blowing) in connection with the code of conduct (Regulations regarding Conduct in Business Relationships).

The audit committee met for two regular meetings in 2016. Each meeting lasted between half a day and a full day. All committee members attended all the meetings and regularly received the written reports of the internal auditors. The chairman of the audit committee meets the external statutory auditors and the Head of Internal Audit twice a year at separate meetings.

Internal audit

Internal Audit, headed by Stephan Mörgeli, Certified Public Accountant, is organizationally independent and reports to the audit committee. At the administrative level, Internal Audit reports to the CFO. Audits are performed on the basis of an audit plan approved by the audit committee. Thirteen regular audits were conducted in 2016. The audits focused on the design and the execution of the key controls defined within the scope of the internal control system.

Internal auditing also includes various compliance audits. Finally, additional risks and controls in connection with the business processes were examined. Each audit conducted also includes verification of the implementation of recommendations from previous audits. The chairman of the audit committee meets the external statutory auditors and the Head of Internal Audit twice a year at separate meetings.

The implementation and reliability of the internal controls were verified in the context of self-assessments to ensure that deviations were identified and appropriate corrective actions were taken. The internal audit reports are sent to the members of the audit committee, the Chairman of the Board of Directors, the members of the Group Executive Committee and the relevant members of management.

The **remuneration committee** consists of at least three and at most five members, each of whom is elected at the Annual General Meeting for a term of office of one year. The majority of its members must be independent pursuant to the Swiss Code of Best Practice for Corporate Governance, and have the necessary experience in the fields of remuneration planning and remuneration policy. The chairman of this committee is appointed by the Board of Directors. This E. Schneider held this position in 2016. The committee

- periodically reviews the remuneration plans and the remuneration regulations within the Group,
- sets out the basic features and key data of the Rieter Top Management Incentive System, the Group Bonus Program and the Long-Term Incentive Plan,
- elaborates the proposals for the remuneration of the Board of Directors and the Group Executive Committee for submission to the Board of Directors,
- examines the extent to which the defined performance objectives have been achieved and draws up a proposal for the payment of variable elements of remuneration,
- examines the remuneration report and confirms to the Board of Directors that the remuneration paid in the year under review complies with the resolutions of the Annual General Meeting, the principles governing remuneration policy and remuneration plans and regulations.

The committee met for six meetings in 2016, and four telephone conferences were also held. Each meeting lasted half a day. All committee members were present at the meetings.

The **nomination committee** consists of at least three and at most five members, each of whom is elected by the Board of Directors for a term of office of one year. The chairman of this committee is appointed by the Board of Directors. This E. Schneider held this position in 2016. The committee has the following authority and duties:

- succession planning for the Board of Directors, the Chairman and the committees
- organization of the performance assessment of the Board of Directors and its members
- definition of the selection criteria, evaluation and recommendation of candidates for the attention of the Board of Directors concerning the positions of Chairman of the Group Executive Committee (CEO), members of the Group Executive Committee and key management positions
- regular receipt of information concerning succession plans in the group and management development activities

- review of developments in the area of corporate governance which are not covered by the audit committee or the remuneration committee.

The committee met for six meetings in 2016, and four telephone conferences were also held. Each meeting lasted half a day. All committee members were present at the meetings.

Allocation of authority

The Board of Directors assigns operational management of the business to the CEO. The members of the Group Executive Committee report to the CEO. The allocation of authority and cooperation between the Board of Directors, the CEO and the Group Executive Committee is stipulated in the group management regulations. The CEO draws up the strategic and financial planning statements and the budget together with the Group Executive Committee, and submits them to the Board of Directors for approval. The CEO reports regularly on the course of business as well as on risks in the Group and changes in personnel at management level. The CEO is obliged to inform the Board of Directors immediately about business transactions of fundamental importance occurring outside the scope of periodic reporting.

Information and control instruments vis-à-vis the Group Executive Committee

Once a month, the Board of Directors receives from the Group Executive Committee a written report on the key figures of the Group and the business groups, which provides information on the balance sheet, cash flow and income statements, capital expenditure and projects. The figures are compared with the budget and the figures from the previous year. The Board of Directors is also informed at each meeting about the course of business, important projects and risks, as well as rolling earnings and liquidity planning. If the Board of Directors has to rule on major projects, a written request is submitted prior to the meeting. Projects approved by the Board of Directors are monitored within the framework of a special project controlling system. Once a year the Board of Directors discusses the strategic plans drawn up by the Group Executive Committee and the financial budget for the Group and the business groups. Financial statements for publication are drawn up twice a year. The Group Executive Committee usually meets once a month. Twelve meetings were held in 2016, each lasting between half a day and a full day.

Group Executive Committee (Group Management)

Dr. Norbert Klapper
Chief Executive Officer (CEO)

Werner Strasser
Head of the Components Business Group

Jan Siebert
Head of the Machines & Systems Business Group

Carsten Liske
Head of the After Sales
Business Group

Joris Gröflin
Chief Financial Officer (CFO)

Thomas Anwander
General Secretary and
General Counsel

Group Executive Committee (Group Management)

Dr. Norbert Klapper
(1963)
Chief Executive Officer (CEO)

German national

Member of the Group Executive Committee
since 2014

Educational and professional background
Industrial Engineer, Technical University of Darmstadt and Phd in Economics, Technical University of Munich.

Rieter Management AG, Winterthur, Chief Executive Officer and member of the Group Executive Committee of the Rieter Holding Ltd., Winterthur, since 2014; in addition to his present position, Head of the Machines & Systems Business Group, 2014 to 2016; Voith Turbo GmbH & Co. Kommanditgesellschaft, Heidenheim, member of the Board of Management, 2011 to 2013; Voith Industrial Services Holding GmbH, Heidenheim, member of the Board of Management, 2005 to 2010; Dürr AG, Stuttgart, member of the Executive Board, 2000 to 2005; Arthur D. Little, Munich, Managing Partner Germany, Austria and Switzerland, 1993 to 2000; University of Passau and Technical University Munich, Teaching and Research Assistant, 1989 to 1993.

Other activities and interests
Member of the Board of Directors, Jacoby & Cie. AG, Ostfildern; member of the council at Swissmem, Zurich.

Werner Strasser
(1954)
Head of the Components Business Group

Swiss national

Member of the Group Executive Committee
since 2011

Educational and professional background
Dipl. Masch.-Ing. FH and Wirtschafts-Ing. STV.

Rieter Management AG, Winterthur, Head of the Components Business Group and member of the Group Executive Committee of the Rieter Holding Ltd., Winterthur, since 2011; Head of Technology Components and Conversions, 2002 to 2011; Rieter Machine Works Ltd., Winterthur, Senior Vice President Business Unit Parts and Service, 1994 to 2002; Fritz Gegauf AG, Switzerland, 1989 to 1994; Fritz Gegauf AG, Far East Delegate, Taiwan, 1985 to 1989; Videlec, Hong Kong, 1981 to 1985.

Other activities and interests
Advisory Board member, BLANK HOLDING GmbH, Riedlingen.

Jan Siebert
(1966)
Head of the Machines & Systems Business Group

German national

Member of the Group Executive Committee
since 2016

Educational and professional background
Master of Aerospace Technology, University of Stuttgart.

Rieter Management AG, Winterthur, Head of the Machines & Systems Business Group and member of the Group Executive Committee of the Rieter Holding Ltd., Winterthur, since April 2016; KraussMaffei Gruppe, Munich, Corporate Executive Officer, 2012 to 2015; GEA Gruppe AG, Dusseldorf, in his last function Chief Executive Officer GEA HX and member of the extended management board of the GEA Group, 2005 to 2011; Deutsche Nickel AG, Schwerte, member of the management board, 1999 to 2004; Compañia Europea de Cospeles S.A., Madrid, Managing Director, 1999 to 2001; Vereinigte Deutsche Nickelwerke AG, Dusseldorf, assistant to the management and supervisory board, 1996 to 1999; Vaillant GmbH & Co KG, Remscheid, product manager, 1992 to 1995.

Other activities and interests
None.

Carsten Liske
(1973)
Head of the After Sales Business Group

German national

Member of the Group Executive Committee
since 2015

Educational and professional background
Master of Science ETH; Swiss Federal Institute of Technology, Zurich.

Rieter Management AG, Winterthur, Head of the After Sales Business Group and member of the Group Executive Committee of the Rieter Holding Ltd., Winterthur, since 2015; Rieter Machine Works Ltd., Winterthur, Senior Vice President Operations Spun Yarn Systems, 2009 to 2014, and General Manager of Rieter China, Changzhou/Shanghai, 2011 to 2013; Oerlikon Esec, Cham, Chief Operating Officer, 2006 to 2009; Unaxis Balzers, Balzers, Head of Global Supply Chain Management, 2004 to 2005; ABB Group, Zurich, Assistant Vice President, Supply Chain Management, 1999 to 2004.

Other activities and interests
None.

Joris Gröflin
(1977)
Chief Financial Officer (CFO)

Swiss and Dutch national

Member of the Group Executive Committee
since 2011

Educational and professional background
Licentiate in Business Administration/Economics, CEMS Master, University of St. Gallen.

Rieter Management AG, Winterthur, Chief Financial Officer and member of the Group Executive Committee of the Rieter Holding Ltd., Winterthur, since 2011; Head of Corporate Controlling, 2009 to 2011; Bräcker AG, Pfäffikon ZH, Chief Financial Officer, 2007 to 2009; Rieter Management AG, Winterthur, Corporate Planning & Development, 2006 to 2007; A.T. Kearney (Int.) AG, Zurich, project manager, 2001 to 2006.

Other activities and interests
None.

Thomas Anwander
(1960)
General Secretary and General Counsel

Swiss national

Member of the Group Executive Committee
since 2011

Educational and professional background
Lic. iur. HSG, University of St. Gallen, lawyer.

Rieter Management AG, Winterthur, member of the Group Executive Committee of the Rieter Holding Ltd., since 2011, and General Secretary and General Counsel, since 1993; attorney at law in the legal department, 1989 to 1992; Winterthur Life, Winterthur, attorney at law in the legal department, 1988.

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

Risk management

Rieter has an internal control system (ICS) with the aim of ensuring the effectiveness and efficiency of the company's operations, the reliability of the financial accounting, and compliance with legal requirements. The ICS is an important component of the risk management system.

The risk management process is regulated by the directive «Rieter Risk Management System», which was issued by the Board of Directors in August 2001 and fundamentally revised in 2010. The directive defines the important risk categories on which risk management is based, and the offices that deal with the various risks within the Group. In addition, the directive sets out the procedures for the identification, reporting and handling of risks, the criteria for qualitative and quantitative risk assessment, and thresholds for reporting identified risks to the competent management levels.

In the context of an annual workshop with the management, under the direction of the General Counsel, the risks associated with the probability of occurrence and the impact on the Group of the identified risks are assessed, and the necessary risk management measures are determined.

Market and business risks arising from developments in the relevant markets and the products offered are also assessed as part of strategic planning. In addition, as is the case with the operational risks, they are regularly the subject of the monthly Group Executive Committee meetings. Other risks which cause the current results to deviate from the financial plan are also dealt with at these meetings. In the process, necessary corrective measures are discussed, defined and monitored. Important individual risks are reported to the Board of Directors in the monthly reports.

Risks resulting from acquisitions or other major projects are recorded and dealt with at the corporate level within the scope of the authorization competencies and in the corresponding project organizations. Such projects are discussed at the Group Executive Committee meetings and evaluated quarterly for submission to the Board of Directors.

Periodic reports are prepared for selected risks. This applies, in particular, to environmental and occupational safety risks at the various factories, financial risks from sales activities, risks arising from the work of treasury, and risks from legal disputes and legal compliance.

On a six-monthly basis, the identified risks and the instruments and measures taken to deal with these risks are assessed. The results of this assessment are reported to the Board of Directors annually.

Code of conduct

The Code of Conduct is part of every employee's contract of employment. The Code of Conduct is explained to the employees in the individual business units. Centralized coaching is also provided for members of management in the form of an e-learning program. Compliance with the Code of Conduct is regularly verified in the context of internal audits and by additional audits. The Code of Conduct can be accessed on the Internet at www.rieter.com/en/rieter/about-rieter-group.

Directorships outside the Group
No member of the Group Executive Committee may hold more than four directorships, no more than two of which may be with listed companies.
This restriction does not apply to the following:
a) directorships with companies controlled by the Group
b) directorships held by a member of the Group Executive Committee by order of the Group or companies controlled by it
c) directorships with companies which do not qualify as companies within the meaning of Art. 727, para. 1(2) CO
d) directorships with non-profit associations and foundations as well as employee welfare foundations.

Directorships within the meaning of c) and d) are limited to twenty.

Prior to a member of the Group Executive Committee assuming a directorship outside the Group, approval must first be obtained from the Board of Directors.

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

4 Remuneration, participation and loans

Pursuant to §27 of the Articles of Association, the motions proposed by the Board of Directors regarding the maximum remuneration of the Board of Directors and the Group Executive Committee are adopted at the Annual General Meeting for the financial year following the ordinary general meeting.

Pursuant to §28 of the Articles of Association, the members of the Board of Directors receive a fixed remuneration, which is disbursed either wholly in cash or partly or wholly in the form of shares. The members of the Group Executive Committee receive a fixed remuneration plus an additional variable remuneration, which may not exceed 100% of their fixed remuneration. The variable remuneration depends on the achievement of financial, strategic and/or personal performance targets. The variable remuneration can be disbursed in the form of cash, shares or options.

Pursuant to §29 of the Articles of Association, the company is authorized to disburse additional remuneration to members of the Group Executive Committee who join the company or are promoted to the Group Executive Committee after the approval of remuneration at the Annual General Meeting, as long as this does not exceed 40% of the amount last approved.

Pursuant to §33 of the Articles of Association, the company can grant loans on market terms and conditions to members of the Board of Directors and the Group Executive Committee, whereby the amount of the loan may not exceed three times the last annual remuneration.

In other respects please refer to the remuneration report on pages 42 to 45.

5 Shareholders' participatory rights

Voting restrictions
Rieter imposes no voting restrictions.

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

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

Statutory quorum
At the general meeting of shareholders, resolutions are adopted with the absolute majority of voting shares represented. Approval of the remuneration of the Board of Directors and the Group Executive Committee, and resolutions concerning the appropriation of available earnings, especially the declaration of dividends, is granted by a majority of votes cast, whereby abstentions do not count as votes cast. All amendments to the Articles of Association require at least a two-thirds majority of the votes represented.

Calling the general meeting of shareholders, drawing up the agenda, voting proxies
General meetings of shareholders are convened in writing by the Board of Directors at least twenty 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 CHF 500 000 can request the inclusion on the agenda of an item for discussion, with details of the relevant motions, by a closing date published by the company. Shareholders who do not attend general meetings in person can arrange to be represented by another shareholder, by the company or by the independent voting proxy. Power of attorney can be granted either in writing or electronically.

An independent voting proxy is elected every year at the Annual General Meeting. The term of office runs until the end of the next ordinary general meeting of shareholders.

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.

6 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 shares blocked in the context of variable remuneration are released.

7 Statutory auditors

Duration of mandate and term of office of the lead auditor

PricewaterhouseCoopers AG, Zurich (PWC), have been the statutory auditors of Rieter Holding Ltd. and the Rieter Group since 1984. The statutory auditors are elected at the Annual General Meeting each year upon a motion proposed by the Board of Directors. Stefan Räbsamen has officiated as lead auditor for the mandate since the 2012 financial year. The change in lead auditor was to comply with legal provisions stipulating such a change every seven years.

Audit fees

In the 2016 financial year PWC and other auditors charged the Rieter Group approximately CHF 0.8 million and CHF 0.1 million, respectively, for services in connection with auditing the annual financial statements of the group companies and Rieter's consolidated accounts.

Additional fees

Additional consultancy fees invoiced by the statutory auditors in 2016 amounted to CHF 0.2 million and concerned mainly tax consulting services.

Supervisory and monitoring instruments vis-à-vis the auditors

The audit committee of the Board of Directors makes an annual assessment of the performance, fees and independence of the statutory auditors. It submits a proposal for consideration at the Annual General Meeting regarding who should be elected as statutory auditors. Further information on auditing can be found on page 31.

8 Information policy

Rieter maintains regular, transparent communication with the company's shareholders and the capital market. Shareholders entered in the shareholders' register are informed by mail (letters to shareholders) of the Group's annual financial statements and semi-annual results. In addition, shareholders and the capital market are informed via the media of material current changes and developments. Price-relevant events are publicized in accordance with the ad-hoc publicity requirements of the SIX Swiss Exchange. Rieter also cultivates dialog with investors and the media at special events.

The Annual Report is available in printed form and on the Internet at www.rieter.com. Press releases for the public, financial and trade media, as well as presentations, share price details and contact details, are also available at this website. The Board of Directors and the Group Executive Committee provide information on the financial statements and the course of business at the company, as well as answers to shareholders' questions, at the general meeting of shareholders. Once a year Rieter publishes a Sustainability Report.

Ad-hoc announcements

The push and pull links for disseminating ad-hoc announcements are published in compliance with the directive on ad-hoc publicity and can be accessed at the following address: www.rieter.com/en/rieter/media/press-releases.

Important dates:

• Annual General Meeting 2017	April 5, 2017
• Semi-annual report 2017	July 20, 2017
• Publication of sales 2017	January 31, 2018
• Deadline for proposals regarding the agenda of the Annual General Meeting	February 22, 2018
• Results press conference 2018	March 13, 2018
• Annual General Meeting 2018	April 5, 2018

Contacts for queries regarding Rieter:

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

For the media:
Relindis Wieser, Head Group Communication,
Phone +41 52 208 70 45,
Fax +41 52 208 70 60, media@rieter.com

Remuneration report

This report complies with the provisions of the Ordinance against excessive compensation at listed public companies (VegüV), which came into effect on January 1, 2014, and the associated provisions of the Swiss Code of Obligations. It conforms essentially with the recommendations of the Swiss Code of Best Practice for Corporate Governance issued by Economiesuisse and the Corporate Governance Guidelines (RLCG) of SIX Swiss Exchange.

1 Basic principles

Managers at the highest corporate level are motivated by remuneration in line with market conditions and a performance- and value-based system of variable salary components for the sustained enhancement of enterprise value.

The remuneration of members of the Group Executive Committee consists of a basic salary plus additional variable remuneration depending on the achievement of specific performance targets. In order to ensure a systematic focus on the long-term interests of shareholders, part of the variable remuneration is disbursed in the form of blocked shares. The three-year period during which the allocated shares are blocked ensures a close correlation between the compensation in the form of shares and the long-term development of Rieter's enterprise value.

Readiness to assume risks should not be influenced by a high proportion of variable remuneration components. There is therefore an upper limit to performance-related components, which amount to no more than 100% of the basic salary.

2 Remuneration system

Generally available information on publicly listed Swiss companies in the machine manufacturing industry is collected and compared in order to establish the levels of remuneration for the Board of Directors and the Group Executive Committee. Individual responsibility and experience are also taken into account in the case of the members of the Group Executive Committee.

Board of Directors

The members of the Board of Directors receive a fixed remuneration which differs according to their function and duties on the board committees. They can choose whether they wish to receive their entire remuneration in cash or in the form of shares to the same value. Cash compensation is paid as a rule in December of the current financial year. In the case of compensation in the form of shares, the number of shares is calculated on the basis of the average market value of Rieter shares on the first ten trading days of the new financial year, less a deduction of some 16% as permitted by the Swiss Federal Tax Administration to make allowance for the restriction on their sale. The shares are blocked for three years from the date of issue. Rieter Holding Ltd. makes the legally required pension and social security contributions; Board members also receive an annual lump-sum expenses allowance.

Board members do not receive any variable and performance-related remuneration.

Group Executive Committee

Basic salary

The basic salary of the members of the Group Executive Committee consists of a salary which is disbursed monthly. They have a Swiss employment contract. The employer pays the pension and social security contributions stipulated by law and regulations, as well as employees' contributions for accident and sickness. The members of the Group Executive Committee receive a lump-sum expenses allowance for entertainment costs which is in line with the expenses guidelines approved by the tax authorities.

Variable remuneration

The members of the Group Executive Committee receive a variable remuneration component depending on the achievement of specific performance targets. According to §28 of the Articles of Association these performance targets can comprise financial, strategic and/or personal targets, taking into account the function and level of responsibility of the recipient of the variable remuneration. The Board of Directors stipulates the weighting of the performance targets and the relevant target values annually in advance and provides information on these in the remuneration report.

If the financial, strategic and/or personal targets are achieved, the members of the Group Executive Committee are entitled to a performance-related component not exceeding 100% of their basic salary. The level is calculated on the basis of the sub-targets specified and weighted annually in advance.

A lower and upper threshold is defined for each of these sub-targets as well as a minimum target to be achieved within this range. If this minimum target is not achieved, no disbursement is made for this subtarget. Calculation of the performance-related remuneration is linear within the specified range. Half is disbursed in cash, the remainder in shares, which are blocked for three years from the date of issue. The number of shares granted is calculated on the basis of the average market value of Rieter shares on twenty trading days prior to the Annual General Meeting.

The Board of Directors is authorized to disburse up to 3% of the aggregate salary of the Group Executive Committee to members of the Group Executive Committee for exceptional individual achievements.

Target achievement in 2016, calculated on the basis of the sub-targets specified and weighted by the Board of Directors in advance – EBIT (60%), RONA (20%) and cash conversion rate (20%) – amounts to 56%. A total of CHF 10 000 was disbursed for individual achievements in 2016.

3 Responsibility and authority

The remuneration committee (RC) consists of no less than three and no more than five members of the Board of Directors. They are proposed by the Board of Directors to the Annual General Meeting. Their term of office is one year, until the conclusion of the next ordinary general meeting.

The RC assists the Board of Directors in setting out and monitoring remuneration policy and guidelines and performance targets, as well as in preparing proposals to the Annual General Meeting regarding total amounts of remuneration for the members of the Board of Directors and the Group Executive Committee.

The basic principles of salary policy are reviewed annually. The chairman of the RC can if necessary invite the CEO and the Head Group Human Resources to its meetings. The CEO is not present at the meetings at which his own remuneration is specified. The RC held six meetings in the 2016 financial year, four telephone conferences were also held; the minutes are available to all members of the Board of Directors.

Types of remuneration	CEO	RC[1]	BoD[2]
Remuneration of the members of the Board of Directors		proposes	approves
Basic salary of the CEO		proposes	approves
Basic salary of other members of the Group Executive Committee	proposes	reviews	approves
Definition of targets for performance-related components of the Group Executive Committee's remuneration		proposes	approves
Definition of individual targets for the CEO		proposes	approves
Definition of individual targets for other members of the Group Executive Committee	proposes	reviews	approves

[1] Remuneration committee (RC)
[2] Board of Directors (BoD)

Authority with regard to the type of remuneration is set out in the summary below. No external advisors were consulted for structuring salary policy or remuneration programs in 2016.

The Board's approval is subject to the consent of the Annual General Meeting. Pursuant to the Articles of Association the Annual General Meeting votes annually on the total amount of the maximum remuneration of the Board of Directors and the Group Executive Committee for the financial year following the ordinary general meeting.

Pursuant to §29 of the Articles of Association the company is authorized to disburse additional remuneration to members of the Group Executive Committee who join the company or are promoted to the Group Executive Committee after the approval of remuneration by the Annual General Meeting, and as long as the amount already approved for this period is insufficient. This applies so long as this does not exceed the amount last approved for the remuneration of the Group Executive Committee by 40% in all.

4 Contracts of employment

Contracts of employment and mandates of members of the Board of Directors and the Group Executive Committee can be concluded for a fixed term of no more than twelve months or an unlimited term with a period of notice not exceeding twelve months. Renewal is permissible.

Prohibition of competition for a period following termination of the contract of employment may be agreed. In compensation for such prohibition of competition, remuneration may be paid for no more than two years in an annual amount not exceeding 50% of the annual remuneration last paid to this member.

5 Remuneration for the 2016 financial year

Remuneration of the Group Executive Committee is stated according to the accrual method, since the performance-related salary components are not disbursed or alloted until the following year. A new member of the Board of Directors or the Group Executive Committee is included in the remuneration with effect from assuming the relevant function. The same applies to members leaving these bodies. The members of the Group Executive Committee receive their remuneration not from Rieter Holding Ltd., but from a directly held group company.

6 Payments to former directors and officers

No remuneration was paid to former directors and officers.

7 Payments to related parties

No payments were made to parties related to the Board of Directors or the Group Executive Committee.

8 Loans and credits

No loans were made or credits granted to related parties or directors and officers by either Rieter Holding Ltd. or any other group company. Nor are any loans or credits outstanding.

Board of Directors

CHF	Cash compensation	Share-based compensation[1]	Social contributions and other compensation	Total 2016	Previous year 2015
Erwin Stoller, Chairman of the Board of Directors Member of the remuneration committee and the nomination committee	175 000	88 682	17 940	281 622	267 860
This E. Schneider, Vice Chairman Chairman of the remuneration committee and the nomination committee	37 500	132 325	11 015	180 840	171 467
Dr. Jakob Baer, until April 30, 2016 Chairman of the audit committee	–	59 283	2 075	61 358	168 604
Roger Baillod, as of May 1, 2016 Chairman of the audit committee	70 000	35 394	7 343	112 737	–
Bernhard Jucker, as of May 1, 2016 Member of the audit committee	–	117 919	7 343	125 262	–
Michael Pieper	–	118 334	15 713	134 047	119 238
Hans-Peter Schwald Member of the audit committee, the remuneration committee and the nomination committee	–	176 969	11 046	188 015	178 767
Dr. Dieter Spälti, until April 30, 2016 Member of the audit committee	43 333	–	3 185	46 518	139 564
Peter Spuhler	–	117 926	7 351	125 277	119 070
Members of the Board of Directors	**325 833**	**846 832**	**83 011**	**1 255 676**	**1 164 570**

[1] The shares were valued for overall remuneration at CHF 182.22 (average market price on the first ten trading days in 2017). The issue is made after deduction of any social security contributions.
[2] Social contributions include the employer's social security contributions as well as contributions for accident and illness insurance. Employees' contributions are stated in the other compensation items.

Group Executive Committee

CHF	Base salary	Cash bonus	Share-based compensation	Social contributions[2]	Total 2016	Previous year 2015
Dr. Norbert Klapper, Chief Executive Officer[1]	600 000	168 000	168 000	185 749	1 121 749	1 240 658
Other Members[3]	1 630 000	466 400	456 400	432 927	2 985 727	2 710 465
Members of the Group Executive Committee	**2 230 000**	**634 400**	**624 400**	**618 676**	**4 107 476**	**3 951 123**

[1] Highest single salary.
[2] Pension and social security benefits include the employer's social security and pension fund contributions as well as contributions for accident and illness insurance. Employees' contributions are stated in the other compensation items.
[3] An additional member as of April 1, 2016.

Report of the statutory auditor on the remuneration report

pwc

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

We have audited the remuneration report of Rieter Holding Ltd. (section 5 to 8 on pages 44 and 45) for the year ended December 31, 2016. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Remuneration in Stock Exchange Listed Companies (Ordinance).

Board of Directors' responsibility
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility
Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to remuneration, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the remuneration report of Rieter Holding Ltd. for the year ended December 31, 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

St Räbsamen T. Handschin

Stefan Räbsamen	Tobias Handschin
Audit expert	Audit expert
Auditor in charge	

Zurich, March 13, 2017

Financial Report

Consolidated financial statements

Consolidated income statement

CHF million	Notes	2016	%*	2015	%*
Sales	(4)	**945.0**	**100.0**	**1 036.8**	**100.0**
Changes in semi-finished and finished goods		– 30.1	– 3.2	– 15.6	– 1.5
Own work capitalized		0.8	0.1	2.4	0.2
Material costs		– 404.1	– 42.8	– 470.1	– 45.3
Personnel expenses	(5)	– 273.4	– 28.9	– 288.9	– 27.9
Other operating income	(7)	24.5	2.6	28.6	2.7
Other operating expenses	(8)	– 166.9	– 17.7	– 177.3	– 17.1
Depreciation and amortization	(9)	– 39.3	– 4.1	– 42.8	– 4.1
Operating result before interest and taxes (EBIT)		**56.5**	**6.0**	**73.1**	**7.0**
Share in profit of associated companies	(31)	0.4		0.0	
Financial income	(10)	3.2		3.2	
Financial expenses	(11)	– 6.3		– 11.1	
Profit before taxes		**53.8**	**5.7**	**65.2**	**6.3**
Income taxes	(12)	– 11.1		– 15.4	
Net profit		**42.7**	**4.5**	**49.8**	**4.8**
Attributable to shareholders of Rieter Holding Ltd.		42.4		49.7	
Attributable to non-controlling interests	(24)	0.3		0.1	
Basic earnings per share (CHF)	(13)	**9.39**		**10.92**	
Diluted earnings per share (CHF)	(13)	**9.38**		**10.91**	

* In % of sales.
The notes on pages 52 to 92 are an integral part of the consolidated financial statements.

Consolidated statement of comprehensive income

CHF million	Notes	2016	2015
Net profit		**42.7**	**49.8**
Remeasurement of defined benefit plans	(28)	1.9	3.6
Income taxes on remeasurement of defined benefit plans		– 0.7	– 0.7
Items that will not be reclassified to income statement, net of taxes		**1.2**	**2.9**
Currency translation differences		– 5.6	– 24.2
Cash flow hedges	(33)	– 1.4	0.0
Income taxes on cash flow hedges	(33)	0.3	0.0
Changes in fair values of financial assets available for sale		0.0	3.5
Income taxes on changes in fair values of financial assets available for sale		0.0	– 0.3
Items that may be reclassified to income statement, net of taxes		**– 6.7**	**– 21.0**
Total other comprehensive income		**– 5.5**	**– 18.1**
Total comprehensive income		**37.2**	**31.7**
Attributable to shareholders of Rieter Holding Ltd.		36.9	31.6
Attributable to non-controlling interests	(24)	0.3	0.1

The notes on pages 52 to 92 are an integral part of the consolidated financial statements.

Consolidated balance sheet

CHF million	Notes	December 31, 2016	December 31, 2015
Assets			
Tangible fixed assets	(14)	237.2	257.2
Intangible assets	(15)	10.1	15.1
Investments in associated companies	(31)	3.0	2.7
Defined benefit plan assets	(28)	62.7	65.2
Other non-current assets	(16)	15.1	16.4
Deferred income tax assets	(12)	16.2	13.5
Non-current assets		**344.3**	**370.1**
Inventories	(17)	163.2	191.5
Trade receivables	(18)	59.4	63.7
Other current receivables	(19)	47.1	42.1
Marketable securities and time deposits	(20)	7.0	7.5
Cash and cash equivalents	(21)	365.6	326.5
		642.3	**631.3**
Assets classified as held for sale	(22)	11.5	0.0
Current assets		**653.8**	**631.3**
Assets		**998.1**	**1 001.4**
Shareholders' equity and liabilities			
Equity attributable to shareholders of Rieter Holding Ltd.		459.6	442.9
Equity attributable to non-controlling interests	(24)	1.1	0.9
Total shareholders' equity		**460.7**	**443.8**
Non-current financial debt	(25)	100.0	107.5
Deferred income tax liabilities	(12)	34.4	36.8
Non-current provisions	(26)	71.2	79.5
Defined benefit plan liabilities	(28)	25.9	27.6
Other non-current liabilities		1.0	0.0
Non-current liabilities		**232.5**	**251.4**
Trade payables		79.4	86.3
Advance payments from customers		86.7	71.5
Current financial debt	(25)	9.1	14.1
Current income tax liabilities		6.5	5.9
Current provisions	(26)	26.5	32.1
Other current liabilities	(27)	96.7	96.3
Current liabilities		**304.9**	**306.2**
Liabilities		**537.4**	**557.6**
Shareholders' equity and liabilities		**998.1**	**1 001.4**

The notes on pages 52 to 92 are an integral part of the consolidated financial statements.

Consolidated statement of changes in equity

CHF million	Notes	Share capital	Treasury shares	Financial assets available for sale	Hedge reserve	Currency translation differences	Retained earnings	Total attributable to Rieter shareholders	Attributable to non-controlling interests	Total consolidated equity
At January 1, 2015		**23.4**	**– 17.1**	**0.9**	**0.0**	**– 53.3**	**487.2**	**441.1**	**0.8**	**441.9**
Net profit		0.0	0.0	0.0	0.0	0.0	49.7	49.7	0.1	49.8
Total other comprehensive income		0.0	0.0	3.2	0.0	– 24.2	2.9	– 18.1	0.0	– 18.1
Total comprehensive income		**0.0**	**0.0**	**3.2**	**0.0**	**– 24.2**	**52.6**	**31.6**	**0.1**	**31.7**
Distribution of dividend out of legal capital reserve	(23)	0.0	0.0	0.0	0.0	0.0	– 20.6	– 20.6	0.0	– 20.6
Share-based compensation	(30)	0.0	1.5	0.0	0.0	0.0	– 0.1	1.4	0.0	1.4
Changes in treasury shares		0.0	– 10.6	0.0	0.0	0.0	0.0	– 10.6	0.0	– 10.6
Total contributions by and distributions to owners of the company		**0.0**	**– 9.1**	**0.0**	**0.0**	**0.0**	**– 20.7**	**– 29.8**	**0.0**	**– 29.8**
At December 31, 2015		**23.4**	**– 26.2**	**4.1**	**0.0**	**– 77.5**	**519.1**	**442.9**	**0.9**	**443.8**
Impact of changes in accounting policies (IFRS 9 adoption)	(1)	0.0	0.0	– 4.5	0.0	0.0	3.8	– 0.7	0.0	– 0.7
Income taxes on impact of changes in accounting policies	(1)	0.0	0.0	0.4	0.0	0.0	– 0.2	0.2	0.0	0.2
At January 1, 2016		**23.4**	**– 26.2**	**0.0**	**0.0**	**– 77.5**	**522.7**	**442.4**	**0.9**	**443.3**
Net profit		0.0	0.0	0.0	0.0	0.0	42.4	42.4	0.3	42.7
Total other comprehensive income		0.0	0.0	0.0	– 1.1	– 5.6	1.2	– 5.5	0.0	– 5.5
Total comprehensive income		**0.0**	**0.0**	**0.0**	**– 1.1**	**– 5.6**	**43.6**	**36.9**	**0.3**	**37.2**
Distribution of dividend out of legal capital reserve	(23)	0.0	0.0	0.0	0.0	0.0	– 20.4	– 20.4	0.0	– 20.4
Changes in non-controlling interests	(24)	0.0	0.0	0.0	0.0	0.1	0.0	0.1	– 0.1	0.0
Share-based compensation	(30)	0.0	1.0	0.0	0.0	0.0	0.2	1.2	0.0	1.2
Changes in treasury shares		0.0	– 0.6	0.0	0.0	0.0	0.0	– 0.6	0.0	– 0.6
Total contributions by and distributions to owners of the company		**0.0**	**0.4**	**0.0**	**0.0**	**0.1**	**– 20.2**	**– 19.7**	**– 0.1**	**– 19.8**
At December 31, 2016		**23.4**	**– 25.8**	**0.0**	**– 1.1**	**– 83.0**	**546.1**	**459.6**	**1.1**	**460.7**

The notes on pages 52 to 92 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

CHF million	Notes	2016	2015
Net profit		**42.7**	**49.8**
Interest income	(10)	– 2.6	– 1.5
Interest expenses	(11)	5.2	7.4
Income taxes	(12)	11.1	15.4
Depreciation of tangible fixed assets and amortization of intangible assets	(9)	39.3	42.8
Other non-cash income and expenses		– 2.5	– 3.3
Change in inventories		26.4	43.5
Change in receivables		3.5	7.4
Change in provisions		– 13.9	4.9
Change in trade payables		– 5.8	– 13.6
Change in advance payments from customers and other liabilities		14.0	– 36.8
Dividends received		0.2	0.1
Interest received		2.6	1.5
Interest paid		– 3.6	– 10.4
Taxes paid		– 14.4	– 18.2
Net cash from operating activities		**102.2**	**89.0**
Purchase of tangible fixed and intangible assets	(14/15)	– 30.9	– 31.6
Proceeds from disposals of tangible fixed and intangible assets		3.5	6.0
Purchase of/proceeds from disposals of other non-current assets		– 0.2	0.6
Sale/purchase of marketable securities and time deposits		1.7	1.0
Divestment of business	(2)	0.0	17.0
Net cash from investing activities		**– 25.9**	**– 7.0**
Dividend paid to shareholders of Rieter Holding Ltd.	(23)	– 20.4	– 20.6
Purchase of treasury shares		– 0.6	– 10.6
Proceeds from liquidation of short-term deposits	(25)	0.0	100.0
Proceeds from other financial debt		0.0	24.5
Repayment of fixed rate bond 2010-2015	(25)	0.0	– 151.9
Repayments of other financial debt		– 13.4	– 26.2
Net cash from financing activities		**– 34.4**	**– 84.8**
Currency effects on cash and cash equivalents		– 2.8	– 7.6
Change in cash and cash equivalents		**39.1**	**– 10.4**
Cash and cash equivalents at January 1	(21)	**326.5**	**336.9**
Cash and cash equivalents at December 31	(21)	**365.6**	**326.5**

The notes on pages 52 to 92 are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

General information

Rieter Holding Ltd. (the “Company”) is a company incorporated in Switzerland with its registered office at Klosterstrasse 32 in Winterthur. The Company together with its subsidiaries (“Rieter” or “Group”) is the world’s leading supplier of systems for short-staple fiber spinning.

The consolidated financial statements were approved for publication by the Board of Directors on March 13, 2017. They are also subject to approval by the Annual General Meeting of shareholders.

1 Significant accounting policies

Basis of preparation

The significant accounting policies applied in preparing these consolidated financial statements are set out on the following pages. These policies have been consistently applied to all of the reporting periods presented unless otherwise stated.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements are based on historical cost, with the exception of certain financial instruments and defined benefit plan assets, which are measured at fair value.

Changes in accounting policies

In the year under review, Rieter adopted the following new standards and amendments to standards:

Adoption of “IFRS 9 Financial Instruments” and related amendments to other standards

Rieter opted for the early adoption of “IFRS 9 Financial Instruments” and the related amendments to other standards dealing with financial instruments (in particular “IFRS 7 Financial Instruments: Disclosures”), as of January 1, 2016. The main areas of impact of the new standard were on the classification and measurement of financial assets, the impairment of financial assets and the treatment of hedge accounting.

Classification and measurement of financial assets

As of January 1, 2016, Rieter has classified its financial assets in accordance with the new provisions of IFRS 9 as measured “at amortized cost” or “at fair value through profit or loss”. The classification used previously (“loans and receivables”, “financial assets available for sale” and “financial assets at fair value through profit or loss”) was discontinued as of January 1, 2016. In accordance with the transitional provisions of IFRS 9, the Group has not restated prior periods. Instead, financial assets held at January 1, 2016, were classified on the basis of the business model for managing these assets, the contractual cash flow characteristics and other relevant facts and circumstances under which the assets were held at that date.

The following table summarizes the changes in classification and measurement of Rieter's financial assets and financial liabilities on initial application of IFRS 9 (January 1, 2016):

CHF million	Previous classification and carrying amount (IAS 39)					New classification and carrying amount (IFRS 9)	
January 1, 2016	**Loans and receivables**	**Financial liabilities at amortized cost**	**Financial assets available for sale**	**At fair value through profit or loss**	**Remeasurements upon application of IFRS 9 (January 1, 2016)[1]**	**At amortized cost**	**At fair value through profit or loss**
Cash (excluding time deposits)	310.6					310.6	
Marketable securities[2]			7.0			0.7	6.3
Time deposits with original maturities of up to 3 months	15.9					15.9	
Time deposits with original maturities of more than 3 months	0.5					0.5	
Trade receivables[3]	63.7				– 0.7	63.0	
Other current receivables	27.7					27.7	
Non-current interest-bearing receivables	0.4					0.4	
Other financial assets			6.0				6.0
Derivative financial instruments (positive fair values)				1.0			1.0
Total financial assets	**418.8**	**–**	**13.0**	**1.0**	**– 0.7**	**418.8**	**13.3**
Trade payables		86.3				86.3	
Other current liabilities		84.7				84.7	
Bank debt		13.9				13.9	
Other current financial debt		0.2				0.2	
Fixed-rate bond		99.5				99.5	
Other non-current financial debt		8.0				8.0	
Derivative financial instruments (negative fair values)				1.4			1.4
Total financial liabilities	**–**	**292.6**	**–**	**1.4**	**–**	**292.6**	**1.4**

1. Remeasurements upon initial application of IFRS 9 were recorded in "Retained earnings" at January 1, 2016.
2. "Securities available for sale" in the 2015 consolidated financial statement.
3. Remeasurement of trade receivables as a result of the changes in IFRS 9 related to the impairment of financial assets (see "Impairment of financial assets" on page 54).

The category "loans and receivables" was reclassified to "financial assets at amortized cost".

The "marketable securities"-position was previously classified as "financial assets available for sale" and amounted to CHF 7.0 million at December 31, 2015. Securities which did not meet the criteria to be classified as either "at amortized cost" or "at fair value through other comprehensive income" in accordance with IFRS 9 were reclassified to "financial assets at fair value through profit or loss" (CHF 6.3 million at January 1, 2016). Investments in debt instruments were reclassified from "available for sale" to "at amortized cost" (CHF 0.7 million at January 1, 2016) since Rieter's business model is to hold these assets for collection of contractual cash flows, and these cash flows represent solely repayments of principal and interest on the principal amount.

Other financial assets also did not meet the criteria to be classified as either “at amortized cost” or “at fair value through other comprehensive income” and were consequently reclassified as “financial assets at fair value through profit or loss” (CHF 6.0 million at January 1, 2016).

The relevant reserve for financial assets available for sale amounting to CHF 4.5 million (less tax impact of CHF -0.4 million) was transferred to “Retained earnings” at January 1, 2016.

Impairment of financial assets
Rieter adjusted the impairment model used for financial assets at January 1, 2016, from an incurred loss basis in accordance with IAS 39 to the expected credit loss concept in accordance with IFRS 9. Until December 31, 2015, the Group estimated incurred losses on the basis of whether there was objective evidence for an impairment of a financial asset (e.g. in case of failure or lack of will of the counterparty to make payments when due). This affected mainly trade receivables which were previously assessed on the basis of the age structure of the open balances and identifiable solvency risks.

In accordance with IFRS 9, the simplified approach is applied to trade receivables, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The allowance for doubtful trade receivables is recorded based on expected credit losses, which are calculated as the present value of expected cash shortfalls. Credit risks related to other financial assets stated at amortized cost are considered to be low, and thus the regular approach in accordance with IFRS 9 requires Rieter to determine the impairment provision as credit losses expected in the next twelve months.

In accordance with the transitional provisions of IFRS 9, Rieter decided not to restate prior periods. Instead, the allowance for doubtful trade receivables at January 1, 2016, was reassessed in accordance with the new impairment model. As a result, the allowance increased by CHF 0.7 million on that date and the effect was recognized in “Retained earnings” at January 1, 2016. The respective income tax effect (decrease in net deferred income tax liabilities against “Retained earnings” of CHF 0.2 million) was recorded on the same date. The amended impairment model had no impact on the measurement of other financial assets.

The following table compares the closing balances of trade receivables and the allowance for doubtful receivables at December 31, 2015, with the respective opening balances at January 1, 2016, adjusted on initial application of IFRS 9:

CHF million	December 31, 2015	January 1, 2016
Trade receivables	70.7	70.7
Allowance for doubtful receivables in accordance with IAS 39	– 7.0	0.0
Allowance for doubtful receivables in accordance with IFRS 9	0.0	– 7.7
Total	**63.7**	**63.0**

The increase in the allowance for doubtful receivables was related to open trade receivable balances which were not due or no more than 90 days overdue.

Hedge accounting
As of January 1, 2016, the Group started to use hedge accounting in relation to the hedging of highly probable forecast transactions in foreign currencies. IFRS 9 now permits the alignment of hedge accounting with the respective risk management activities. In line with Rieter's risk management objectives, foreign currency derivatives are used in order to protect the margin of certain transactions conducted in non-functional currencies of the respective group companies against fluctuations in exchange rates. The spot element of the respective foreign currency forward and swap contracts (foreign currency basis spread) is designated as a hedging instrument, and as a result the fair value attributable to the spot element is recognized in other comprehensive income until the hedged transaction has been accounted for in the financial statements. The initial hedging relationship may be adjusted if changes to hedged transactions occur (e.g. changes in volumes and/or in the timing of forecast transactions). Any ineffective portion of the fair value of hedging instruments is recorded in profit or loss immediately.

Rieter has applied hedge accounting prospectively since January 1, 2016. The major effect on hedge accounting for Rieter is the recognition of the effective portion of the gains and losses related to hedging instruments as part of other comprehensive income directly in equity instead of in the income statement. At December 31, 2016, the respective hedging gains and losses recognized in other comprehensive income (hedge reserve) amounted to CHF 1.4 million (see note 33).

Other changes to accounting standards
As part of the adoption of the Disclosure Initiative (amendments to "IAS 1 Presentation of Financial Statements") as of January 1, 2016, the structure and sequence of the notes to the consolidated financial statements have been amended in order to streamline disclosure.

In addition, the following amended standards became effective in the year under review: "Accounting for Acquisitions of Interests in Joint Operations (amendment to IFRS 11)", "Clarification of Acceptable Methods of Depreciation and Amortisation (amendments to IAS 16 and IAS 38)", "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to IFRS 10 and IAS 28)", Annual Improvements to IFRSs 2012–2014 Cycle and "Investment Entities: Applying the Consolidation Exception (amendments to IFRS 10, IFRS 12 and IAS 28)". The adoption of these amended standards had no material impact on the consolidated financial statements.

Changes in presentation

Rieter has elected voluntarily to reclassify defined benefit plan assets and liabilities and present each as a separate line item in the balance sheet in non-current assets and liabilities respectively. The aim of this change in presentation was to improve transparency in relation to defined benefit plans.

Defined benefit plan assets were previously included in "Other non-current assets" and defined benefit plan liabilities in "Non-current provisions" (as personnel provisions). The impact of this change in presentation on the respective balance sheet items is shown in the table below:

CHF million	December 31, 2015 (restated)	December 31, 2015 (published)	December 31, 2014 (restated)	December 31, 2014 (published)
Other non-current assets	16.4	81.6	11.5	73.1
Defined benefit plan assets	65.2		61.6	
Non-current provisions[1]	79.5	107.1	77.1	105.9
Defined benefit plan liabilities	27.6		28.8	

1. The opening balance of total provisions after adjustment amounts to CHF 111.6 million at January 1, 2016 (CHF 139.2 million before adjustment at December 31, 2015). See note 26.

Because this change in presentation only entails a reclassification within non-current assets and liabilities respectively, Rieter decided not to present the opening balances of the prior year period on the face of the consolidated balance sheet as foreseen by "IAS 1 Presentation of Financial Statements".

The position "Reserves" in the consolidated statement of changes in equity was renamed "Retained earnings", which is a more concise description of its content.

In addition, information on the risk management process (note 2.1 in the 2015 consolidated financial statements), as required by Swiss Code of Obligations, has been transferred to the Corporate Governance report on page 38.

Basis of consolidation

The consolidated financial statements comprise the financial statements of Rieter Holding Ltd. and its subsidiaries (or "group companies") as at December 31, 2016. Subsidiaries are all entities over which Rieter has control. Control is achieved when Rieter is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to Rieter. They are deconsolidated from the date that control ceases.

Net profit or loss and each component of other comprehensive income are attributed to the shareholders of Rieter Holding Ltd. and to the non-controlling interests in subsidiaries, even if this results in the non-controlling interests having a deficit balance.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those of the Group.

Associated companies are entities over which Rieter has significant influence, generally through a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize Rieter's share of the profit or loss of the associate after the date of acquisition.

Subsidiaries and associated companies of Rieter are listed on page 92.

Changes in subsidiaries and associated companies
In the year under review, there were no changes in subsidiaries and associated companies. In 2015, Rieter sold its interest in subsidiaries Schaltag AG, Switzerland, and Schaltag CZ s.r.o., Czech Republic (see note 2), and Xinjiang Rieter Textile Instruments Co. Ltd. was incorporated in China.

Critical accounting estimates and judgments
Financial reporting requires management to make estimates and exercise judgment in applying the Group's accounting policies, both of which can 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. These accounting estimates and judgments are periodically reviewed. The areas involving the most significant estimates and judgments are described in the following paragraphs:

Tangible fixed and intangible assets are tested for impairment whenever there are indications that, due to changes in circumstances, their carrying amount may no longer be fully recoverable. If such a situation arises, the recoverable amount is determined on the basis of expected future cash flows, and is equivalent to the higher of the discounted value of expected future net cash flows from continuing use or the expected fair value less cost to sell. If the recoverable amount is lower than the carrying amount, the difference is recognized as an impairment loss in the income statement. Where the recoverable amount cannot be estimated for an individual asset, it is determined for the cash-generating unit to which the asset belongs. The main assumptions, on which these measurements are based, include growth rates, margins and discount rates (see notes 14 and 15).

When assessing the value of inventories, estimates of their recoverability are necessary that arise from the expected consumption of the respective items. The allowance for inventories is calculated at item level using a range of coverage analysis. The parameters used in this analysis are reviewed annually and modified if necessary. Changes in sales volumes, the production process or other circumstances may result in carrying amounts having to be adjusted accordingly (see note 17).

Defined benefit plans require actuarial calculations in order to determine defined benefit plan obligations. These calculations are based on assumptions such as discount rates, future trends in wages and pensions as well as the employee share in the costs of the future benefits. Statistical data such as mortality tables and probable staff turnover rates are also used to calculate defined benefit plan obligations. If these parameters change, actual future results can deviate from the actuarial calculations. Such deviations can have an effect on the defined benefit plan obligations (see note 28).

In the course of the ordinary operating activities of the Group, obligations can arise from warranty claims, restructuring, litigation and onerous contracts. Provisions for these obligations are measured on the basis of expected cash outflows when accounts are drawn up. However, the outcome of the events mentioned above may result in claims against the Group which are higher or lower than the respective provisions and are not - or only partially - covered by a relevant insurance benefit (see note 26).

Assumptions in relation to income taxes also include interpretations of the tax regulations in countries where Rieter has business activities. The adequacy of these interpretations is assessed by the tax authorities and competent courts, a process which can result in changes to tax expenses at a later stage. Whether a deferred tax asset is recognized for tax losses carried forward is based on management's estimate of the availability of future taxable profits to offset the respective losses carried forward (see note 12).

Foreign currency translation

Items included in the financial statements of each group company are recognized using the currency of the primary economic environment in which the company operates ("functional currency"). The consolidated financial statements are presented in Swiss francs, the functional and presentation currency of Rieter Holding Ltd.

Transactions in foreign currencies are translated into the functional currency by applying the exchange rates prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at closing exchange rates are recognized in the income statement.

For consolidation purposes, items in the balance sheet of foreign group companies are translated into Swiss francs at closing exchange rates, while income statement items are translated at average rates for the period. The resulting currency translation differences are recognized in other comprehensive income and, in the event of an entity's deconsolidation, reclassified to the income statement as part of the gain or loss on the entity's divestment or liquidation.

The following foreign exchange rates of importance for Rieter were used for the preparation of the consolidated financial statements as well as for the financial statements of group companies:

		Average annual CHF rates		Year-end CHF rates	
Country/Region	Currency (unit)	**2016**	**2015**	**2016**	**2015**
China	100 CNY	14.83	15.31	14.67	15.35
Euro countries	1 EUR	1.09	1.07	1.07	1.08
India	100 INR	1.47	1.50	1.50	1.50
Czech Republic	100 CZK	4.03	3.91	3.97	4.01
USA	1 USD	0.98	0.96	1.02	1.00

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation, which is recognized on a straight-line basis over the estimated useful life of the respective asset. Depreciation of an asset starts when it is available for use. Historical cost includes expenditure that is directly attributable to the acquisition of the assets. Useful life is determined based on the expected period of utilization of individual assets. The respective ranges are as follows:

Buildings	20–50 years
Machinery and plant equipment	5–15 years
Tools/IT equipment/furniture	3–10 years
Vehicles	3–5 years

Assets under construction, which are not yet available for use, as well as land, are not depreciated. Value adjustments are recorded if required.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its estimated recoverable amount if it is higher than this amount (see "Impairment of non-financial assets" on page 60).

Where components of significant assets have differing useful lives, these are depreciated separately. All gains or losses arising from the disposal of tangible fixed assets are recognized in the income statement. Costs related to repair and maintenance are charged to the income statement as incurred.

Investment grants received for capital projects are deferred and credited to the income statement on a straight-line basis over the expected useful life of the related assets.

Leases

Leased tangible fixed assets for which Rieter bears substantially all the risks and rewards of ownership are capitalized. Assets held under such finance leases are depreciated over the shorter of their estimated useful life or the lease term. The respective lease obligations, excluding finance charges, are included in either current or non-current financial debt depending on their date of maturity. Lease installments are divided into an interest and a principal redemption component.

Lease arrangements in which a substantial portion of the risks and rewards associated with ownership of the leased asset remains with the lessor are classified as operating leases. Payments in respect of operating leases are charged to the income statement on a straight-line basis over the duration of the lease.

Intangible assets

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

Costs related to process improvement projects are capitalized as intangible assets only if the cost can be measured reliably, the completion of the project is intended, and it can be demonstrated that the improvement project is technically and financially feasible and will generate a future economic benefit. All other process improvement costs are recognized in the income statement. Capitalized costs associated with process improvement projects are amortized over a period of up to five years.

Research and development

Research and development activities focus on the expansion and improvement of Rieter's product and services portfolio. Expenses related to research activities are recognized in the income statement as incurred. Expenditure in connection with development projects is capitalized as intangible assets only if the cost can be measured reliably and it can be demonstrated that the project is technically and financially feasible and will generate a future economic benefit. Otherwise, the respective costs are expensed as incurred.

Impairment of non-financial assets

Assets that are subject to regular depreciation or amortization are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may no longer be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's discounted value of expected future net cash flows from continuing use or expected fair value less cost to sell. Non-financial assets that have suffered an impairment loss in the past are reviewed for possible reversal of the respective loss at each reporting date.

Financial assets

Accounting policy applied as of January 1, 2016

Rieter classifies its financial assets as either "at amortized cost" or "at fair value through profit or loss". No financial instruments are currently held "at fair value through other comprehensive income (OCI)".

At initial recognition, financial assets are measured at fair value plus transaction costs that are directly attributable to the acquisition of the asset, except for financial assets held at fair value through profit or loss where transaction costs are expensed immediately to the income statement.

Debt instruments:

The classification of debt instruments (e.g. receivables, loans or bonds) depends on the company's business model for managing the respective asset and the cash flow characteristics of the asset. There are three measurement categories into which Rieter classifies its debt instruments.

Debt instruments that are held for collection of contractual cash flows, where those cash flows represent solely repayments of principal and interest on the principal amount, are measured "at amortized cost". A gain or loss on a debt instrument subsequently measured at amortized cost is recognized in profit or loss when the asset is sold or impaired. Interest income from this type of financial asset is included in the income statement using the effective interest rate method.

Rieter held no debt instruments classified "at fair value through OCI" or as "at fair value through profit or loss" at December 31, 2016, and January 1, 2016 (adoption of IFRS 9).

Credit risks related to debt instruments at amortized cost held by Rieter at December 31, 2016, are considered to be low. Therefore, the regular approach in accordance with IFRS 9 requires Rieter to determine the impairment provision as the credit losses expected in the next twelve months. If the credit risk were to increase and no longer be regarded as low-risk, lifetime expected credit losses would have to be recognized. For trade receivables a separate approach is applied for measuring impairment (see accounting policy for "Trade receivables" on page 62).

Debt instruments are included in current assets, except for maturity dates more than twelve months after the balance sheet date, in which case they are presented as non-current assets.

Equity and other financial instruments:
Rieter held no financial assets which qualified as equity instruments at December 31, 2016, and January 1, 2016 (adoption of IFRS 9).

Holdings in investment funds (equity or debt funds) cannot usually be treated as either equity or debt instruments for classification purposes. Rieter's holdings in investment funds are classified as "financial assets at fair value through profit or loss", and changes in fair values as well as profit distributions are included in the income statement. Holdings in investment funds are presented as current assets if they are either held for trading purposes or are likely to be sold within twelve months after the balance sheet date.

Accounting policy applied until December 31, 2015
Financial assets are initially recognized at fair value plus directly attributable transaction costs, with the exception of financial assets stated at fair value through profit and loss, for which transaction costs are expensed immediately to profit or loss. Subsequent measurement depends on the type of financial asset. Rieter classifies its financial assets into the following categories:

Financial assets at fair value through profit or loss include financial assets held for trading and those which are designated as such at inception. Derivative financial instruments are also assigned to this category. Assets in this category are presented as current assets if they are either held for trading or are expected to be realized within twelve months after balance sheet date. They are continuously measured at fair value with changes recorded in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not traded on an active market. They are included in current assets, unless their maturity dates are more than twelve months after balance sheet date, in which case they are presented as non-current assets. Loans and receivables are subsequently measured at amortized cost using the effective interest method less cumulative impairment losses.

Financial assets available for sale are non-derivative financial assets that are either classified as such or not assigned to any of the other categories mentioned above. They are measured at fair value on balance sheet date. Changes in the fair value are recognized in other comprehensive income prior to sale, and reclassified to the income statement when they are sold. If there is objective evidence of a lasting impairment, the cumulative loss is removed from equity and recognized in profit or loss. Financial assets available for sale are included in non-current assets unless management intends to dispose of them within twelve months of balance sheet date.

Derivative financial instruments and hedge accounting

Accounting policy applied as of January 1, 2016
Rieter concludes foreign currency contracts in order to hedge foreign currency risks. Hedge accounting in accordance with IFRS 9 is applied to selected transactions.

Derivative financial instruments – without hedge accounting:
Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured to the respective fair value at each reporting date. The resulting gains and losses are recognized immediately as other operating income/expenses or financial income/expenses depending on the nature of the underlying transaction.

The respective positive and negative fair values are recognized in the balance sheet as derivative financial instruments in “Other current receivables” or “Other current liabilities” if their maturity date is within twelve months after balance sheet date, and otherwise in “Other non-current assets” or “Other non-current liabilities”.

Derivative financial instruments – with hedge accounting:
Rieter designates selected foreign currency forward and swap contracts as hedges for firm sale and purchase commitments in non-functional currencies of the respective group companies with the aim of securing the profit margin against fluctuations in foreign exchange rates. At inception of the hedged transaction, the hedge relationship between the unrecognized firm commitment (hedged transaction/item) and the foreign currency forward or swap contract (hedging instrument) is documented. Fair values of derivative financial instruments are split into an element related to the foreign currency basis spread (spot element) and a forward element related to changes in the interest rate differential. The spot element of the fair value is deferred and recognized in other comprehensive income (hedge reserve) until the hedged transaction has been accounted for in the consolidated financial statements. The forward element is recognized in the income statement in other operating income/expenses at all times. Once the hedged transaction is accounted for in the financial statements, the fair value of the spot element is taken from the hedge reserve to the income statement (other operating income/expenses). Any ineffective portion of the fair value of the hedging instrument is recognized immediately in profit or loss (in other operating income/expenses). See note 33 for more information.

Accounting policy applied until December 31, 2015
Foreign currency risks may be hedged by Rieter using foreign currency contracts. Hedge accounting in accordance with IAS 39 is not applied.

Derivative financial instruments are initially recognized at their fair value on the date a derivative contract is entered into and are subsequently remeasured to the respective fair value at each reporting date. The resulting gains and losses are recognized immediately as other operating income/expenses or financial income/expenses, depending on the nature of the underlying transaction. The respective positive and negative fair values are recognized in the balance sheet as “Other current receivables” or “Other current liabilities”, respectively.

Inventories
Raw materials, consumables and trading goods are measured at the lower of average cost or net realizable value. Semi-finished and finished goods are stated at the lower of manufacturing cost or net realizable value. Allowances on inventories are recorded for slow-moving items and excess stock.

Trade receivables
Accounting policy applied as of January 1, 2016
Trade receivables are initially recognized at fair value and subsequently measured at amortized cost, which is usually the original invoice value less an allowance for expected impairment losses. The allowance for doubtful trade receivables is determined based on lifetime expected credit losses, which are calculated as the present value of expected cash shortfalls. Changes are recognized as other operating expenses in the income statement.

Accounting policy applied until December 31, 2015
Trade receivables are initially recognized at fair value and subsequently measured at amortized cost which is usually the original invoice value less an allowance for the difference between the invoiced amount and the expected, discounted payment. The allowance is calculated based on the age structure and identifiable solvency risks. Changes are recognized as other operating expenses in the income statement.

Cash and cash equivalents

Cash and cash equivalents include bank accounts and current time deposits with original maturities of up to three months.

Shareholders' equity

Shares of Rieter Holding Ltd. are classified as share capital. Costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity (net of any taxes). Repurchased shares are recognized at the amount of considerations paid plus directly attributable transaction costs and taxes. Such shares are classified as "Treasury shares" and presented as a negative component of equity. If treasury shares are sold or reissued subsequently, the amount received is offset against the historical cost of the respective shares with the residual balance going to retained earnings.

Financial debt

Financial debt is recognized initially at fair value, net of transaction costs incurred. Financial debt is subsequently measured at amortized cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the duration of the obligation using the effective interest rate method. Financial debt is classified as a current liability, unless Rieter has an unconditional, contractually agreed right to defer settlement for at least twelve months after balance sheet date.

Provisions

Provisions for unsettled legal proceedings, warranty claims, onerous contracts or restructuring measures are recorded if Rieter has a present legal or constructive obligation as a result of past events, it is probable that an outflow of economic resources will be required to settle the obligation and the amount can be estimated reliably. Provisions are discounted if the impact is material.

Current and deferred income taxes

The expected income tax charge is calculated and accrued on the basis of taxable income for the current year at the applicable income tax rate for each jurisdiction adjusted by the use of accumulated tax losses.

Deferred income taxes on temporary differences arising between the carrying amounts reported as part of the Group's consolidated financial statements and the tax basis of assets and liabilities used for local tax purposes are calculated using the liability method. Deferred income tax is determined using local tax rates that are fully or substantially enacted at the end of the reporting period and are expected to apply when the respective timing differences reverse. Deferred income tax assets and liabilities are offset to the extent that this is permitted by law. Changes in deferred income taxes are recognized as tax expense in profit or loss unless they relate to items recognized directly in equity or other comprehensive income.

Deferred income taxes on retained earnings of group companies are only recognized in cases where a distribution of profits is planned. Therefore, no deferred income taxes on retained earnings of group companies are recognized if Rieter is able to control the timing of the reversal of the temporary difference and it is probable that retained earnings will not be distributed in the foreseeable future.

Deferred income tax assets are only capitalized to the extent that it is probable that future taxable amounts will be available to offset the respective temporary differences or tax losses.

Employee benefit plans
Employee benefit plans are operated by certain subsidiaries, depending upon the level of coverage provided by government post-employment benefit facilities in the respective countries. Such employee benefit plans exist on the basis of both, defined contributions and defined benefits.

Contributions to defined contribution plans are recognized as personnel expenses in the period in which they are incurred.

For defined benefit plans, the benefit plan obligation is determined using the projected unit credit method, with valuations being carried out by independent actuaries, usually at the end of each year. The present value of the defined benefit plan obligation less the fair value of the defined benefit plan assets is recognized in the balance sheet as a liability. When the calculation results in a potential asset, the respective defined benefit plan asset recognized is limited to the present value of the economic benefits available in the form of reductions of future contributions to the plan (asset ceiling). Remeasurements of the net defined benefit plan assets and liabilities, which comprise actuarial gains and losses, the return on defined benefit plan assets (excluding interest) and the effect of the asset ceiling, are recognized immediately as other comprehensive income. Contributions by employees are recognized as a reduction of service cost in the period in which the related service is rendered. Net interest on the net defined benefit plan assets and liabilities is determined by applying the discount rate used to measure the defined benefit plan obligation at the beginning of the year. Service cost and net interest are recognized in the income statement as personnel expenses.

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

Share-based payments are measured at fair value at the grant date, and recognized in the income statement over the vesting period. For share-based payments that are settled with equity instruments a corresponding increase in equity is recognized.

Revenue recognition
Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services supplied in the ordinary course of business of the Group. Revenue is stated net of value added taxes, credits, discounts and rebates. Rieter recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group; and when specific contractual criteria are met.

Revenues from the sale of products are recognized when the significant risks and rewards of ownership pass to the customer. This is determined by specific contractual terms (incoterms).

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

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

Financing costs

Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset are capitalized as a part of the acquisition costs of the qualifying asset. All other expenses related to financing arrangements are recognized in the income statement.

Standards and Interpretations that have been published but not yet applied

The new or amended standards and interpretations listed below have been issued by the IASB, but are not yet effective.

New or amended standards and interpretations	Effective date	Planned application by Rieter
Disclosure Initiative (amendments to IAS 7)[2]	January 1, 2017	Financial year 2017
Recognition of Deferred Tax Assets for Unrealised Losses (amendments to IAS 12)[1]	January 1, 2017	Financial year 2017
Annual Improvements to IFRS Standards 2014–2016 Cycle[1]	January 1, 2017	Financial year 2017
IFRS 15 Revenue from Contracts with Customers (including “Clarifications” issued in April 2016)	January 1, 2018	Financial year 2018
Classification and Measurement of Share-based Payment Transactions (amendments to IFRS 2)[1]	January 1, 2018	Financial year 2018
IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration	January 1, 2018	Financial year 2018
Transfers of Investment Property (Amendments to IAS 40)[1]	January 1, 2018	Financial year 2018
IFRS 16 Leases	January 1, 2019	Financial year 2019

1. No impact or no significant impact expected on the consolidated financial statements.
2. The impact on the consolidated financial statements is expected to result in additional disclosure or changes in presentation.

“IFRS 15 Revenue from Contracts with Customers” is based on the principle that revenue is recognized when control of a good or service transfers to the customer rather than the existing transfer of risk and rewards approach of IAS 18. The assessment of the impact of this new standard on the consolidated financial statements is in progress and not yet complete. The key areas requiring focus due to the nature of the new rules include the requirement to bundle revenue recognition for performance obligations in customer contracts under certain conditions (e.g. sales of machinery/systems, technology components or spare parts and their installation) and the allocation of the total transaction price agreed in a contract to the respective performance obligations.

The new “IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration” specifies for transactions in foreign currencies with advance considerations, that an entity shall recognize the related asset, expense or income based on the foreign exchange rates prevailing at the date of each payment or receipt of consideration. The potential impacts of this new interpretation have not yet been assessed in full.

“IFRS 16 Leases” requires lessees to recognize a lease liability reflecting future lease payments and “a right-of-use asset” for all lease contracts, with only optional exemptions for short-term leases or leases of low-value assets. The potential impact of the new standard has not yet been assessed in full.

2 Divestments

There were no divestments of group entities in 2016.

On July 22, 2015, Rieter sold the Schaltag group, consisting of Schaltag AG, Switzerland, and Schaltag CZ s.r.o., Czech Republic, to a private Swiss investor group with an industrial background. Schaltag group manufactures and distributes electronic switchgear as well as control systems and was part of the Machines & Systems segment. The gain from the divestment amounting to CHF 3.4 million was recognized in other operating income in 2015.

The assets and liabilities sold as part of the divestment of Schaltag group are summarized below:

CHF million	**2015**
Non-current assets	2.3
Current assets (excluding cash and cash equivalents)	16.6
Liabilities	– 5.3
Net assets divested	**13.6**
Gain on divestment	3.4
Cash flow from divestment	**17.0**

3 Segment information

Segment information is based on the Group's organization and management structure and internal financial reporting to the Chief Operating Decision Maker up to the level of EBIT. The Chief Operating Decision Maker at Rieter is the Chief Executive Officer. Segment accounting is based on the same accounting policies as those used for the preparation of the consolidated financial statements. The Group consists of three reportable segments: Machines & Systems, After Sales and Components. There is no aggregation of operating segments. Rieter Machines & Systems develops and manufactures machinery and systems for processing natural and man-made fibers and their blends into yarns. Rieter After Sales serves Rieter customers with spare parts, value-adding after sales services and solutions over the entire product life cycle. Rieter Components supplies technology components to spinning mills and also to textile machinery manufacturers.

Segment information 2016

CHF million	**Machines & Systems**	**After Sales**	**Components**	**Total reportable segments**
Total segment sales	603.4	141.6	271.3	1 016.3
Inter-segment sales[1]	0.0	0.0	71.3	71.3
Sales to third parties[2]	603.4	141.6	200.0	945.0
Operating result before interest and taxes (EBIT)	3.6	25.5	35.1	64.2
Purchase of tangible fixed and intangible assets	10.0	0.8	14.7	25.5
Depreciation of tangible fixed assets and amortization of intangible assets	14.1	1.1	9.6	24.8

1. Inter-segment sales conducted at arms' length.
2. Equal to sales in the consolidated income statement.

Segment information 2015

CHF million	Machines & Systems	After Sales	Components	Total reportable segments
Total segment sales	702.3	139.8	258.6	1 100.7
Inter-segment sales[1]	0.0	0.0	63.9	63.9
Sales to third parties[2]	702.3	139.8	194.7	1 036.8
Operating result before interest and taxes (EBIT)	14.8	26.5	33.7	75.0
Purchase of tangible fixed and intangible assets	11.4	0.8	16.2	28.4
Depreciation of tangible fixed assets and amortization of intangible assets	18.6 [3]	1.1	9.6	29.3

1. Inter-segment sales conducted at arms' length.
2. Equal to sales in the consolidated income statement.
3. Includes the impairment loss of CHF 2.7 million related to machinery and plant equipment in Winterthur (see note 14).

Reconciliation of segment results

CHF million	2016	2015
Operating result before interest and taxes (EBIT) of reportable segments	64.2	75.0
Result which cannot be allocated to reportable segments	– 7.7	– 1.9
Operating result before interest and taxes (EBIT), Group	**56.5**	**73.1**
Share in profit of associated companies	0.4	0.0
Financial income	3.2	3.2
Financial expenses	– 6.3	– 11.1
Profit before taxes	**53.8**	**65.2**

The result which cannot be allocated to reportable segments includes all those elements of income and expenses which cannot be allocated on a reasonable basis to the segments, such as certain costs of central functions and infrastructure as well as the elimination of unrealized profits on inter-segment deliveries.

In the 2016 financial year, the result which cannot be allocated to the reportable segments includes an impairment loss amounting to CHF 1.6 million related to tangible fixed assets which were reclassified to “assets classified as held for sale” (see note 22). In the prior year, the respective result included disposal gains on the sale of real estate of CHF 5.0 million, which were recognized as other operating income.

Sales and non-current assets by country

CHF million	Sales 2016[1]	Sales 2015[1]	Non-current assets 2016[2]	Non-current assets 2015[2]
Switzerland (domicile of Rieter Holding Ltd.)	3.5	22.8	65.8	76.2
Foreign countries	941.5	1 014.0	181.5	196.1
Total Group	**945.0**	**1 036.8**	**247.3**	**272.3**
The following countries accounted for more than 10% of sales or non-current assets:				
Switzerland (domicile of Rieter Holding Ltd.)	3.5	22.8	65.8	76.2
China	186.5	139.8	69.8	75.0
India	182.1	142.0	26.5	43.2
Czech Republic	2.4	3.2	35.0	29.1
Turkey	119.4	143.7	0.0	0.0
USA	39.1	127.3	2.4	2.8

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

No individual customer accounted for more than 10% of consolidated sales in 2016 and 2015. The greatest granularity available for products and product groups is segment level, which is reflected in the segment reporting shown above.

4 Sales

The following table summarizes the changes in sales compared to the prior year:

CHF million	2016	2015
Changes in sales due to volume and price, Machines & Systems	– 75.2	– 145.4
Currency translation differences, Machines & Systems	– 6.2	5.9
Divestments, Machines & Systems[1]	– 17.5	– 11.7
Changes in sales due to volume and price, After Sales	1.2	15.0
Currency translation differences, After Sales	0.6	– 2.7
Changes in sales due to volume and price, Components	2.9	36.3
Currency translation differences, Components	2.4	– 14.0
Total	**– 91.8**	**– 116.6**

1. Divestment of Schaltag group in 2015 (see note 2).

In 2016, Rieter invoiced 37% of sales in Swiss francs (44% in 2015), 34% in euros (33% in 2015), 5% in US dollars (6% in 2015) and 24% in other currencies (17% in 2015). The portion of costs incurred in Swiss francs was about 27% of sales (30% in 2015).

5 Personnel expenses

CHF million	2016	2015
Wages and salaries	223.3	236.7
Social security and other personnel expenses	50.1	52.2
Total	**273.4**	**288.9**

6 Research and development expenses

CHF 48.0 million were spent on research and development in 2016 (CHF 46.6 million in 2015). Rieter aims to continuously improve and expand the functional features of its product and service offerings as well as to enhance the quality and quantity of the production output and efficiency of its customers' production processes.

Development costs must meet various criteria in order to be recognized as an intangible asset. The technical and financial resources have to be available to complete the development and the expenditure attributable to the development must be reliably measurable. Although these criteria were met in 2016 by all material development projects and management in charge confirmed its intention and ability to complete the projects, no development costs were recognized as intangible assets in the 2016 financial year and in previous years. Due to rapid technological changes and wide cyclical fluctuations in the industry, future economic benefits could not be sufficiently demonstrated.

7 Other operating income

CHF million	2016	2015
Rental income	2.2	2.3
Gain on disposals of tangible fixed assets	2.9	5.4
Exchange rate differences (net)	1.1	2.4
Miscellaneous operating income	18.3	18.5
Total	**24.5**	**28.6**

Miscellaneous operating income includes income which is not presented as sales, such as proceeds from the disposal of materials for recycling purposes and income from insurance benefits.

8 Other operating expenses

CHF million	2016	2015
Energy and operating materials	26.7	27.2
Sales commission to third parties	28.8	31.4
Repair and maintenance	13.4	14.6
Outbound freight	18.5	19.5
External services	10.7	11.0
Travel and representation expenses[1]	18.6	20.4
Miscellaneous operating expenses	50.2	53.2
Total	**166.9**	**177.3**

1. Included in miscellaneous operating expenses in the 2015 consolidated financial statements.

Miscellaneous operating expenses include among other items sales and marketing expenses, external IT-expenses as well as third party expenditure related to research and development.

9 Depreciation and amortization

CHF million	2016[1]	2015[2]
Tangible fixed assets	34.3	37.4
Intangible assets	5.0	5.4
Total	**39.3**	**42.8**

1. In 2016, depreciation of tangible fixed assets includes an impairment loss of CHF 1.6 million related to assets classified as held for sale (see note 22).
2. In 2015, depreciation of tangible fixed assets includes an impairment loss of CHF 2.7 million related to machinery and plant equipment in Winterthur (see note 14).

10 Financial income

CHF million	2016	2015
Interest income	2.6	1.5
Other financial income	0.6	1.7
Total	**3.2**	**3.2**

11 Financial expenses

CHF million	2016	2015
Interest expenses	5.2	7.4
Other financial expenses and exchange rate differences (net)	1.1	3.7
Total	**6.3**	**11.1**

12 Income taxes

CHF million	2016	2015
Current income taxes	16.4	16.3
Deferred income taxes	– 5.3	– 0.9
Total	**11.1**	**15.4**

The following deferred income tax effects were recognized in other comprehensive income:

CHF million	2016	2015
Income taxes on remeasurement of defined benefit plans	– 0.7	– 0.7
Income taxes on cash flow hedges	0.3	0.0
Income taxes on changes in fair values of financial assets available for sale[1]	0.0	– 0.3
Total	**– 0.4**	**– 1.0**

1. Before the adoption of IFRS 9 at January 1, 2016.

Reconciliation of expected and actual income taxes:

CHF million	2016	2015
Expected income taxes on profit before taxes of CHF 53.8 million (CHF 65.2 million in 2015) at an average rate of 26.8% (28.7% in 2015)	14.4	18.7
Impact of non-deductible expenses	2.3	0.1
Impact of non-taxable income/income taxed at different rates	– 3.1	– 2.1
Impact of losses and loss carry-forwards	– 3.9	– 4.7
Impact of changes in tax rates and tax legislation	0.0	0.1
Tax effects from previous periods	0.1	0.9
Withholding taxes on payments from subsidiaries	1.5	2.1
Other effects	– 0.2	0.3
Actual income taxes	**11.1**	**15.4**

The decrease in the expected weighted average tax rate by 1.9 percentage points resulted from changes in the profitability of certain group companies.

Deferred income taxes

The following table summarizes the movement in the net deferred income tax liabilities:

CHF million	2016	2015[1]
Deferred income tax liabilities, net at January 1	**23.1** [2]	**23.6**
Deferred income taxes recognized in the income statement	– 5.3	– 0.9
Deferred income taxes recognized as other comprehensive income	0.4	1.0
Divestments[3]	0.0	– 0.5
Currency translation differences	0.0	0.1
Deferred income tax liabilities, net at December 31	**18.2**	**23.3**

1. As presented in the 2015 consolidated financial statements.
2. As a result of the adoption of IFRS 9 at January 1, 2016, net deferred income tax liabilities decreased by CHF 0.2 million (see note 1 "Changes in accounting policies").
3. Divestment of Schaltag group in 2015 (see note 2).

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

CHF million	Deferred income tax assets 2016	Deferred income tax liabilities 2016	Deferred income tax assets 2015	Deferred income tax liabilities 2015
Tangible fixed assets	3.7	– 7.9	3.5	– 9.9
Inventories	8.3	– 5.2	8.9	– 6.2
Other assets	0.9	– 27.0	1.0	– 21.4
Provisions	1.0	– 0.6	4.8	– 0.3
Other liabilities	5.4	– 0.2	2.2	– 2.7
Valuation adjustments on deferred tax assets	– 2.8	0.0	– 6.1	0.0
Tax loss carry-forwards and tax credits	6.2	0.0	2.9	0.0
Total	**22.7**	**– 40.9**	**17.2**	**– 40.5**
Offsetting	– 6.5	6.5	– 3.7	3.7
Deferred income tax assets/liabilities at December 31	**16.2**	**– 34.4**	**13.5**	**– 36.8**

Capitalized and non-capitalized deferred income taxes resulting from tax loss carry-forwards and tax credits, presented by year of expiry:

CHF million	Capitalized 2016	Non-capitalized 2016	Total 2016	Total 2015
Expiry in				
1 to 3 years	0.0	0.0	0.0	0.0
3 to 7 years	0.0	0.1	0.1	1.3
7 or more years	6.2	13.1	19.3	19.4
Total at December 31	**6.2**	**13.2**	**19.4**	**20.7**

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

13 Earnings per share

Earnings per share are calculated by dividing net profit attributable to Rieter Holding Ltd. shareholders by the average number of shares outstanding. Diluted earnings per share take into account additionally the effects of the potential dilution if all rights relating to the long-term incentive plan (see note 30) were to be exercised.

	2016	2015
Net profit (CHF million)[1]	**42.4**	**49.7**
Average number of shares outstanding (undiluted)	4 515 861	4 550 650
Average number of shares outstanding (diluted)	4 519 894	4 553 407
Basic earnings per share (CHF)	**9.39**	**10.92**
Diluted earnings per share (CHF)	**9.38**	**10.91**

1. Attributable to shareholders of Rieter Holding Ltd.

14 Tangible fixed assets

CHF million	Land and buildings	Machinery, plant equipment and tools	IT equipment	Vehicles and furniture	Tangible fixed assets under construction	Total tangible fixed assets
Carrying amount at January 1, 2015	**141.9**	**110.9**	**6.3**	**9.9**	**9.9**	**278.9**
Additions	6.6	12.5	0.5	2.0	9.7	31.3
Disposals	– 0.5	0.0	0.0	0.0	0.0	– 0.5
Divestments[1]	– 1.4	– 0.6	– 0.1	0.0	– 0.1	– 2.2
Depreciation	– 6.4	– 21.9	– 2.6	– 3.8	0.0	– 34.7
Impairment losses	0.0	– 2.7	0.0	0.0	0.0	– 2.7
Reclassifications	0.5	6.1	0.2	0.7	– 7.5	0.0
Currency translation differences	– 6.8	– 3.8	– 0.3	– 0.4	– 1.6	– 12.9
Carrying amount at December 31, 2015	**133.9**	**100.5**	**4.0**	**8.4**	**10.4**	**257.2**
Cost at December 31, 2015	267.9	405.3	20.6	37.9	10.4	742.1
Accumulated depreciation at December 31, 2015	– 134.0	– 304.8	– 16.6	– 29.5	0.0	– 484.9
Carrying amount at December 31, 2015	**133.9**	**100.5**	**4.0**	**8.4**	**10.4**	**257.2**
Additions	3.0	14.6	1.5	3.3	8.5	30.9
Disposals	– 0.4	– 0.2	0.0	0.0	0.0	– 0.6
Depreciation	– 6.3	– 21.1	– 1.8	– 3.5	0.0	– 32.7
Reclassification to "assets classified as held for sale"	– 11.8	– 1.2	0.0	– 0.1	0.0	– 13.1
Reclassifications	0.0	8.7	0.1	0.4	– 9.2	0.0
Currency translation differences	– 2.4	– 1.6	0.0	– 0.2	– 0.3	– 4.5
Carrying amount at December 31, 2016	**116.0**	**99.7**	**3.8**	**8.3**	**9.4**	**237.2**
Cost at December 31, 2016	249.9	395.4	20.0	39.2	9.4	713.9
Accumulated depreciation at December 31, 2016	– 133.9	– 295.7	– 16.2	– 30.9	0.0	– 476.7
Carrying amount at December 31, 2016	**116.0**	**99.7**	**3.8**	**8.3**	**9.4**	**237.2**

1. Divestment of Schaltag group in 2015 (see note 2).

No tangible fixed assets are held under long-term finance leases. No land and buildings are pledged as security for financial debt. No borrowing costs were capitalized in 2016 and 2015. Impairment losses in 2015 are related to machinery and plant equipment which became obsolete as a result of the restructuring in Winterthur.

15 Intangible assets

CHF million	Process improvement projects	Other intangible assets	Total intangible assets
Carrying amount at January 1, 2015	**19.9**	**0.3**	**20.2**
Additions	0.3	0.0	0.3
Amortization	– 5.1	– 0.3	– 5.4
Currency translation differences	0.0	0.0	0.0
Carrying amount at December 31, 2015	**15.1**	**0.0**	**15.1**
Cost at December 31, 2015	25.1	3.6	28.7
Accumulated amortization at December 31, 2015	– 10.0	– 3.6	– 13.6
Carrying amount at December 31, 2015	**15.1**	**0.0**	**15.1**
Additions	0.0	0.0	0.0
Amortization	– 5.0	0.0	– 5.0
Currency translation differences	0.0	0.0	0.0
Carrying amount at December 31, 2016	**10.1**	**0.0**	**10.1**
Cost at December 31, 2016	25.1	0.0	25.1
Accumulated amortization at December 31, 2016	– 15.0	0.0	– 15.0
Carrying amount at December 31, 2016	**10.1**	**0.0**	**10.1**

In 2016 and 2015, there were no intangible assets with indefinite useful lives.

16 Other non-current assets

CHF million	December 31, 2016	December 31, 2015 (restated)[1]
Other financial assets	4.6	6.0
Non-current interest-bearing receivables	0.3	0.4
Derivative financial instruments (positive fair values)	0.0	0.6
Other non-current assets	10.2	9.4
Total	**15.1**	**16.4**

1. See note 1 “Changes in presentation” for the reclassification of defined benefit plan assets, which were included in other non-current assets in the 2015 consolidated financial statements.

17 Inventories

CHF million	December 31, 2016	December 31, 2015
Raw materials and consumables	16.2	13.4
Finished and semi-finished goods, trading goods	176.2	206.0
Work in progress	8.2	9.1
Allowance for inventories	– 37.4	– 37.0
Total	**163.2**	**191.5**

The following table summarizes the movement in the allowance for inventories:

CHF million	2016	2015
Allowance for inventories at January 1	– 37.0	– 38.9
Utilization	1.7	0.8
Additions/reversals (net)	– 2.3	– 1.7
Divestments[1]	0.0	1.2
Currency translation differences	0.2	1.6
Allowance for inventories at December 31	**– 37.4**	**– 37.0**

1. Divestment of Schaltag group in 2015 (see note 2).

18 Trade receivables

CHF million	December 31, 2016	December 31, 2015[1]
Trade receivables	66.5	70.7
Allowance for doubtful receivables	– 7.1	– 7.0
Total	**59.4**	**63.7**

1. As presented in the 2015 consolidated financial statements in accordance with IAS 39. Amended values as a result of the adoption of IFRS 9 at January 1, 2016 (see note 1 "Changes in accounting policies").

For further information on credit risks, the age structure of trade receivables and movements in the allowance for doubtful receivables, see note 33.

Trade receivables include amounts denominated in the following major currencies:

CHF million	December 31, 2016	December 31, 2015
CHF	15.0	26.8
CNY	1.8	1.6
EUR	21.9	17.2
INR	9.2	5.7
USD	10.5	11.7
Other	1.0	0.7
Total	**59.4**	**63.7**

19 Other current receivables

CHF million	December 31, 2016	December 31, 2015
Prepaid expenses and deferred charges	6.8	7.5
Advance payments to suppliers	6.0	4.0
Derivative financial instruments (positive fair values)	3.3	0.4
Current income tax receivables	4.0	2.5
Receivables from indirect taxes and customs duties[1]	21.5	24.6
Other current receivables	5.5	3.1
Total	**47.1**	**42.1**

1. Included in other current receivables in the 2015 consolidated financial statements.

Receivables from indirect taxes and customs duties as well as other current receivables do not include any overdue or impaired items.

20 Marketable securities and time deposits

CHF million	December 31, 2016	December 31, 2015[1]
Securities available for sale	0.0	7.0
Marketable securities	6.5	0.0
Time deposits with original maturities of more than 3 months	0.5	0.5
Total	**7.0**	**7.5**

1. As presented in the 2015 consolidated financial statements in accordance with IAS 39. Amended classification as a result of the adoption of IFRS 9 at January 1, 2016 (see note 1 “Changes in accounting policies”).

21 Cash and cash equivalents

CHF million	December 31, 2016	December 31, 2015
Cash and banks	345.9	310.6
Time deposits with original maturities of up to 3 months	19.7	15.9
Total	**365.6**	**326.5**

22 Assets classified as held for sale

CHF million	December 31, 2016	December 31, 2015
Land and buildings	10.3	0.0
Other tangible fixed assets	1.2	0.0
Total	**11.5**	**0.0**

Rieter has continuously streamlined and consolidated its production operations on a global scale over the past years. Process efficiency and capacity per area have increased and as a result, a part of the asset base previously used for production and administration purposes has become redundant in 2016. Management has initiated the sales process for these assets and is committed to find a buyer within a short period of time after balance sheet date. Consequently, the assets have been reclassified as held for sale. An impairment loss amounting to CHF 1.6 million has been recognized on the reclassification and is included in depreciation and amortization in the income statement.

23 Share capital and dividend per share

		December 31, 2016	December 31, 2015
Shares issued	Number of shares	4 672 363	4 672 363
Treasury shares	Number of shares	157 348	161 288
Shares outstanding	**Number of shares**	**4 515 015**	**4 511 075**
Par value per share	CHF	5.00	5.00
Share capital	**CHF**	**23 361 815**	**23 361 815**

Share capital consists solely of registered shares and is fully paid in.

Dividend paid out of the legal capital reserve in 2016 amounted to CHF 20.4 million or CHF 4.50 per share (CHF 20.6 million or CHF 4.50 per share in 2015).

Based on the financial statements as of December 31, 2016, the Board of Directors proposes to the General Meeting a dividend of CHF 23.4 million (CHF 5.00 per share). The proposed dividend is not recognized as a liability in the consolidated financial statements at December 31, 2016.

24 Non-controlling interests in subsidiaries

In 2016, Rieter India Pvt. Ltd. repaid share capital with a nominal value of INR 17 million (CHF 0.3 million) to Rieter Holding Ltd. As a result, the share of non-controlling interests in this company has increased to 1.9% of total share capital at December 31, 2016 (1.6% at December 31, 2015). No changes in non-controlling interests occurred in 2015.

Rieter is obliged to acquire the remaining non-controlling interests in Rieter India Pvt. Ltd. (1.9%) for a contractually agreed amount by April 15, 2017 at the latest. The present value of this obligation has been recognized as current financial debt at December 31, 2016 (non-current financial debt at December 31, 2015).

In 2016 and 2015 no dividend was paid to non-controlling interests.

25 Financial debt

CHF million	Fixed-rate bond	Bank debt	Other financial debt	Total December 31, 2016	Total December 31, 2015
Maturity					
Less than 1 year	0.0	0.0	9.1	9.1	14.1
1 to 5 years	99.6	0.0	0.4	100.0	107.5
Total	**99.6**	**0.0**	**9.5**	**109.1**	**121.6**

By currency, financial debt is divided up as follows:

CHF million	December 31, 2016	December 31, 2015
CHF	99.8	99.7
CNY	0.0	14.0
INR	8.9	7.5
Other	0.4	0.4
Total	**109.1**	**121.6**

Rieter Holding Ltd. issued a fixed-rate bond with a nominal value amounting to CHF 100 million on September 1, 2014. This bond has a duration of six years with maturity date on September 29, 2020 (2014-2020), a fixed interest rate of 1.5% p.a. and is listed on the SIX Swiss Exchange. The fair value of the bond amounted to CHF 102.8 million at December 31, 2016 (CHF 102.2 million at December 31, 2015). The effective interest expenses were CHF 1.6 million in 2016 (CHF 1.6 million in 2015).

The bond which was issued on March 30, 2010, with a nominal value of CHF 250 million and listed on the SIX Swiss Exchange had a five-year maturity (2010-2015) and a fixed interest rate of 4.5% p.a. This bond was repaid on its maturity date on April 30, 2015. The outstanding balance amounted to CHF 151.9 million as Rieter Holding Ltd. had repurchased various portions of the bond totaling CHF 98.1 million between 2012 and 2014. No interest expense was incurred in financial year 2016 (effective interest expenses of CHF 2.5 million in 2015).

The proceeds from the six-year bond (2014-2020) of CHF 100 million, which had been temporarily deposited in money market accounts in September 2014 with maturity date April 30, 2015, were used for a partial refinancing of the five-year bond which matured on April 30, 2015. Consistent with the presentation in the 2015 and 2014 financial report, the related cash flows were presented within financing activities in the statement of cash flows.

26 Provisions

CHF million	Restructuring provisions	Personnel provisions	Guarantee and warranty provisions	Other provisions	Total provisions
Provisions at December 31, 2015 (restated)[1]	**9.4**	**10.8**	**54.2**	**37.2**	**111.6**
Utilization	– 0.5	– 4.6	– 21.1	– 7.8	– 34.0
Reversal of unused amounts	0.0	– 1.3	– 5.6	– 2.6	– 9.5
Additions	0.0	2.4	18.3	9.1	29.8
Currency translation differences	0.0	0.0	– 0.1	– 0.1	– 0.2
Provisions at December 31, 2016	**8.9**	**7.3**	**45.7**	**35.8**	**97.7**
Of which non-current	8.7	4.9	29.6	28.0	71.2
Of which current	0.2	2.4	16.1	7.8	26.5

1. See note 1 “Changes in presentation” for the reclassification of defined benefit plan liabilities, which were included in personnel provisions in the 2015 consolidated financial statements.

Restructuring provisions cover legal and constructive obligations in connection with restructuring measures. CHF 0.5 million was utilized in 2016 for structural adjustment projects in Switzerland. The remaining restructuring provisions are expected to result in outflows of resources in the next two years.

Personnel provisions include provisions for part-time arrangements for older employees, long-service awards and other long-term benefits attributable to employees.

Guarantee and warranty provisions are recorded in the context of product deliveries and services and are based on past experience. Non-current warranty provisions of CHF 29.6 million are expected to result in outflows of resources in one or two years on average. Reversal of unused amounts and additions to guarantee and warranty provisions were mainly affected by the reassessment of specific cases as well as lower sales volumes.

Rieter has recognized other provisions mainly for ongoing tax proceedings in various countries, for ongoing legal proceedings, for onerous contracts (where the unavoidable direct cost of performance exceeds the expected financial benefit) or for contracts with benefits linked to conditions which have to be fulfilled in the future (e.g. government grants). The expected outflow of resources for these obligations is based mainly on management estimates. Non-current other provisions are expected to be utilized in the years after 2017.

27 Other current liabilities

CHF million	December 31, 2016	December 31, 2015
Accrued holidays and overtime	9.4	10.2
Accrued sales commissions	9.8	10.2
Other accrued expenses	55.8	60.4
Derivative financial instruments (negative fair values)	2.8	1.4
Other current liabilities	18.9	14.1
Total	**96.7**	**96.3**

28 Employee benefit plans

Defined contribution plans

The expense for defined contribution plans amounted to CHF 5.0 million in 2016 (CHF 5.2 million in 2015).

Defined benefit plans

Defined benefit plans in accordance with IAS 19 exist mainly in Switzerland.

In Switzerland, plan participants are insured against the financial consequences of old age, disability and death. The amount of risk benefits provided by the plans in case of disability or death depends on the insured salary of the employee. Life-long retirement benefits are calculated by multiplying the individual retirement savings capital at the date of retirement by the conversion rate defined and guaranteed in the regulations of the plan.

The plans are administered by independent and legally autonomous foundations which are under government supervision. The plans' most senior governing body (board of trustees) is composed of equal numbers of employee and employer representatives.

All material risks (financial and actuarial risks) are borne by the foundations. These risks are monitored on an on-going basis and addressed by the board of trustees. If a plan is underfunded, the board of trustees has to perform an overall assessment of the financial situation, identify the reasons for the deficit and decide on appropriate measures to eliminate the shortfall.

Pursuant to the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), the trustees of the foundations are responsible for the definition and the execution of the investment strategy. The investment strategy defined by the trustees aims at aligning the plan assets and liabilities in the medium and long-term.

Funded status of defined benefit plans:

CHF million	2016	2015
Actuarial present value of defined benefit plan obligations:		
• funded plans (mainly Switzerland)	– 949.1	– 924.9
• unfunded plans (other countries)	– 24.6	– 23.3
Defined benefit plan obligations at December 31	**– 973.7**	**– 948.2**
Fair value of defined benefit plan assets (mainly Switzerland)	1 149.0	1 143.3
Surplus at December 31	**175.3**	**195.1**
Impact of asset ceiling	– 138.5	– 157.5
Net defined benefit plan assets at December 31	**36.8**	**37.6**
Recognized in the balance sheet:		
• Defined benefit plan assets (in non-current assets)	62.7	65.2
• Defined benefit plan liabilities (in non-current liabilities)	– 25.9	– 27.6

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

CHF million	2016	2015
Defined benefit plan obligations at January 1	**948.2**	**990.3**
Current service cost	13.2	10.7
Interest expense	8.3	10.8
Employee contributions	6.5	6.9
Actuarial gains/losses (net)	49.1	46.7
Benefits paid	– 49.9	– 50.8
Past service income	– 1.5	0.0
Divestments[1]	0.0	– 64.0
Currency translation differences	– 0.2	– 2.4
Defined benefit plan obligations at December 31	**973.7**	**948.2**

1. Divestment of Schaltag group in 2015 (see note 2).

The weighted average duration of the defined benefit plan obligations is 13.3 years (13.2 years in 2015).

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

CHF million	2016	2015
Fair value of defined plan assets at January 1	**1 143.3**	**1 184.2**
Interest income	9.6	11.1
Return on defined benefit plan assets (excluding interest income)	32.0	46.7
Employer contributions	7.5	9.2
Employee contributions	6.5	6.9
Benefits paid	– 49.9	– 50.8
Divestments[1]	0.0	– 64.0
Fair value of defined benefit plan assets at December 31	**1 149.0**	**1 143.3**

1. Divestment of Schaltag group in 2015 (see note 2).

The total return on plan assets was CHF 41.6 million (CHF 57.8 million in 2015). The Group expects to contribute CHF 9.0 million to its defined benefit plans in 2017.

The major categories of plan assets were as follows:

CHF million	December 31, 2016	December 31, 2015
Cash and cash equivalents	86.0	96.0
Equity instruments	514.6	570.2
Debt instruments	196.4	148.9
Real estate	273.0	268.9
Other	79.0	59.3
Fair value of defined benefit plan assets	**1 149.0**	**1 143.3**

At the end of 2016 plan assets included Rieter Holding Ltd. bonds with a market value of CHF 1.3 million (CHF 1.3 million at December 31, 2015). No Rieter shares were held at the end of 2016 and 2015. Cash equivalents (e.g. money market instruments), equity instruments and 81% of the debt instruments have a quoted market price on an active market. Real estate and other assets, which include private equity investments, usually do not have a quoted market price.

Expenses recognized in the income statement for the defined benefit plans:

CHF million	2016	2015
Current service cost	13.2	10.7
Net interest result	– 1.3	– 0.3
Past service income	– 1.5	0.0
Total	**10.4**	**10.4**

Remeasurements of defined benefit plans recognized as other comprehensive income:

CHF million	2016	2015
Actuarial gains/losses arising from:		
changes in demographic assumptions	– 15.9	0.0
changes in financial assumptions	– 38.7	– 21.4
experience adjustments	5.5	– 25.3
Return on defined benefit plan assets (excluding interest income)	32.0	46.7
Impact of changes in the asset ceiling	19.0	3.6
Total	**1.9**	**3.6**

The effect of the divestment of Schaltag group in 2015 (see note 2) was considered immaterial in the context of the respective pension funds. Consequently it was recorded in other comprehensive income in accordance with the provisions of IAS 19.

Main actuarial assumptions used at year-end:

Weighted average in %	December 31, 2016	December 31, 2015
Discount rate	0.5	0.9
Future wage growth	0.7	0.7
Future pension growth	0.0	0.0

Against the background of a continuously low interest rate-level and an increased life expectancy, the measurement of defined benefit plan obligations in Switzerland was conducted based on the assumption of sharing of risks between employer and employees (“risk sharing”) in accordance with applicable Swiss law at December 31, 2016. Mid-term adjustments of the long-term interest guarantee were assumed as considered realistic by the Group. The result of the calculation was a reduction in defined benefit plan obligations by approx. 3% recognized in other comprehensive income at December 31, 2016. The expected result from the recognition of defined benefit plan obligations thus is subject to lower fluctuations.

The measurement of the defined benefit plan obligations is particularly sensitive to changes in the discount rate and the assumptions regarding future pension growth. The table below shows the potential impact of a change in the discount rate by 0.5 percentage points (0.3 percentage points at December 31, 2015) and a change in the future pension growth rate by 0.5 percentage points on the defined benefit plan obligations:

CHF million	December 31, 2016	December 31, 2015
Increase in the discount rate by 0.5 percentage points (0.3 percentage points at December 31, 2015)	–61.6	–36.6
Decrease in the discount rate by 0.5 percentage points (0.3 percentage points at December 31, 2015)	69.0	39.1
Increase in the future pension growth rate by 0.5 percentage points[1]	54.7	50.7

1. Reduction in future pension growth rate by 0.5 percentage points was not considered in the sensitivity analysis as the respective rate was zero.

A change in the assumption of future wage growth rate by 0.5 percentage points would impact defined benefit plan obligations by less than 1% (same as 2015).

The sensitivity analysis above considers the change in one assumption while leaving the other assumptions unchanged. Interdependencies were not taken into account.

29 Other commitments

Some group companies rent factory and office space under operating lease arrangements. The relevant lease expenditure was CHF 3.0 million in 2016 (CHF 3.1 million in 2015). These leases have varying terms, escalation clauses and renewal options.

The future aggregate minimum lease payments under operating leases at year-end are as follows:

CHF million	December 31, 2016	December 31, 2015
Up to 1 year	1.4	1.2
1 to 5 years	3.5	4.0
5 or more years	0.0	0.0
Total	**4.9**	**5.2**

There were open purchase commitments amounting to CHF 0.5 million in respect of major investments in tangible fixed assets at December 31, 2016 (CHF 0.5 million at December 31, 2015).

30 Share-based compensation

The members of the Board of Directors can choose whether to receive all or part of their remuneration in Rieter shares. In the context of their remuneration for 2016, seven members of the Board of Directors received in total 4 098 shares on January 17, 2017. The estimated cost of CHF 0.8 million was charged to the 2016 income statement. On January 18, 2016, five members of the Board of Directors received in total 3 367 shares in connection with their remuneration for 2015. The market value of the shares granted was CHF 0.6 million and was charged to the income statement in 2015. The shares are taken from treasury shares of Rieter Holding Ltd. and cannot be sold for three years.

In the context of the variable remuneration for 2016, the members of the Group Executive Committee will receive Rieter shares with a market value of CHF 0.6 million in April 2017. The respective cost of CHF 0.6 million was charged to the 2016 income statement. In the context of the variable remuneration for 2015, the members of the Group Executive Committee received 3 601 shares with a market value of CHF 0.7 million on April 6, 2016. The respective cost of CHF 0.7 million was charged to the 2015 income statement. These shares are taken from treasury shares of Rieter Holding Ltd. and cannot be sold for three years.

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

The movement of the outstanding rights was as follows:

Number of rights	2016	2015
Outstanding rights at January 1	6 632	6 983
Granted	2 619	2 774
Exercised/paid-out	– 356	– 2 480
Expired	– 861	– 645
Outstanding rights at December 31 (non-exercisable)	**8 034**	**6 632**

The estimated fair value of the outstanding rights amounts approximately to the market value of a Rieter share of CHF 177.10 at December 31, 2016. The cost of the long-term incentive plan impacted the income statement in the reporting period by CHF 0.6 million (CHF 0.3 million in 2015). The liability recognized in the balance sheet at the end of the year was CHF 1.0 million (CHF 0.5 million at December 31, 2015).

Long-service awards were also granted in the form of Rieter shares or cash by some group companies.

The aggregate number of shares issued in 2016 under all share-based board, executive and employee incentive schemes does not exceed 1% of the shares outstanding.

31 Related parties

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

Prosino S.r.l. constitutes an associated company since Rieter holds a 49% stake. In 2016, Rieter purchased products with a total value of CHF 4.7 million (CHF 4.9 million in 2015) from Prosino S.r.l. The respective open trade payable balance at December 31, 2016, was interest-free and amounted to CHF 0.7 million (CHF 0.7 million at December 31, 2015).

Total compensation of the Board of Directors and the Group Executive Committee consisted of:

CHF million	2016	2015
Cash compensation	3.2	3.2
Employee benefit contributions and social security	0.7	0.6
Share-based compensation	1.5	1.3
Total	**5.4**	**5.1**

The remuneration report of Rieter Holding Ltd. in accordance with Swiss law is presented on pages 42 to 45.

Apart from the above-mentioned purchases from Prosino S.r.l., compensation to the Board of Directors and the Group Executive Committee as well as the ordinary contributions to the various employee benefit plans (see note 28), there have been no further material transactions with related parties.

32 Financial instruments

The following tables summarize all financial instruments held at December 31, 2016, and January 1, 2016 (adoption of IFRS 9), grouped according to the categories defined in the accounting policies. In addition, the tables provide information regarding the fair value hierarchy of IFRS 13. The carrying amounts of financial instruments measured at amortized cost approximate fair values due to their mainly short-term nature. The bond issued by Rieter Holding Ltd. is an exception (see note 25).

CHF million	December 31, 2016	January 1, 2016[3]
Cash (excluding time deposits)	345.9	310.6
Marketable securities	0.7	0.7
Time deposits with original maturities of up to 3 months	19.7	15.9
Time deposits with original maturities of more than 3 months	0.5	0.5
Trade receivables	59.4	63.0
Other current receivables	27.0	27.7
Non-current interest-bearing receivables	0.3	0.4
Financial assets at amortized cost	**453.5**	**418.8**
Marketable securities[1]	5.8	6.3
Other financial assets[2]	4.6	6.0
Derivative financial instruments (positive fair values)[2]	3.3	1.0
Financial assets at fair value through profit and loss (mandatorily)	**13.7**	**13.3**
Total financial assets	**467.2**	**432.1**

1. Measured at fair values based on quoted prices on active markets (level 1).
2. Measured at fair values which are based on directly or indirectly observable input parameters (level 2).
3. Comparative information is based on classification and measurement after the adoption of IFRS 9 at January 1, 2016 (see note 1 “Changes in accounting policies”).

CHF million	December 31, 2016	January 1, 2016[3]
Trade payables	79.4	86.3
Other current liabilities	84.5	84.7
Bank debt	0.0	13.9
Other current financial debt	9.1	0.2
Fixed-rate bond[1]	99.6	99.5
Other non-current financial debt	0.4	8.0
Financial liabilities at amortized cost	**273.0**	**292.6**
Derivative financial instruments (negative fair values)[2]	2.9	1.4
Financial liabilities at fair values through profit and loss (mandatorily)	**2.9**	**1.4**
Total financial liabilities	**275.9**	**294.0**

1. The fair value of the fixed-rate bond as disclosed in note 25 is based on a quoted price in an active market (level 1).
2. Measured at fair values which are based on directly or indirectly observable input parameters (level 2).
3. Comparative information is based on classification and measurement after the adoption of IFRS 9 at January 1, 2016 (see note 1 “Changes in accounting policies”).

There were no transfers among the categories and the valuation techniques have been applied consistently.

Financial instruments measured at level 2 consist mainly of derivatives held for hedging purposes entered into with reputable financial institutions. The fair value of these instruments is determined with the help of valuation techniques which use foreign exchange rates and interest rates as observable input parameters. At December 31, 2016, contract values of all outstanding forward exchange contracts and foreign exchange options amounted to CHF 174.1 million (CHF 169.9 million at December 31, 2015).

33 Financial risk management

Financial risk factors

As a result of its worldwide activities, Rieter is exposed to various financial risks, such as market risks (fluctuations in exchange rates, interest rates and other prices), credit risks and liquidity risks. Rieter’s financial risk management aims to minimize the potential adverse impact of developments on the financial markets on the Group’s financial condition and secure its financial stability. Respective measures include the use of derivative financial instruments in order to hedge certain risk exposures.

Rieter’s financial risk management is essentially centralized in accordance with directives issued by the Board of Directors and the Group Executive Committee. Financial risks are identified centrally by the treasury department, evaluated and hedged in close cooperation with the Group’s operating units. Risks are monitored by means of a risk reporting system.

Foreign exchange risk

Foreign exchange risks arise from net investments in foreign group companies (translation risk) and when future business transactions or assets and liabilities recognized on the balance sheet are denominated in a currency other than the functional currency of the group company concerned (transaction risk). In order to hedge such transaction risks, subsidiaries use foreign currency contracts, usually with corporate headquarters as counterparty. The central treasury department manages these positions by entering into foreign currency spot, forward and swap contracts with financial institutions.

Rieter's risk management policy is to minimize the effects of fluctuations in currency exchange rates on committed and highly probable transactions. For this purpose, the main objective is to minimize transaction risks arising from firm sales and purchase commitments in non-functional currencies of the respective group companies related to large machinery and systems sales orders in order to secure the profit margin as negotiated at contract inception. At the same time, the transaction risks for bulk business and other operating type transactions are hedged for significant group companies. Other cash flow and translation risks are not hedged at this point in time. Foreign currency gains and losses resulting from loans to/from group companies, which form part of the net investment in a foreign operation, are recognized in other comprehensive income directly in equity until Rieter's control over the respective entity ceases. In addition, significant current intercompany loans are hedged and changes in the fair values of the respective derivative financial instruments are recorded in the income statement.

Hedge accounting in accordance with IFRS 9 is applied to significant firm sales and purchase commitments related to machinery and systems sales orders in order to avoid a temporary distortion of the operating result due to fair value gains and losses resulting from derivative financial instruments. Hedge accounting policy is included in the significant accounting policies (see note 1). Rieter aims to achieve a hedge ratio of between 80% and 100%. The hedge ratio is defined as the nominal value of the foreign currency forward or swap contract (hedging instrument) divided by the value of the unrecognized firm commitment (hedged transaction/item). The element of the fair values of the foreign currency forward and swap contracts related to the foreign currency basis spread (spot element) is deferred and recognized in other comprehensive income (hedge reserve) until the hedged transaction has been accounted for in the financial statements. The forward element (reflecting the fair value of the changes in the interest rate differential) is recognized in the income statement at all times. Once the hedged transaction is accounted for in the financial statements, the fair value of the spot element is taken from the hedge reserve to the income statement. With this approach, the profit margin on significant machinery and systems sales orders is secured against fluctuations in foreign exchange rates.

Hedged transactions may be subject to changes (e.g. changes in volumes and/or in the timing of committed transactions). The central treasury department monitors such changes on regular basis. Depending on the nature of the change, the hedging relationship may be adjusted by entering into additional foreign currency forward or swap contracts in order to ensure that the hedge ratio remains within the target range of 80% to 100% and/or that the timing of the hedging instrument continues to match the hedged transaction. Ineffectiveness may occur if the value of the hedged sale or purchase transaction decreases to a level below the nominal value of the hedging instrument. Any ineffective portion of the fair value of the spot element is recognized in profit or loss immediately. If the hedged transaction is no longer expected to occur, the fair value of the respective hedging instrument is reclassified to the income statement immediately.

Rieter is primarily exposed to foreign exchange risks versus the euro, US dollar and the Chinese renminbi yuan. The table below shows the impact of a 5%-change in the respective exchange rates against the Swiss franc or the US dollar on profit before taxes, with all other variables held constant:

CHF million	Change	Impact 2016	Impact 2015
EUR/CHF	+ 5%	1.5	– 1.3
EUR/CHF	– 5%	– 1.5	1.3
USD/CHF	+ 5%	0.0	– 0.4
USD/CHF	– 5%	0.0	0.4
CNY/CHF	+ 5%	– 1.1	– 0.5
CNY/CHF	– 5%	1.1	0.5
CNY/USD	+ 5%	0.7	0.1
CNY/USD	– 5%	– 0.7	– 0.1

These impacts would mainly be due to foreign exchange gains/losses on cash and accounts receivable/payable balances. The table only shows sensitivity in relation to risks arising from the revaluation of financial assets and liabilities in a currency other than the functional currency at year-end spot rates. Translation effects, which are recognized as other comprehensive income, are not taken into account.

Effects of hedge accounting

The table below presents the impact of derivative financial instruments designated as hedging instruments in a hedging relationship on the consolidated balance sheet at December 31, 2016 (no prior year information available due to the adoption of IFRS 9):

December 31, 2016	Carrying amount of the hedging instruments				
CHF million	Derivative financial instruments (positive fair values)	Derivative financial instruments (negative fair values)	Current/ non-current[1]	Nominal amount	Change in the fair value of the hedging instrument used as a basis for recognizing hedge ineffectiveness
Foreign exchange risks					
Foreign currency forward and swap contracts (maturity date within one year)	0.0	0.7	Current	36.7	– 0.5
Foreign currency forward and swap contracts (maturity date after one year)	0.0	0.2	Non-current	2.2	– 0.1

1. Other current receivables/liabilities or other non-current assets/liabilities.

The change in value of the hedged transactions used as a basis for recognizing hedge ineffectiveness amounted to CHF 0.6 million at December 31, 2016.

The hedging relationships affected the 2016 consolidated income statement and the consolidated statement of comprehensive income as follows (no prior year information available due to the adoption of IFRS 9):

CHF million	2016
Foreign exchange risks	
Hedging gains/losses recognized in other comprehensive income	– 0.6
Hedge ineffectiveness recognized in the income statement[1]	0.0
Hedged future transactions no longer expected to occur[1]	0.0
Amount reclassified from the hedge reserve into the income statement[1]	– 0.8

1. Included in the item “Other operating income” or “Other operating expenses” in the consolidated income statement respectively.

The following table provides a summary of the development of the hedge reserve in 2016 (no prior year information available due to the adoption of IFRS 9):

CHF million	2016
Foreign exchange risks	
Hedge reserve at January 1	0.0
Hedging gains/losses recognized in other comprehensive income[1]	– 0.6
Amount reclassified from the hedge reserve into the income statement[1]	– 0.8
Income taxes	0.3
Hedge reserve at December 31	**– 1.1**

1. Included in the item “Cash flow hedges” in the consolidated statement of comprehensive income.

The hedge reserve includes the spot element of the fair values of foreign currency forward and swap contracts not yet matured (effective portion only) as well as realized gains/losses from foreign currency contracts, where the respective hedged transaction has not yet been accounted for (effective portion only). No gains and losses are recognized in the hedge reserve at the end of 2016 from any hedging relationships to which hedge accounting is no longer applied.

The following table provides information about the nominal amounts, the maturity as well as average forward exchange rates of foreign currency forward and swap contracts designated as hedging instruments at December 31, 2016 (no prior year information available due to the adoption of IFRS 9):

December 31, 2016	**Period of maturity**				**Total**	
Foreign exchange risks	**2017 long[1]**	**2017 short[2]**	**2018 and later long[1]**	**2018 and later short[2]**	**Total long[1]**	**Total short[2]**
EUR exposure hedged by group companies whose functional currency is CHF						
Nominal amount (CHF million, long +/short -)	0.0	– 5.8	0.0	0.0	0.0	– 5.8
Average forward foreign exchange rate (EUR/CHF)		1.07				1.07
USD exposure hedged by group companies whose functional currency is CHF						
Nominal amount (CHF million, long +/short -)	0.0	– 30.9	0.0	– 2.2	0.0	– 33.1
Average forward foreign exchange rate (USD/CHF)		0.99		0.92		0.99

1. „Long“ is a position owned in a transaction.
2 „Short“ is a position owed in a transaction.

Interest rate risk

With the exception of cash and time deposits, Rieter held no material interest-bearing assets during the year under review so both income and cash flow from operations are largely unaffected by changes in market interest rates.

Interest rate risks can arise from interest-bearing financial debt. Financial debt with variable interest rates exposes the Group to interest-rate related cash flow risks, while fixed-rate financial liabilities may represent a fair value interest rate risk. However, Rieter measures financial liabilities at amortized cost and hence is not exposed to fair value risks.

Cash flow sensitivity analysis: A one percentage point increase in interest rates would not have a material impact on profit before taxes in 2016 and 2015.

Price risk

Holding marketable financial assets exposes Rieter to a risk of price fluctuation. Price fluctuations would result in proportional changes in the carrying amounts of the respective financial assets. The Group's balance of marketable financial assets was not material at the end of the reporting period or the prior year period.

Credit risk

Rieter is exposed to credit risks if counterparties fail to make payments as they fall due. Credit risks arise mainly from financial assets held with financial institutions, such as cash and time deposits (see notes 20 and 21), as well as from trade receivables (see note 18). Financial assets included in other current receivables are mostly related to receivables from government bodies in the context of indirect taxes and customs duties (see note 19). Recovery of these receivables is monitored on a regular basis and respective credit risks are considered to be low. Credit risks related to the remaining financial assets are expected to be immaterial.

Financial institutions:
Relationships with financial institutions are mainly entered into with counterparties which have an investment grade rating. In order to limit a concentration of risk, Rieter uses various banks which operate on an international scale and have a sound rating. The central treasury department monitors counterparty exposure (e.g. based on the rating of the respective financial institutions) and limit utilization on a regular basis with monthly reporting to the CFO.

Trade receivables:
Rieter aims to secure the credit risk exposure arising from larger individual customer receivables by means of advance payments, letters of credit, credit insurance or other instruments. This is mainly relevant for the Business Group Machines & Systems as well as for larger projects in the other two business groups. For the remaining business, credit risk is limited due to the large number of customers with individually smaller open balances and the wide geographical spread of these customers. As a result, management is of the opinion that there is no concentration of credit risk. At December 31, 2016, and at January 1, 2016 (adoption of IFRS 9), no open receivable balance from an individual customer exceeded 10% of total trade receivables.

In accordance with IFRS 9, Rieter applies the simplified approach to trade receivables, which provides for expected credit losses based on life-time expected losses. For open receivables balances which are secured by accepted instruments, no loss allowance is recognized unless there are indications that the instrument securing the open balance may be subject to failure. For trade receivables which are not secured and not overdue by more than 90 days, expected credit losses are determined by using publicly available credit default probabilities for the textile industry per country. These default probabilities incorporate forward-looking information. If at this stage information indicating a higher collection risk for individual customers is available, individual allowances are recognized for the respective balances. The risk of an impairment loss increases significantly for open trade receivable balances which are overdue for more than 90 days. Unless the open balance is negligible, an individual assessment is performed to estimate expected credit losses. Individual assessments incorporate forward-looking information such as macroeconomic forecasts and external credit ratings where available.

The following tables show the average expected loss rate for trade receivables per age category at December 31, 2016, and January 1, 2016 (adoption of IFRS 9):

December 31, 2016 CHF million	**Not due**	**No more than 90 days overdue**	**91 to 180 days overdue**	**181 days to one year overdue**	**More than one year overdue**	**Total**
Expected loss rate (in %)	4.2%	3.1%	50.0%	81.8%	100.0%	10.7%
Trade receivables (gross)	44.9	16.0	1.4	1.1	3.1	66.5
Allowance for doubtful receivables	1.9	0.5	0.7	0.9	3.1	7.1

January 1, 2016 CHF million	**Not due**	**No more than 90 days overdue**	**91 to 180 days overdue**	**181 days to one year overdue**	**More than one year overdue**	**Total**
Expected loss rate (in %)	4.4%	2.1%	66.7%	86.7%	100.0%	10.9%
Trade receivables (gross)	45.2	19.5	1.5	1.5	3.0	70.7
Allowance for doubtful receivables	2.0	0.4	1.0	1.3	3.0	7.7

The following table summarizes the movement in the allowance for doubtful receivables in 2016 (no prior year information available due to the adoption of IFRS 9):

CHF million	**2016**
Allowance for doubtful receivables at January 1	– 7.7
Changes to expected credit losses on trade receivables	– 0.8
Write-off of trade receivables/reversal of unused amounts	1.4
Currency translation differences	0.0
Allowance for doubtful receivables at December 31	**– 7.1**

Trade receivables are written off when there is no reasonable expectation of recovery. Rieter does not expect to receive any cash flows in future from receivables which have been written off.

The following table provides a summary of the credit risk exposure at December 31, 2016, and January 1, 2016 (adoption of IFRS 9):

CHF million	December 31, 2016	January 1, 2016
Trade receivables	66.5	70.7
Comprising:		
Trade receivables secured by letters of credit or similar instruments	42.1	39.5
Trade receivables unsecured	24.4	31.2
Allowance for doubtful receivables	– 7.1	– 7.7
Total	**59.4**	**63.0**

Customers provide letters of credit from local and international banks as security. Rieter monitors credit risks related to the respective banks (e.g. using official ratings). Where the ratings are unsatisfactory, management may seek additional security. At December 31, 2016, no loss allowances were recorded for secured trade receivables (none at January 1, 2016, adoption of IFRS 9).

Liquidity risk

Rieter's liquidity risk management includes holding adequate reserves of liquid funds and time deposits, the option of financing via an appropriate level of committed and uncommitted credit lines, and basically the ability to place issues on the capital market. In light of the dynamic nature of the business environment in which Rieter operates, its goal is to ensure financial stability and retain the necessary flexibility by financing operations with free cash flow (defined as cash flows from operating and investing activities) and maintaining adequate unutilized credit lines. For this purpose Rieter arranged bilaterally committed credit facilities with selected banks with a duration of five years in the total amount of CHF 125 million in July 2013. These credit facilities have not been utilized to date.

The next tables show the contractual maturities of the Group's financial liabilities (including interest):

December 31, 2016	**Carrying amount**	**Contractual cash flows**			
CHF million		**Within 1 year**	**In 1 to 5 years**	**In 5 or more years**	**Total cash flows**
Non-derivatives					
Trade payables	79.4	79.4	0.0	0.0	79.4
Other current liabilities	84.5	84.5	0.0	0.0	84.5
Fixed-rate bond	99.6	1.5	104.5	0.0	106.0
Other financial debt	9.5	9.4	0.4	0.0	9.8
Total non-derivatives	**273.0**	**174.8**	**104.9**	**0.0**	**279.7**
Derivatives					
Foreign currency forward and swap contracts	2.9	70.4	2.2	0.0	72.6
Total derivatives	**2.9**	**70.4**	**2.2**	**0.0**	**72.6**
Total	**275.9**	**245.2**	**107.1**	**0.0**	**352.3**

December 31, 2015	Carrying amount	Contractual cash flows			
CHF million		Within 1 year	In 1 to 5 years	In 5 or more years	Total cash flows
Non-derivatives					
Trade payables	86.3	86.3	0.0	0.0	86.3
Other current liabilities	84.7	84.7	0.0	0.0	84.7
Bank debt	13.9	13.9	0.0	0.0	13.9
Fixed-rate bond	99.5	1.5	106.0	0.0	107.5
Other financial debt	8.2	0.2	9.6	0.0	9.8
Total non-derivatives	**292.6**	**186.6**	**115.6**	**0.0**	**302.2**
Derivatives					
Foreign currency forward and swap contracts	1.4	87.2	0.0	0.0	87.2
Total derivatives	**1.4**	**87.2**	**0.0**	**0.0**	**87.2**
Total	**294.0**	**273.8**	**115.6**	**0.0**	**389.4**

Capital management

The capital managed by the Group is equal to the consolidated equity. Rieter's objectives in terms of capital management are to safeguard the Group's financial stability, its financial independence and its ability to continue as a going concern in order to generate returns for shareholders and benefits for other stakeholders. In addition, capital management aims to maintain an optimal capital structure. The equity ratio is 46% at December 31, 2016 (44% at December 31, 2015). As an industrial group, Rieter strives to have a strong balance sheet with an equity ratio of at least 35%.

In order to maintain or change the capital structure, the Group may - as the need arises - adjust dividend payments to shareholders, return capital to shareholders, issue new shares or dispose of assets in order to reduce debt.

In connection with existing, but unutilized committed credit facilities, Rieter has been subject to externally imposed requirements (financial covenants) defining minimum equity and maximum gearing since July 2013. These requirements have been complied with by Rieter and their compliance is monitored on a continuous basis.

34 Events after balance sheet date

On February 1, 2017, Rieter has announced in a media release the intention to reorganize the site in Ingolstadt (Germany). The concept foresees the location to focus on the development of machines and the provision of technical support for the after-sales business in the future.

No further events have occurred up to March 13, 2017, which would necessitate adjustments to the carrying amounts of the Group's assets or liabilities, or which require additional disclosure.

Subsidiaries and associated companies

at December 31, 2016

			Capital	Capital and voting rights	Research & development	Sales/trading/services	Production	Management/financing
Belgium	Gomitex S.A., Stembert	EUR	100 000	100%		•	•	
Brazil	Graf Máquinas Têxteis Indústria e Comércio Ltda., São Paulo	BRL	10 220 000	100%		•		
	Rieter South America Ltda., São Paulo	BRL	3 287 207	100%		•		
China	Rieter China Textile Instruments Co. Ltd., Changzhou	EUR	10 000 000	100%	•	•	•	•
	European Excellent Textile Components Co. Ltd., Changzhou	CNY	35 287 000	100%		•	•	
	Rieter Textile Systems (Shanghai) Co. Ltd., Shanghai	USD	200 000	100%		•		
	Graf Cardservices Far East Ltd., Hong Kong	HKD	30 000	100%		•		
	Xinjiang Rieter Textile Instruments Co. Ltd., Urumqi	CNY	5 000 000	100%		•		
Czech Republic	Rieter CZ s.r.o., Ústí nad Orlicí	CZK	316 378 000	100%	•	•	•	
	Novibra Boskovice s.r.o., Boskovice	CZK	40 000 000	100%	•	•	•	
France	Bräcker S.A.S, Wintzenheim	EUR	1 000 000	100%		•	•	
Germany	Rieter Vertriebs GmbH, Ingolstadt	EUR	15 338 756	100%		•		•
	Rieter Deutschland GmbH & Co. OHG, Ingolstadt	EUR	9 645 531	100%		•		•
	Novibra GmbH, Süssen (in liquidation)	EUR	1 534 000	100%				
	Rieter Ingolstadt GmbH, Ingolstadt	EUR	12 273 600	100%	•	•	•	
	Wilhelm Stahlecker GmbH, Süssen	EUR	255 645	100%	•			
	Spindelfabrik Suessen GmbH, Süssen	EUR	5 050 100	100%	•	•	•	
	Graf-Kratzen GmbH, Gersthofen	EUR	400 000	100%		•		
India	Rieter India Pvt. Ltd., Wing	INR	89 530 630	98%		•	•	
Italy	Prosino S.r.l., Borgosesia[1]	EUR	50 000	49%	•	•	•	
Liechtenstein	RiRe Ltd., Vaduz	CHF	4 800 000	100%				•
Netherlands	Graf Holland B.V., Enschede	EUR	113 500	100%		•	•	
Spain	Graf España SA, Santa Perpètua de Mogoda (inactive)	EUR	601 000	100%				
Switzerland	Rieter Management AG, Winterthur	CHF	5 000 000	100%				•
	Tefina Holding-Gesellschaft AG, Zug	CHF	5 000 000	100%				•
	Unikeller Sona AG, Winterthur	CHF	500 000	100%				•
	Maschinenfabrik Rieter AG, Winterthur	CHF	8 500 000	100%	•	•	•	•
	Hogra Holding AG, Freienbach	CHF	1 000 000	100%				•
	Graf + Cie AG, Rapperswil	CHF	1 000 000	100%	•	•	•	•
	Bräcker AG, Pfäffikon	CHF	1 000 000	100%	•	•	•	•
Taiwan	Rieter Asia (Taiwan) Ltd., Taipeh	TWD	5 000 000	100%		•		
Turkey	Rieter Textile Machinery Trading & Services Ltd., Esenler	TRY	25 000	100%		•		
USA	Rieter America, LLC, Spartanburg	USD	1 249	100%		•		
	Graf Metallic of America, LLC, Spartanburg	USD	50 000	100%		•		
	Rieter North America, Inc., Spartanburg	USD	1 000	100%				•
Uzbekistan	Rieter Uzbekistan FE LCC, Tashkent	USD	2 650 000	100%		•	•	

1. Associated company.

Report of the statutory auditor on the audit of the consolidated financial statements

Report of the statutory auditor on the audit of the 2016 consolidated financial statements to the General Meeting of Rieter Holding Ltd., Winterthur

Opinion

We have audited the consolidated financial statements of Rieter Holding Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2016 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements (pages 48 to 92) give a true and fair view of the consolidated financial position of the Group as at December 31, 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 2 500 000

We concluded full scope audit work at six reporting units in four countries. Our audit scope addressed 78 % of sales and 77 % of the total assets of the Group. Additionally, specific audit procedures were concluded at a further six group companies in five countries, which covered a further 19 % of sales.

As key audit matters, the following areas of focus were identified:

- Cash flow hedges and implementation of IFRS 9 disclosure requirements
- Approach to and valuation of guarantee and warranty provisions

Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The main subsidiaries of the Group were audited by PwC and we remain in constant contact with the audit teams that perform the work. As the auditor of the consolidated financial statements, we regularly visit local management as well as the local auditors. As part of the audit of the 2016 consolidated financial statements, we performed the audit of the three most significant Swiss Group companies and visited the main Group companies and the local auditors in China and India.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 2 500 000
How we determined it	5 % of the weighted average profit before taxes achieved in the last four years
Rationale for the materiality benchmark applied	We chose profit before taxes as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. We used the weighted average of the last four years because the Group's sales and results over this period were highly volatile due to the industry situation. Profit before taxes is also a generally accepted benchmark for materiality considerations.

We agreed with the Audit Committee that we would report to them misstatements above CHF 187 500 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Cash flow hedges and implementation of IFRS 9 disclosure requirements

Key audit matter	How our audit addressed the key audit matter
Since January 1, 2016, Rieter has applied hedge accounting for hedging transactions relating to highly probable expected transactions in foreign currencies (cash flow hedges). The risk management policy of Rieter is the basis for hedge accounting. As described in notes 1 and 33, gains and losses arising on the revaluation of the foreign currency forward contracts used as hedges are recognised outside the income statement in other comprehensive income until the hedged transaction is booked in the consolidated income statement. With regard to hedge accounting, IFRS 9 requires adequate evidence of and an on-going assessment of hedge effectiveness, as well as informative disclosure in the financial statements.	Our audit procedures covered the following: • Examined in detail the hedge accounting method for a series of derivatives and hedged items, and checked for compliance with the requirements of IFRS 9 concerning documentation, recognition and disclosure of hedges. • Audited that the terms of the expected future cash flows matched the derivative used to hedge them. • Assessed the internal control procedures for the on-going assessment of the hedges. • Audited the disclosures in note 33 for accuracy by reconciling the figures to the financial accounting records and for completeness by comparing them with the disclosure requirements. On the basis of our audit procedures, we conclude that the expected future cash flows covered by the hedge accounting match with the information on the underlying transactions according to the accounting records. We did not find any exceptions to Rieter's risk management policy.

Approach to and valuation of guarantee and warranty provisions

Key audit matter	How our audit addressed the key audit matter
Guarantee and warranty commitments can arise from the Rieter Group's regular business activities in the manufacture of spinning machines, installations and components. The approach to and valuation of these commitments require critical accounting estimates and judgements by Management based on historical experience and expectations. We consider guarantee and warranty commitments to be a key audit matter because of the inherent uncertainty regarding their assessment and size. *Please refer to page 58 of the annual report 'Critical accounting estimates and judgments' and note 26 'Provisions'.*	We performed the following audit procedures: • We compared the guarantee and warranty provisions recorded in the prior year with the actual expenses arising from guarantee and warranty commitments incurred in the year under review and the adjustments made by Management. • We compared the adjusted estimated size of the guarantee and warranty provisions for current guarantee and warranty commitments with effective costs and expected costs. • We assessed the accounting estimates and judgements of Management and the estimated probability of occurrence of the risks relating to guarantee and warranty commitments as at December 31, 2016. The results of our audit support Management's assumptions with regard to the approach to and valuation of guarantee and warranty provisions.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Rieter Holding Ltd. and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

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

PricewaterhouseCoopers AG

St Räbsamen T. Handschin

Stefan Räbsamen Audit expert Auditor in charge	Tobias Handschin Audit expert

Zurich, March 13, 2017

Income statement of Rieter Holding Ltd.

CHF million	Notes	2016	2015
Income			
Income from investments	(2.1)	48.1	46.5
Financial income	(2.2)	2.6	5.3
Other income	(2.3)	5.8	5.4
Total income		**56.5**	**57.2**
Expenses			
Administrative expenses		5.9	5.9
Financial expenses	(2.4)	3.5	6.2
Increase in value adjustments/provisions	(2.5)	20.0	20.0
Taxes		0.1	0.1
Total expenses		**29.5**	**32.2**
Net profit		**27.0**	**25.0**

Balance sheet of Rieter Holding Ltd.

CHF million	Notes	December 31, 2016	December 31, 2015
Assets			
Cash and cash equivalents	(2.6)	200.5	216.4
Current receivables	(2.7)	19.8	39.7
Prepaid expenses and accrued income	(2.8)	0.6	0.5
Current assets		**220.9**	**256.6**
Other financial assets	(2.9)	34.4	44.1
Investments	(2.10)	162.1	198.3
Non-current assets		**196.5**	**242.4**
Total assets		**417.4**	**499.0**
Shareholders' equity and liabilities			
Current liabilities	(2.11)	0.5	0.3
Current interest-bearing liabilities	(2.12)	97.7	186.4
Accrued expenses and deferred income	(2.8)	0.7	1.2
Current liabilities		**98.9**	**187.9**
Non-current interest-bearing liabilities	(2.13)	100.0	100.0
Provisions	(2.14)	11.3	11.3
Non-current liabilities		**111.3**	**111.3**
Total liabilities		**210.2**	**299.2**
Share capital	(2.15)	23.4	23.4
Legal capital reserve	(2.16)	33.1	53.5
General legal reserve	(2.17)	27.5	27.5
Free reserves	(2.18)	77.7	62.3
Retained earnings	(2.19)		
• Balance carried forward		44.3	34.3
• Net profit		27.0	25.0
Treasury shares	(2.20)	– 25.8	– 26.2
Shareholders' equity		**207.2**	**199.8**
Total shareholders' equity and liabilities		**417.4**	**499.0**

Notes to the financial statements of Rieter Holding Ltd.

1 Summary of significant accounting policies

1.1 General principles

The financial statements of Rieter Holding Ltd. have been prepared in accordance with the provisions of Swiss accounting law (valid as of January 1, 2013).

Significant accounting policies which are not specified by the Swiss Code of Obligations are listed below.

1.2 Investments

Investments are usually measured individually. If management and internal performance assessment are combined for a group of investments, impairment testing for these investments may also be combined. Investments are recognized at acquisition cost less necessary accumulated value adjustments.

1.3 Treasury shares

Treasury shares are recognized at historical cost and presented as a negative component of equity. If treasury shares are sold or reissued subsequently, any resulting gains or losses are directly recorded against free reserves.

1.4 Foreign currencies

All monetary assets and liabilities in foreign currencies are translated at year-end exchange rates. Losses from the revaluation of non-current receivables and payables are recorded in the income statement, whereas the respective gains are not recognized. Income and expenses as well as all transactions in foreign currencies are translated using the exchange rate prevailing on the date of the transaction. The resulting gains and losses are recognized in the income statement.

1.5 Derivative financial instruments

Derivative financial instruments are only recognized on the balance sheet if unrealized losses exist.

2 Details of balance sheet and income statement items

2.1 Income from investments

Income from investments consists of dividends paid by subsidiaries and associated companies.

2.2 Financial income

Financial income includes income from marketable securities as well as interest income.

2.3 Other income

Other income consists of the contractually agreed compensation payments from group companies.

2.4 Financial expenses

Financial expenses consist mainly of interest payable on the fixed-rate bond and liabilities payable to banks and group companies as well as the foreign exchange result.

Prior year expenses were significantly higher, since they include part of the interest expenses for the bond of CHF 250 million which was repaid in April 2015.

2.5 Increase in value adjustments/provisions

The value adjustment for general business risks was increased by CHF 20.0 million (CHF 20.0 million in 2015) and deducted from investments in subsidiaries.

2.6 Cash and cash equivalents

Cash and cash equivalents include bank accounts and term deposits.

2.7 Current receivables

CHF million	December 31, 2016	December 31, 2015
Receivables from third parties	0.0	0.1
Receivables from subsidiaries	19.8	39.6
Total	**19.8**	**39.7**

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

2.8 Prepaid expenses and accrued income/Accrued expenses and deferred income

Prepaid expenses and accrued income consist mainly of financing costs.

Accrued expenses and deferred income consist mainly of accrued interest.

2.9 Other financial assets

CHF million	December 31, 2016	December 31, 2015
Loans to subsidiaries	34.4	44.1
Total	**34.4**	**44.1**

2.10 Investments

CHF million	December 31, 2016	December 31, 2015
Investments in subsidiaries	161.6	197.8
Investments in associated companies	0.5	0.5
Total	**162.1**	**198.3**

Significant investments are listed on page 92. These are held directly or indirectly by Rieter Holding Ltd.

2.11 Current liabilities

CHF million	December 31, 2016	December 31, 2015
Liabilities to group companies	0.1	0.0
Liabilities to third parties	0.4	0.3
Total	**0.5**	**0.3**

2.12 Current interest-bearing liabilities

CHF million	December 31, 2016	December 31, 2015
Liabilities to group companies	97.7	186.4
Total	**97.7**	**186.4**

Rieter Holding Ltd. manages cash and cash equivalents of group companies in the central cash-pool.

2.13 Non-current interest-bearing liabilities

On September 1, 2014, a fixed-rate bond of CHF 100 million was issued. The bond has a six-year maturity period and a fixed interest rate of 1.5% p.a. Interest is payable annually on September 29. The final maturity date is September 29, 2020.

2.14 Provisions

This item consists of provisions for foreign exchange risks and guarantee commitments.

2.15 Share capital

At December 31, 2016, the share capital of Rieter Holding Ltd. amounted to CHF 23 361 815. It is divided into 4 672 363 fully paid registered shares with a par value of CHF 5.00 each.

The Annual General Meeting held on April 18, 2012 authorized the Board of Directors to increase the share capital at any time until April 18, 2014, by up to CHF 2 500 000 by issuing a maximum of 500 000 fully paid registered shares with a par value of CHF 5.00 each. The Annual General Meeting approved the extension of this time limit by two years in 2014 and in 2016, most recently until April 6, 2018. Increases in partial amounts are permitted. The subscription and purchase of the new shares are subject to the restrictions set forth in §4 of the Articles of Association.

2.16 Legal capital reserve

CHF million	2016	2015
Opening balance	53.5	74.1
Reversal for dividend distribution	– 20.4	– 20.6
Total	**33.1**	**53.5**

The dividend of CHF 20.4 million distributed in April 2016 was taken from the legal capital reserve.

2.17 General legal reserve

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

2.18 Free reserves

CHF million	2016	2015
Opening balance	62.3	46.4
Transfer from the appropriation of retained earnings	15.0	15.0
Change in measurement of treasury shares[1]	0.0	1.0
Gains/losses from treasury shares[2]	0.4	– 0.1
Total	**77.7**	**62.3**

1. As of 2015, treasury shares are stated at historical acquisition cost. The increase in value amounting to CHF 1.0 million was transferred to free reserves.
2. Since January 1, 2015, gains and losses resulting from the sale or reissuance of treasury shares are directly recognized in free reserves.

2.19 Retained earnings

Including retained earnings carried forward and before the reversal of reserves, the Annual General Meeting has a total of CHF 71.3 million at its disposal (CHF 59.3 million in 2015).

2.20 Treasury shares

Treasury shares are held directly by Rieter Holding Ltd. Consequently, there is no need for a separate reserve for treasury shares.

Treasury shares held by Rieter Holding Ltd.

	Number of shares
Treasury shares at January 1, 2016 (registered shares)	161 288
Acquisitions from January to December 2016 (average price per share of CHF 196.98)	3 063
Sales from January to December 2016 (average price per share of CHF 190.21)	– 7 003
Treasury shares at December 31, 2016 (registered shares)	**157 348**

3 Additional information

3.1 Legal form, registered office, number of full-time employees

Rieter Holding Ltd. is a limited company ("Aktiengesellschaft") with its registered office in Winterthur. The company does not employ any personnel.

3.2 Guarantees to third parties

CHF million	December 31, 2016	December 31, 2015
Guarantees	9.1	34.5

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

3.3 Significant shareholders

Major groups of shareholders with holdings exceeding 3% of total voting rights (pursuant to Art. 663c of the Swiss Code of Obligations) at December 31, 2016:

According to the notification from SIX Swiss Exchange (SIX) on September 2, 2009, PCS Holding AG, Weiningen, Switzerland, held 894 223 shares (19.14%).

According to the notification from SIX on May 12, 2011, Artemis Beteiligungen I AG, Franke Artemis Holding AG and Artemis Holding AG, Hergiswil, Switzerland, held 538 087 shares (11.52%).

According to the notification from SIX on August 19, 2015, Rieter Holding Ltd., Winterthur, Switzerland, held 140 504 shares (3.01%).

According to the notification from SIX on April 15, 2016, Norges Bank (the Central Bank of Norway), Oslo, Norway, held 149 985 shares (3.21%).

According to the notification from SIX on July 28, 2016, BlackRock Inc., New York, USA, held 213 448 shares (4.57%).

3.4 Shareholdings by the Board of Directors and the Group Executive Committee (including related parties) at December 31, 2016 (Art. 663c, Swiss Code of Obligations)

	Number of shares	
	December 31, 2016	**December 31, 2015**
Erwin Stoller, Chairman	12 995	12 995
Dr. Jakob Baer (until April 30, 2016)	–	3 519
Roger Baillod (as of May 1, 2016)	150	–
Bernhard Jucker (as of May 1, 2016)	–	–
Michael Pieper	541 359	540 721
This E. Schneider	5 168	4 480
Hans-Peter Schwald	6 085	5 146
Dr. Dieter Spälti (until April 30, 2016)	–	4 657
Peter Spuhler	899 170	898 545
Total Board of Directors	**1 464 927**	**1 470 063**

	Number of shares	
	December 31, 2016	**December 31, 2015**
Dr. Norbert Klapper	2 205	1 086
Thomas Anwander	1 796	1 855
Joris Gröflin	2 909	2 256
Carsten Liske	1 324	707
Jan Siebert (as of April 1, 2016)	–	–
Werner Strasser	2 622	2 006
Total Group Executive Committee	**10 856**	**7 910**

In 2016, the members of the Board of Directors and the Group Executive Committee received 6 968 shares with a fair value of CHF 1.3 million as part of their share-based compensation.

3.5 Events after balance sheet date

The financial statements were approved by the Board of Directors on March 13, 2017. They are subject to approval by the Annual General Meeting of shareholders on April 5, 2017. There were no other significant events after balance sheet date.

Proposal of the Board of Directors

for the appropriation of retained earnings and the distribution of a dividend out of the legal capital reserve

CHF	2016
Net profit for the year	27 021 038
Retained earnings carried forward from previous year	44 313 701
Reversal of legal capital reserve[1]	23 361 815
At the disposal of the Annual General Meeting	**94 696 554**
Proposal	
Distribution of dividend[1]	23 361 815
Allocation to free reserves	15 000 000
Balance to be carried forward	56 334 739
	94 696 554

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

The Board of Directors proposes that CHF 15.0 million be allocated to free reserves and a dividend of CHF 5.00 per registered share be paid. The latter is taken from the legal capital reserve. As a consequence, the dividend distribution is to be effected without deduction of 35% withholding tax (as provided for in Art. 5 section 1bis of the Swiss Federal Law on Withholding Tax [VStG]).

Report of the statutory auditor on the audit of the financial statements

pwc

Report of the statutory auditor on the audit of the 2016 financial statements to the General Meeting of Rieter Holding Ltd., Winterthur

Opinion

We have audited the financial statements of Rieter Holding Ltd., which comprise the balance sheet as at December 31, 2016, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements (pages 100 to 106 and page 92) as at December 31, 2016 comply with Swiss law and the articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 1 000 000
How we determined it	0.5 % of shareholders' equity
Rationale for the materiality benchmark applied	We chose shareholders' equity as the benchmark because it is a generally accepted benchmark for materiality considerations relating to a holding company.

We agreed with the Audit Committee that we would report to them misstatements above CHF 100 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the Circular 1/2015 of the Federal Audit Oversight Authority
We have no key audit matters to report.

Responsibilities of the Board of Directors for the financial statements
The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors intends either to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.
- Conclude on the appropriateness of the Board of Directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

St Räbsamen T. Handschin

Stefan Räbsamen
Audit expert
Auditor in charge

Tobias Handschin
Audit expert

Zurich, March 13, 2017

Review 2012 to 2016

		2016	2015	2014	2013	2012
Consolidated income statement						
Sales	CHF million	945.0	1 036.8	1 153.4	1 035.3	888.5
• Europe	CHF million	41	60	82	81	89
• Asia without China/India/Turkey	CHF million	286	324	273	259	223
• China	CHF million	187	140	174	223	193
• India	CHF million	182	142	131	109	96
• Turkey	CHF million	119	144	264	199	168
• Americas	CHF million	87	200	199	112	91
• Africa	CHF million	43	27	30	52	29
Operating result before interest, taxes, depreciation and amortization (EBITDA)	CHF million	95.8	115.9	125.4	95.2	65.9
• in % of sales		10.1	11.2	10.9	9.2	7.4
Operating result before interest and taxes (EBIT)	CHF million	56.5	73.1	84.6	60.2	32.7
• in % of sales		6.0	7.0	7.3	5.8	3.7
Net profit	CHF million	42.7	49.8	52.9	37.4	25.7
• in % of sales		4.5	4.8	4.6	3.6	2.9
Return on net assets (RONA) in %		8.5	9.5	10.5	8.5	6.7
Consolidated statement of cash flows						
Net cash from operating activities	CHF million	102.2	89.0	89.6	107.7	9.3
Net cash from investing activities	CHF million	– 25.9	– 7.0	– 40.5	– 46.6	– 41.6
Net cash from financing activities	CHF million	– 34.4	– 84.8	– 77.3	– 40.0	– 31.8
Free cash flow[1]	CHF million	76.3	65.0	49.1	61.1	– 49.5
Number of employees at December 31[2]		**5 022**	**5 077**	**5 004**	**4 793**	**4 720**
Consolidated balance sheet at December 31						
Non-current assets	CHF million	344.3	370.1	387.3	371.1	356.3
Current assets	CHF million	653.8	631.3	822.1	742.9	713.8
Equity attributable to Rieter shareholders	CHF million	459.6	442.9	441.1	389.2	370.9
Equity attributable to non-controlling interests	CHF million	1.1	0.9	0.8	0.5	5.0
Non-current liabilities	CHF million	232.5	251.4	247.5	321.0	387.6
Current liabilities	CHF million	304.9	306.2	520.0	403.3	306.6
Total assets	CHF million	998.1	1 001.4	1 209.4	1 114.0	1 070.1
Shareholders' equity in % of total assets		46.2	44.3	36.5	35.0	35.1
Cash and cash equivalents	CHF million	365.6	326.5	336.9	360.8	342.6
Marketable securities and time deposits	CHF million	7.0	7.5	108.7	8.9	9.3
Current financial debt	CHF million	– 9.1	– 14.1	– 168.1	– 44.8	– 6.7
Non-current financial debt	CHF million	– 100.0	– 107.5	– 105.8	– 183.6	– 249.6
Net liquidity	CHF million	**263.5**	**212.4**	**171.7**	**141.3**	**95.6**

1. Net cash from operating activities and net cash from investing activities excluding divestments of business.
2. Excluding apprentices and temporary employees.

Information for investors

		2016	2015	2014	2013	2012
Share capital	CHF million	23.4	23.4	23.4	23.4	23.4
Net profit of Rieter Holding Ltd.	CHF million	27.0	25.0	22.8	13.2	12.0
Dividend	CHF million	23.4 [1]	20.4	20.6	16.0	11.6
Payout ratio in % of net profit[2]		55	41	39	41	39
Market capitalization (December 31)	CHF million	800	848	757	964	737
Market capitalization in % of						
• sales	in %	85	82	66	92	83
• equity attributable to Rieter shareholders	in %	174	191	172	248	199

1. See proposal of the Board of Directors on page 107.
2. Net profit attributable to shareholders of Rieter Holding Ltd.

Data per share (RIEN)

			2016	2015	2014	2013	2012
Share prices on the SIX Swiss Exchange	high	CHF	218	190	230	210	198
	low	CHF	168	117	159	142	123
Price/earnings ratio	high		23.2	17.4	19.9	24.5	31.7
	low		17.9	10.7	13.8	16.6	19.7
Shareholders' equity (Group) per share		CHF	101.79	98.18	96.41	84.85	80.26
Tax value per share		CHF	177.10	188.00	165.50	210.10	159.40
Dividend per share		CHF	5.00 [1]	4.50	4.50	3.50	2.50
Gross yield on shares	high	in %	2.3 [1]	2.4	2.0	1.7	1.3
	low	in %	3.0 [1]	3.8	2.8	2.5	2.0
Basic earnings per share		CHF	9.39	10.92	11.52	8.56	6.24

1. See proposal of the Board of Directors on page 107.

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

March 2017

This is a translation of the original German text.

Copy:
Rieter Management AG

Concept and design:
MetaDesign, Zurich

Photos:
Daniel Hager, Zurich

Cover:
The K 46 compact spinning machine for fully-compacted yarns with lowest energy consumption.

Publishing-System:
Multimedia Solutions AG, Zurich

Printing:
Druckmanufaktur, Urdorf

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

Group Communication
T +41 52 208 70 45
F +41 52 208 70 60
media@rieter.com

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

www.rieter.com