

Annual Report 2002

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T e x t i l e  
●  
A u t o m o t i v e

1795

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#### Market presence for more than 200 years

In 1795 Johann Jacob Rieter opened a business in Winterthur trading in cotton and spices. In the early 19<sup>th</sup> century the company started to manufacture spinning machinery, and in the course of time diversified into a variety of industrial sectors. From 1915 onwards, it again concentrated on spinning machinery manufacture. Rieter entered the automotive supply business in 1984 with the acquisition of Unikeller, which specialized in noise control in vehicles. Rieter Holding Ltd. was founded and listed on the Zurich Stock Exchange in 1985, thus creating the structure of today's corporate group.

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#### Rieter sets the standard for yarn quality

With the development of the ComforSpin spinning process, Rieter has succeeded within only a few years in setting a new standard for spinning processes and yarn quality. Com4 yarn features low hairiness and high strength, thus enabling cost savings to be achieved during further processing. Its advantages are apparent at all stages of the textile value added chain as far as the consumer, who benefits from the high standard of wearing comfort provided by fabrics made from Com4 yarns.

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#### Golden tiger in Com4 yarn

China is the world's largest textile country. An invitation from its Minister for the Textile Industry really is something special. The gift offered to the host also has to be something special. On this occasion Rieter presented a scarf as a symbol specially produced for this event. The red silk scarf with the traditional tiger motif in gold reflects the history and culture of this country. The Com4 weft yarn and production using the latest technology demonstrate the rapid development of the Chinese textile industry to high-quality products.



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#### Rieter Award for the best textile students

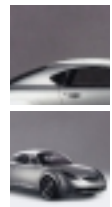
The Rieter Award for the world's best university graduates in the fields of textile technology and textile engineering was presented for the 14<sup>th</sup> time in 2002. A total of six students from Brazil, China, Germany, India, Indonesia and Russia were awarded this prize for outstanding achievements during their studies or in their final examinations.



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#### Italian automotive design – also for India

Italian designers are making their mark on the development of automotive engineering far beyond their domestic market. Turin-based Idea Institute, a Rieter Group company, is one of the foremost firms in this field. It employs more than 200 engineers providing design, styling and engineering services for customers in Europe, and also for vehicle manufacturers in other regions of the world, such as the Tata Group in India.



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#### The sound of luxury for Rolls-Royce

Rieter plays a major part in ensuring that the new Rolls-Royce sweeps along with the hushed grandeur expected of a vehicle in this category. The Rolls-Royce Phantom incorporates some 150 sound insulating components supplied by Rieter production plants. These also include carpets available in twelve different colors.



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#### Rieter named "GM Supplier of the Year" for the 10<sup>th</sup> time

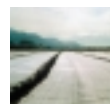
Magee Rieter is the only American company to have won General Motors' prestigious "Supplier of the Year" award for the tenth year in succession. Only three companies in the world have achieved this milestone in quality performance to date. Magee Rieter Automotive supplies carpets and acoustic systems to American automotive manufacturers. GM is its largest customer.



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#### Geotextiles in agriculture

Geotextiles (nonwovens) prevent soil from drying out and weeds from spreading, as well as protecting young plants. The environment is also preserved, since fewer chemical plant protection products are needed. Geotextiles are also used for erosion control or drainage.



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

Rieter, established in Winterthur in 1795, is a Swiss-based group operating on a global scale. It is a leading supplier of systems and services for the textile, automotive and plastics industries.

Rieter operates in two industrial sectors, namely textile machinery and automotive supply. In both of these fields the group is a world market leader in the segments covered. 98 percent of sales are made outside of Switzerland, while 14 percent of its approx. 13 000 employees work in Switzerland.

Rieter Textile Systems develops and produces machinery and integrated systems for converting fibers and plastics into yarns, nonwovens and pellets.

In partnership with automotive manufacturers, Rieter Automotive Systems develops and produces components, modules and integrated systems on the basis of fibers, plastics and metals in order to provide acoustic comfort and thermal insulation in motor vehicles.

Rieter aims to achieve sustained growth in corporate value for the benefit of shareholders, customers and employees. Rieter seeks to maintain continuous growth in earnings in both industrial sectors. Growth in sales and profits is pursued by maximizing in-house resources as well as by acquisitions and cooperative ventures worldwide. The driving forces behind internal growth are innovation together with the exploitation and further development of core competences. Rieter's development in recent years confirms the soundness of this strategy.

Rieter's vision is based on three objectives: Delight your customers – Enjoy your work – Fight for profits. Rieter can only be successful as a company if it satisfies its customers' expectations, if its employees are enthusiastic in their commitment and if it creates long-term added value for its shareholders.

## Financial highlights

CHF million	2002	2001	Change in %
<b>Rieter Group</b>			
Orders received	2 999.8	2 886.3	3.9
Sales	2 976.2	3 170.2	-6.1
Corporate output <sup>1</sup>	2 872.2	3 025.4	-5.1
Operating result before interest, taxes, depreciation and amortization (EBITDA)	318.8	337.1	-5.4
as a % of corporate output	11.1	11.1	
Operating result before interest and taxes (EBIT)	200.9	203.9	-1.5
as a % of corporate output	7.0	6.7	
Net profit	83.8	111.2	-24.6
as a % of corporate output	2.9	3.7	
Cash flow <sup>2</sup>	205.4	246.1	-16.5
as a % of corporate output	7.2	8.1	
Capital expenditure	133.6	129.7	3.0
Assets	2 223.6	2 328.7	-4.5
Long-term assets	990.1	1 044.9	-5.2
Shareholders' equity before appropriation of profit	873.3	907.8	-3.8
Number of employees at year-end <sup>3</sup>	12 983	12 977	0.0
<b>Rieter Holding Ltd.</b>			
Share capital	22.8	45.7	
Net profit	31.1	36.1	-13.9
Gross distribution	35.8 <sup>4</sup>	36.5	
Number of registered shares, paid-in	4 569 056	4 569 056	
Number of registered shares, issued <sup>5</sup>	4 071 343	4 079 089	
Price of registered shares (high/low)	CHF 404/275 <sup>6</sup>	493/348	
Number of registered shareholders on Dec. 31	4 922	4 898	0.5
Market capitalization on Dec. 31	1 179.6	1 485.1	-20.6
<b>Data per registered share</b>			
Net profit after deduction of minority interests (group) <sup>5</sup>	CHF 16.95	22.85	-25.8
Cash flow after deduction of minority interests (group) <sup>5</sup>	CHF 46.82	55.92	-16.3
Equity (Group) <sup>5</sup>	CHF 214.50	222.55	-3.6
Gross distribution (Rieter Holding Ltd.)	CHF 8.60 <sup>4</sup>	8.60	0.0
of which capital repayment	CHF 0.00	5.00	

<sup>1</sup> Corporate output comprises sales, adjustments for sales deductions and own work capitalized and changes in inventories of products manufactured by the company.

<sup>2</sup> Net profit plus depreciation and amortization.

<sup>3</sup> Excluding apprentices and temporary employees.

<sup>4</sup> Proposed by the board of directors (page 68).

<sup>5</sup> Based on average number of registered shares.

<sup>6</sup> Source: Bloomberg.

# Board of directors

As at March 31, 2003

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**Kurt E. Feller, chairman (1937/2005) \*°**

Swiss national  
MBA University of Massachusetts in Amherst;  
with Rieter since 1978,  
CEO of the Rieter Group 1989–2000

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**Rudolf Hauser, vice-chairman (1937/2005) \*°**

Swiss national  
Dipl. Ing. ETH Zurich, MBA Insead; Managing  
director, Bucher Industries AG, Niederweningen,  
until 2001; Chairman of the board, Bucher  
Industries AG, since 2001

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**Dr. Ulrich Dätwyler (1941/2003) \*°**

Swiss national  
Dr. oec. HSG St. Gall; CEO of SIG Holding AG until  
1996

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**Dr. Rainer Hahn (1940/2005) °**

German national  
Dr. Ing.; Managing director, Robert Bosch GmbH,  
Stuttgart, until 2001

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**Dr. Peter Wirth (1946/2003) °**

Swiss national  
Dr. sc. techn. ETH Zurich; with Mikron Group, Biel,  
since 1986; CEO, Mikron Group and managing  
director, Mikron Holding AG, since 1991

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**Dr. Dieter Spälti (1961/2004) °**

Swiss national  
Dr. iur. University of Zurich; Partner, McKinsey,  
until 2001; Managing partner, Spectrum Value  
Management, Jona, since 2002

The first date refers to the year of birth,  
the second to the expiry of the term of office.

• Members of the audit committee

° Members of the personnel committee

Please see the information regarding the board of directors in the  
chapter on "corporate governance" on pages 17 to 20.

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**Group secretariat****Thomas Anwander (1960)**

Swiss national  
Secretary-general, lic. iur.

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**Auditors**

PricewaterhouseCoopers AG, Zurich

# Group executive committee

As at March 31, 2003

**Peter Gnägi**

**Hans Rudolf Widmer**

**Hartmut Reuter**

**Erwin Stoller**



CEO Rieter Textile Systems  
Dipl. Ing. ETH  
Swiss national, joined Rieter in 1990

Chief Financial Officer (CFO)  
Dr. iur.  
Swiss national, joined Rieter in 1991

Chief Executive Officer (CEO)  
Dipl. Wirtschaftsingenieur  
German national, joined Rieter in 1997

CEO Rieter Automotive Systems  
Dipl. Ing. ETH  
Swiss national, joined Rieter in 1978

# Management structure

As at March 31, 2003

## Rieter Group

**Chief executive officer (CEO)** Hartmut Reuter

## Corporate Center

**Chief financial officer** Dr. Hans Rudolf Widmer

Legal services and risk management Thomas Anwander  
Corporate communications Dr. Peter Grädel  
Human resources Dr. Werner Anderegg

**Group controller** Hartmut Reuter  
from 1-4-2003

Urs Leinhäuser  
Finance and controlling Werner Rüegg  
Internal audit Georg Niederer  
Corporate planning Fabio Mercandetti

## Rieter Textile Systems

**Divisional CEO** Peter Gnägi

### Central services

Finance and controlling Peter Müller  
Marketing Edda Walraf  
Human resources Dr. Werner Anderegg/  
Jürg Wieser  
Production/purchasing/  
quality Jost Sigrist  
Information technology Beat Meienberger

### Business groups

Rieter Textile Systems  
International Peter Grünig  
Spun yarn systems Dr. Martin Folini  
Filament yarn technologies Angelo Lucca  
Nonwovens and  
pelletizing systems Dr. Axel Nickel  
Internal suppliers Jost Sigrist  
Technology components  
and conversions Werner Strasser

## Rieter Automotive Systems

**Divisional CEO** Erwin Stoller

### Central services

Finance and controlling Rolf Seidel  
Business development Rudolf Hürlimann  
Information technology Karl-Heinz Frohnhoff  
Human resources Reto C. Blum  
Coordination with Japanese  
automotive manufacturers Kimmo Mäkipeska

### Business groups

Europe South Christian Duhay  
Europe North Dr. Gerhard Müller-Broll  
America David Westgate  
Idea Institute Paolo Caccamo

### Joint ventures

Magee Rieter Automotive Mike Katerman  
UGN, Inc. Peter Anthony  
Rieter Saifa Ignacio Baltá

## 2002 financial year: Encouraging order intake and higher margins



Kurt Feller

**"In the 2002 financial year, the Rieter Group demonstrated solid earning power in the face of fluctuating global market trends. I believe that this remarkable performance is due to the following factors: a strong market position, competent and committed personnel, sound finances, and continuity in the process of management succession in the group."**



Hartmut Reuter

**"In the 2002 financial year, both divisions of Rieter succeeded in maintaining their position in a difficult environment and once again demonstrated their high level of competitiveness. The main elements of this are innovative products, high-quality services and a clear focus of our activities on customers' needs."**

**Dear Shareholders,  
Ladies and Gentlemen,**

In the 2002 financial year, the Rieter Group demonstrated solid earning power in the face of fluctuating market trends. Our employees made this possible through their efforts, together with our first-rate products and services. Although sales were lower, the operating result before interest and taxes amounted to 200.9 million CHF (203.9 million CHF in 2001). This was equivalent to 7.0% of corporate output, representing an increase over the comparative figure in the previous year (6.7%). Both divisions contributed to this remarkable performance in a difficult environment. High margins were again achieved in the textile machinery business, while earnings improved substantially in the automotive supply business. The adverse stock market environment resulted in negative financial income and a higher tax charge, so that net profit declined to 83.8 million CHF, equivalent to 2.9% of corporate output (3.7% in 2001). Cash flow thus fell short of the previous year's high figure, declining to 205.4 million CHF, equivalent to 7.2% of corporate output (8.1% in 2001). Earnings per share decreased correspondingly to 16.95 CHF (22.85 CHF in 2001).

**Higher order intake**

The trend in orders received by the group in 2002 was positive, showing an increase of 3.9% to 3 000 million CHF. Expressed in local currency, the increase was as much as 8.2%. This encouraging outcome was due in particular to the healthy trend of business in the textile machinery sector as from the second quarter of 2002.

Group sales declined by 6.1% to 2 976 million CHF in the 2002 financial year. This reduction was due both to the shortfalls of textile machinery market in the autumn of 2001, which had an adverse impact on sales in the first half of 2002, and to the negative influence of exchange rate fluctuations. Excluding currency effects, the decline would have been only 1.9%. Sales by the Textile Systems division in the 2002 financial year were 10.5% lower at 1 108 million CHF. The automotive supply business grew by 3.3% in local currency, while lower automotive output in Western Europe and exchange rate variances had a negative impact on the trend in sales expressed in Swiss francs. These declined by 2.7% to 1 848 million CHF.

The group's headcount remained largely unchanged in the 2002 financial year. At year-end Rieter employed a workforce of 12 983 (12 977 at the end of 2001).

**Sound finances**

The Rieter Group again achieved its targets with regard to financial stability in 2002.

The issue of 4% bonds (due in 2007) was increased by 75 million CHF and placed on the market in July. The proceeds were utilized to repay the 139.9 million CHF of convertible bonds due for redemption in October 2002.

Short-term and long-term bank borrowings were reduced by 13 million CHF to 117 million CHF in the 2002 financial year. Total interest-bearing debt was therefore reduced by 19% or 81 million CHF to 337 million CHF. Free cash flow increased by more than 60% to 100.2 million CHF.

Net liquidity increased by 62 million CHF, and amounted to 15.0 million CHF at year-end. The equity ratio rose to 39.3% at the end of 2002 (39.0% in 2001).

**Rieter Textile Systems: taking advantage of the upturn with attractive products**

The world market for textile machinery was characterized by wide fluctuations in 2002. Following the slowdown in economic activity in the second half of 2001, demand for staple fiber machinery – used to process cotton fibers and fiber blends into yarns – remained weak in the first quarter of 2002. An upswing of boom-like proportions, driven mainly by the Chinese and Turkish markets, commenced in the spring and stabilized at a healthy level in the second half of the year. The market for man-made fiber machinery remained subdued and showed slight signs of revival only towards year-end.

Textile Systems took advantage of the favorable business environment with an attractive range of products and a strong market position, and from the second quarter onwards recorded a strong rise in orders received. Order intake in the 2002 financial year totalled 1 132 million CHF, equivalent to growth of 18.6% compared with the previous year. Sales therefore started to increase only in the second half, and were lower for the year as a whole.

Due to flexibility in manufacturing operations, continuing strict cost management, pricing discipline and healthy capacity utilization in the second half of the year, the operating result before interest and taxes was only slightly lower than in 2001, amounting to 94.3 million CHF (97.9 million CHF in 2001). This is equivalent to 8.9% of corporate output, which even exceeded the previous year's good result (8.5%).

#### **Rieter Automotive Systems: enhanced earning power**

Trends in Rieter Automotive Systems' two main markets – Western Europe and the Nafta region – diverged in 2002. Whereas vehicle output in Western Europe was slightly lower as a consequence of subdued economic activity, it rose steeply in the Nafta region following the previous year's slump in the market. However, this increase was mainly due to the use of sales incentives such as cash rebates and low-interest leasing offers by the car manufacturers. Automotive Systems participated in the growth of the American market with innovative products, especially carpet systems; in Western Europe the division developed better than the market as a whole. It achieved sales growth of 3.3% in local currency terms.

The action taken in previous years to improve profitability and to adjust capacity at lower volumes had a positive impact in the 2002 financial year. Despite lower sales and the adverse effect of exchange rate fluctuations, the operating result before interest and taxes rose to 109.6 million CHF (102.0 million CHF in 2001). This corresponds to 6.1% of corporate output (5.5% in 2001).

#### **Assured continuity in management**

The 2002 financial year saw extensive changes in corporate management at Rieter. In the spring, the board of directors appointed Hartmut Reuter as CEO of the Rieter Group in response to chairman Kurt Feller's wish to withdraw completely from operational responsibility after the annual general meeting held on May 7, 2002. The heads of the two divisions, Erwin Stoller and Matti Paasila, had until then reported directly to the chairman of the board. Hartmut Reuter has been a member of the group executive committee since 1997 and has headed the corporate center since 2000. On August 1 Erwin Stoller, previously head of the Textile Systems division, took charge of the Automotive Systems division in succession to Matti Paasila, who had decided to accept a new challenge as managing director and CEO of a Swiss industrial group. Since July 1, 2002, Textile Systems has been headed by Peter Gnägi, who had previously been responsible for the business group Spun Yarn Systems, the largest segment of Rieter's textile machinery activities. As announced in December 2002, Urs Leinhäuser will join the group executive committee on April 1, 2003, and assume responsibility for group controlling. This function had temporarily been overseen directly by Hartmut Reuter. Urs Leinhäuser has many years of industrial and international experience and was previously Chief Financial Officer of an international Swiss group.

The annual general meeting re-elected Kurt Feller, Rudolf Hauser and Dr. Rainer Hahn as members of the board of directors for a three-year period of office.

**Corporate governance**

Rieter has paid due attention to the principles of corporate governance – attuned to the interests of the group – not just since last year. These include a clearly structured management organization with clear-cut allocation of responsibility and a high degree of transparency in reporting. The relevant details are given in a separate section in this annual report.

**Outlook**

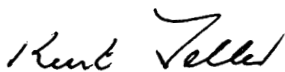
Economic developments worldwide are characterized by uncertainty and unfavorable business trends in major markets. In view of the healthy level of orders in hand at Textile Systems and the first-time consolidation of Rieter Saifa, Rieter expects consolidated sales in the first half 2003 to be slightly higher than the previous year's figure. Strict cost discipline and the action initiated in recent years to make its operations more flexible will enable it to cope with a possible downturn in the second half 2003 without any significant impact on results.

**Thanks**

During the 2002 financial year the various segments of the Rieter Group were faced with differing, business-related challenges. Without the high level of commitment displayed by personnel and management it would not have been possible to increase earning power in this challenging environment. On behalf of the board of directors and the group executive committee, we want to express our sincere thanks to all employees for their efforts. Our thanks to the employee representatives for the good cooperative relationship, which enabled constructive solutions to be found in all situations. We also wish to take this opportunity to thank all shareholders, customers and suppliers for the confidence they have shown in Rieter.

Winterthur, March 31, 2003

Kurt Feller



Chairman of the board of directors

Hartmut Reuter



Chief executive officer (CEO)



Within the Rieter Group some 13 000 employees work together, often across continents and national borders, to satisfy the needs of customers in different cultures. It is the employees of Rieter who have achieved the pleasing operating results reported for the 2002 financial year. With their know-how, skills and commitment, they are also the basis for Rieter's success in future.

#### **Planning succession to management positions**

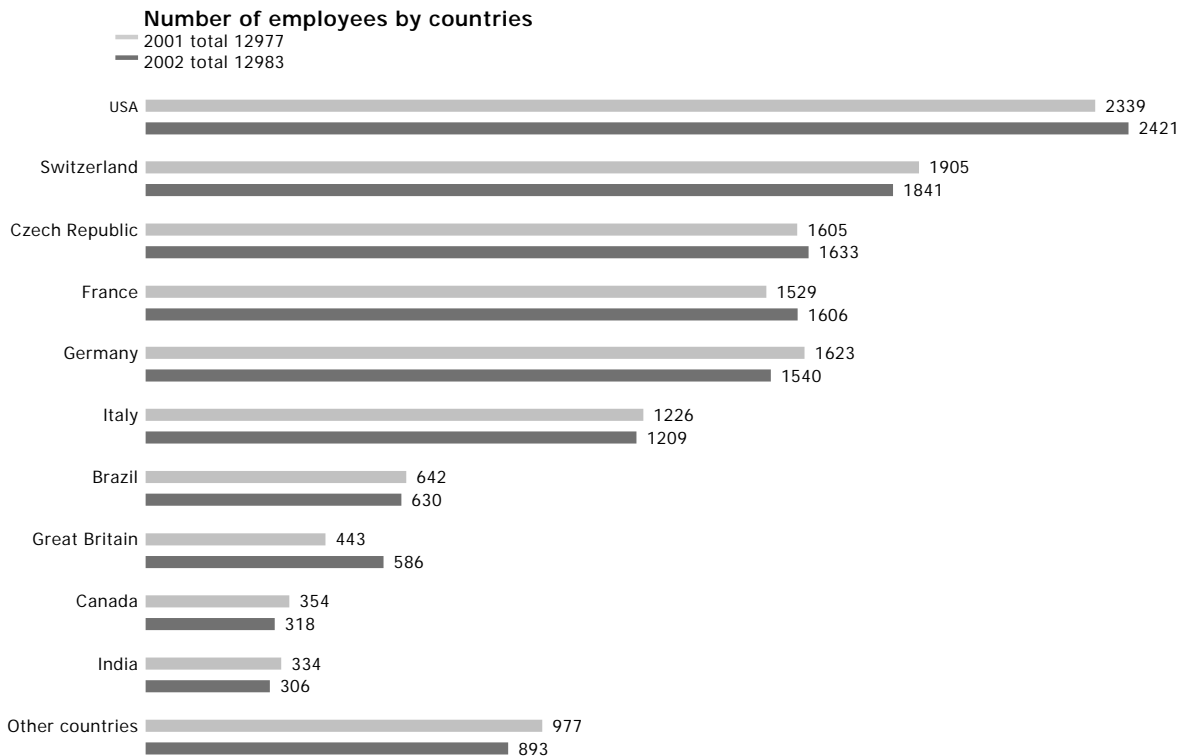
Structured succession planning has been pursued for several years, and demonstrated its value in 2002 with the changes taking place in connection with the composition of the group executive committee. Virtually all positions falling vacant in this context at various levels have been filled by in-house candidates. This has ensured knowledge transfer and made clear to employees that Rieter offers interesting potential for advancement.

#### **Group conference**

The annual group conference for executives is of considerable importance for communication and contact within the Rieter Group and discussion of interdivisional issues. In 2002, attention was focused on the changes in the group executive committee and on reviewing Rieter's values and developing them further into new guidelines for the future.

#### **Personnel development**

Workshops on various themes for prospective management talent from all parts of the world were held in both divisions in 2002. Those taking part particularly appreciated the strong commitment of management. Personnel development for most of our employees is decentralized, adapted to the differing needs of the individual locations.



#### **Social responsibility to promote future generations of personnel**

Rieter's fundamental objective is to fill new or vacant positions from within the company. This is especially the case for our trainees in Germany and Switzerland, where apprenticeship training is of major importance. At Rieter Machine Works Ltd. in Winterthur some 10 percent of the workforce are apprentices. Rieter is thus also fulfilling a social responsibility. Despite the difficult business environment, Rieter is also maintaining its commitment to nurturing future generations of personnel at its locations in Germany. Trainees are given the opportunity of international exchange.

#### **European Works Council**

In Rieter's European Works Council, the "Rieter Employee Involvement Team (REIT)" formed in 1999, cooperation with corporate management in the past year was very constructive, despite differing standpoints on a number of issues. The employees' representatives from eight different European countries were able to present their concerns openly at the annual meeting. Management's arguments were received sympathetically. Mutual trust has been established and intensified over the years, due in no small measure to management's proactive information policy. Further negotiations on the extension of the agreement between the European Works Council and Rieter management are scheduled for 2003.

# Environment and safety

Environment and safety take high priority in Rieter's strategic and operational guidelines.

In 1997 the group executive committee adopted an environment and safety mission statement which is applicable to all Rieter locations worldwide. Rieter regards environmental protection and safety as integral components of its corporate policy. Specialists in the divisions and at the corporate center are pressing on with the implementation of this mission statement, supervising and verifying it worldwide.

Safety provisions encompass personnel, the industrial production processes and the products manufactured by Rieter. In-house and external specialists regularly inspect Rieter's plants for compliance with legal requirements and internal standards.

## **Environmentally compatible products**

Both divisions of Rieter systematically take the aspects of environmental compatibility and safety into account in their product development activities. In this process, consideration is given to the entire life cycle of the product.

The ComforSpin compact spinning process developed by Rieter Textile Systems facilitates more environmentally compatible yarn production in a number of respects. The further processing of yarns spun using this process can be conducted in a more environmentally friendly manner than is the case with conventional yarns, since a number of finishing processes are eliminated. Reducing energy consumption is a fundamental, major objective of Textile Systems in the development of new machines.

## **Reducing fuel consumption**

Compared with conventional systems, the Rieter Ultra Light acoustic system developed by Automotive Systems enables vehicle weight to be reduced considerably, thus lowering the vehicle's fuel consumption. Rieter Ultra Light also enables recyclability to be increased.

Innovative floor modules from Automotive Systems improve vehicles' aerodynamics, thus also enabling fuel economies to be achieved. Vehicle manufacturers using these modules can also dispense with PVC-based underfloor sealing, thus improving environmental compatibility and recyclability.

In order to ensure that products can be recycled, development work at Automotive Systems is conducted in conformity with the European Union's ELV Directive (ELV=End of Life Vehicles). Under this directive, 85% of a vehicle's total weight must be recyclable by 2006 and 95% by 2015.

## **Investments in high standards**

Both divisions made substantial investments in the environmental and safety fields during the past financial year. At its Winterthur plant, Rieter Textile Systems installed a new processing center. Manufacturing processes can now be performed in a much more environmentally friendly manner. Rieter Automotive Systems opened a recycling research and development center in France which is researching innovative solutions for the entire division. Further investments were made in recycling facilities in France, as well as in waste-free production processes in France and Germany.

At Textile Systems, the status of development in the environmental and safety fields is checked annually using a uniform system at all locations. Automotive Systems has implemented guidelines for environmental and quality policy in cooperation with customers and suppliers. These are intended to ensure that a uniformly high standard is maintained throughout the division on the basis of standards which are recognized as obligatory in the automotive industry worldwide. The implementation of the guidelines is supported by a management system. In 2002, eleven more locations were certified for compliance with ISO 14001, thus doubling the number of Automotive Systems' sites certified for compliance with this standard. Further certification projects are in progress.

# Corporate governance in the Rieter Group

The structure of this report conforms to the corporate governance guidelines of the Swiss Exchange (SWX) and the related commentary dated November 18, 2002, as well as the principles and rules of the "Swiss Code of Best Practice" issued by Economiesuisse.

## 1 Group structure and shareholders

### Group structure

The Rieter Group comprises the divisions, the corporate center and all companies controlled by Rieter Holding Ltd., including joint ventures.

The divisions conduct their business within the framework of the internal management regulations and are responsible for profitability with reference to sales and capital employed. The heads of the divisions report to the Group CEO. Detailed segmental reporting on the divisions can be found on page 53.

The corporate center comprises the central group specialist service units. The corporate center supports the board of directors, the CEO and the group executive committee in their management and supervisory functions.

More than 70 companies worldwide are members of the Rieter Group. A list of the main companies can be found on page 73. The management organization of the Rieter Group is independent of the legal structure of the group and the individual companies.

### Notifiable shareholdings/Cross-holdings

On December 31, 2002, Rieter was aware of the following shareholders and groups of shareholders with holdings in excess of 5% of all voting rights in the company: BZ Group, Wilen: 1 286 957 shares (28.2%).

There are no cross-holdings exceeding 5% between Rieter and other companies.

## 2 Capital structure

### Share capital

On December 31, 2002, the share capital of Rieter Holding Ltd. totalled 22 845 280 CHF. This is divided into 4 569 056 fully paid registered shares with a par value of 5.00 CHF each. The shares are listed on the Swiss Exchange (SWX). Each share entitles the holder to one vote at general meetings of shareholders.

Rieter has neither participation certificates nor dividend-right certificates nor convertible bonds outstanding.

### Contingent and authorized share capital

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

Rieter Holding Ltd. had no authorized capital on December 31, 2002.

### **Changes in share capital**

The annual general meeting held on May 25, 2000, approved a 2-for-1 split of the registered shares, whereupon the registered shares had a par value of 10.00 CHF each.

Share capital was increased to 4 569 056 registered shares in the 2001 financial year by the issue of 23 350 registered shares with a par value of 10.00 CHF each arising from the exercise of conversion rights from convertible bonds maturing in 2002.

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

Further information on changes in share capital can be found on page 70.

### **Restrictions on share transfers and nominee registrations**

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

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

## **3 Board of directors**

### **Directors**

The board of directors had six members on December 31, 2002.

#### **Kurt E. Feller (1937)**

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

**Rudolf Hauser (1937)**

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

**Ulrich Dätwyler (1941)**

- Non-executive, independent board member since 1994, term of office expires in 2003, member of the audit committee and the personnel committee.
- Swiss national.
- Dr. oec. HSG St. Gall; CEO of SIG Holding AG until 1996.
- Board member, Dätwyler Holding AG, Altdorf; Board member, Sarna Kunststoff Holding AG, Sarnen.

**Rainer Hahn (1940)**

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

**Peter Wirth (1946)**

- Non-executive, independent board member since 2000, term of office expires in 2003, member of the personnel committee.
- Swiss national.
- Dr. sc. techn. ETH Zurich; with Mikron Group, Biel, since 1986; CEO, Mikron Group and managing director, Mikron Holding AG, since 1991.
- Board member, Saia-Burgess Electronics AG, Murten; Member of the executive committee, Swissmem; Member of the executive committee, CECIMO (Comité Européen de Coopération des Industries de la Machine-Outil).

**Dieter Spälti (1961)**

- Non-executive, independent board member since 2001, term of office expires in 2004, member of the personnel committee.
- Swiss national.
- Dr. iur. University of Zurich; Partner, McKinsey, until 2001; Managing partner, Spectrum Value Management, Jona, since 2002.
- Board member, IHAG Holding, Zurich.

### **Inter-company relationships**

There are no reciprocal appointments to boards of directors.

### **Election and term of office**

Elections to the board of directors are staggered and directors are elected for a term of office of three years. They retire at the annual general meeting following their 70<sup>th</sup> birthday. In proposing members for election to the board of directors, attention is paid to maintaining a balanced composition of this body, taking industrial and international experience into account.

The terms of office of Dr. Ulrich Dätwyler and Dr. Peter Wirth expire at the annual general meeting to be held on May 8, 2003. Both are standing for re-election.

### **Internal organization**

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

The board of directors has the following decision-making authority:

- composition of the business portfolio and strategic thrust of the group
- organizational structure
- appointment and dismissal of the members of the group executive committee and the CEO
- organization of accounting, financial control and financial planning
- principles of financial and investment policy, personnel and social policy, management and communications
- signature regulations and allocation of authority
- principles of internal auditing
- authority and duties of the chairman and the committees of the board of directors, the CEO and the group executive committee.

The board of directors met for six regular meetings in the 2002 financial year. Three extraordinary meetings of the whole board, two meetings of the audit committee and one meeting of the personnel committee were also held. Urgent decisions were taken in telephone conferences. The agendas for the board meetings are drawn up by the chairman on the basis of proposals by the CEO. Any member of the board can also propose items for inclusion on the agenda. The board usually makes an annual visit to one group location.

The board of directors comprises the chairman, the vice-chairman and the other members. It constitutes itself. The vice-chairman deputizes for the chairman in the latter's absence. The board has formed an audit committee and a personnel committee to assist it in its work. However, decisions are made by the board of directors as a whole.

The **audit committee** currently consists of three members of the board. Its chairman is Rudolf Hauser, the other members are Kurt Feller and Dr. Ulrich Dätwyler. In the 2002 financial year Kurt Feller performed executive duties, while the other members were non-executive. The chairman is elected for one year. The audit committee meets at least twice a year. The head of internal audit, representatives of the statutory and group auditors Pricewaterhouse-Coopers AG, the CEO, the CFO and other members of the group executive committee as appropriate, also attend the meetings. The main duties of the audit committee are:

- elaborating principles for external and internal audits for submission to the board of directors and providing information on their implementation
- assessing the work of the external and internal auditors and their mutual cooperation
- assessing the reports submitted by the statutory auditors and the group auditors
- reporting to the board of directors and assisting the board in nominating the statutory auditors and the group auditors for submission to the annual general meeting
- considering the results of internal audits, approving the audit schedule for the following year, nominating the head of internal audit.

In view of the small number of directors, the entire Rieter board currently acts as the **personnel committee**. The chairman of the personnel committee is appointed by the board of directors. Kurt Feller held this position in 2002. The personnel committee meets at least once a year. It stipulates the principles for selecting members of the board of directors and prepares the election of new members of the group executive committee and their terms of employment. It establishes the principles for the remuneration of directors and top management at the Rieter Group, especially bonus programs, share purchase plans and option programs. The personnel committee is also informed about plans for senior management succession and the relevant development plans.

#### **Allocation of authority**

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

#### **Information and control instruments regarding the group executive committee**

The board of directors receives from the group executive committee a written, monthly report on the key statistics of the group and the divisions which provides information on the balance sheet, cash flow and income statement, capital expenditure and projects. The figures are compared with the budget, the previous year and competitors. Financial statements are drawn up annually and semi-annually. The board of directors is also informed at each meeting

about the course of business, important projects and risks. If the board of directors has to rule on major projects a written proposal is provided to directors prior to the meeting. The members of the audit committee receive the internal audit reports. The external auditors and the internal audit have access to the minutes of the meetings of the board of directors and the group executive committee.

#### 4 Group executive committee

The group executive committee had four members on December 31, 2002: the CEO, the heads of the two divisions and the CFO.

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

- Chief executive officer (CEO).
- German national.
- Dipl. Wirtschaftsingenieur Technische Universität Darmstadt; 1981–1997, Robert Bosch GmbH, Stuttgart; member of Rieter's group executive committee since 1997, in his present function since 2002.

##### **Peter Gnägi (1954)**

- Head of the Textile Systems division.
- Swiss national.
- Dipl. Masch. Ing. ETH Zurich; Alusuisse AG, Zurich; Mettler Instrumente AG, Stäfa; with Rieter since 1990, in his present function since 2002.

##### **Erwin Stoller (1947)**

- Head of the Automotive Systems division.
- Swiss national.
- Dipl. Masch. Ing. ETH Zurich; with Rieter since 1978, member of the group executive committee since 1991, head of the Spinning Systems division 1991–1996, head of the Textile Systems division 1996–2002, in his present function since 2002.
- Director, Bucher Industries AG, Niederweningen.
- Member of the executive committee, Swissmem.

##### **Hans Rudolf Widmer (1943)**

- Chief financial officer.
- Swiss national.
- Dr. iur. University of Zurich, MBA Wharton School, University of Pennsylvania; Union Bank of Switzerland, Zurich; Jacobs Suchard AG, Zurich; with Rieter (in his present function) since 1991.
- Member of the Swiss Exchange (SWX) Panel of Experts on Accounting Issues.

##### **Management contracts**

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

## 5 Remuneration, equity participation and loans

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

The basic features of salary policy are elaborated by the personnel committee and adopted by the board of directors as a whole, which also approves the bonus program, the share purchase plan and the option plan. The board of directors approves the remuneration of the members of the board of directors and the group executive committee on the basis of proposals submitted by the personnel committee.

Senior management personnel in the group are remunerated according to the principle of flexible, performance-related compensation. Their remuneration consists of a basic salary, a performance-related component in the context of the bonus plan and the opportunity to participate in the share purchase plan, which applies to the entire top level of group management – a total of 123 personnel. The members of the group executive committee also participate in an option plan. The performance-related component is based on the operating earnings achieved by the unit in question, consolidated net profit and the return on net average assets (Rona), as well as organic growth.

### Share purchase plan

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

### Option plan for the group executive committee

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

Details of the option plan can be found on page 23.

### Remuneration of serving directors and officers

The members of the board of directors receive a fixed annual remuneration. Half of this amount is disbursed in the form of Rieter shares which cannot be sold for three years. The cash remuneration of non-executive members of the board of directors in the 2002 financial year totalled 270 000 CHF.

In the 2002 financial year cash remuneration totalling 4 097 000 CHF was disbursed to the executive member of the board of directors and the members of the group executive committee, including those who left the company in the course of the year. This sum comprises the basic salary (including all employer's contributions to pension funds in excess of obligatory amounts, excluding employer's contributions to state social security funds) and the bonus for 2001, which was disbursed in 2002.

### Remuneration of former directors and officers

No remuneration was disbursed to former directors and officers.

### Shares allotted in the year under review

The non-executive directors received 835 Rieter registered shares in the 2002 financial year in the context of the share purchase plan. None of the shares acquired by directors in the context of the share purchase plan can be sold for three years.

### Shareholdings

The non-executive directors held 7 145 Rieter shares on December 31, 2002. The executive director and the members of the group executive committee held 15 641 shares. These figures include the shareholdings of the individuals in question, their spouses and minor children. 11 530 of these shares cannot be sold for three years.

### Options

The executive director and the members of the group executive committee were allotted a total of 2 927 options in the context of the option program in the 2002 financial year. No options were exercised, and no options expired.

Summary of option holdings:

Issued	Number of options	Strike in CHF	Restriction period start	Restriction period end
2000	2 824	471.50	2002	2005
2001	4 071	419.00	2003	2006
2002	2 927	352.00	2004	2007
<b>Total options</b>	<b>9 822</b>			

### Additional fees and payments

No additional fees or other payments in terms of the SWX guidelines were disbursed to members of the board of directors or the group executive committee in 2002.

### Loans to directors and officers

No loans have been provided to members of the board of directors or the group executive committee.

### Highest total remuneration

The highest cash remuneration paid to an executive member of the board of directors in the 2002 financial year was 739 000 CHF. This amount includes the 2001 bonus and employer's contributions to the pension fund in excess of obligatory amounts, and excludes contributions to state social security funds. 446 options were also allotted to this director.

## 6 Shareholders' participatory rights

### Voting restrictions

Rieter imposes no voting restrictions.

### Statutory quorum

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

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

General meetings of shareholders are called in writing by the board of directors at least 20 days prior to the event, with details of the agenda, pursuant to §8 of the articles of association.

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

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

### Entries in the shareholders' register

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

## 7 Change of control and defensive measures

### Obligation to submit an offer

The legal provisions in terms of Art. 22 BEHG (Bundesgesetz über die Börsen und den Effektenhandel – Swiss Exchanges and Securities Trading Act) are applicable. This states that a shareholder or a group of shareholders acting in concert who hold more than 33 $\frac{1}{3}$  percent of all shares must submit a takeover offer to the other shareholders.

### Change of control clauses

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

## 8 Auditors

### Duration of mandate and term of office of the lead auditor

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

### Audit fees and additional fees

PWC, KPMG and other auditors charged the Rieter Group approximately 3.1 million CHF for services in connection with auditing the annual financial statements of the group companies and Rieter's consolidated accounts in the 2002 financial year. PWC, KPMG and other auditors invoiced some 2.1 million CHF for additional services. 0.1 million CHF of this total was for services closely related to the audit (e.g. assistance with acquisitions), 1.2 million CHF for tax consulting and 0.8 million CHF for other services.

### Supervisory and monitoring instruments regarding the auditors

The audit committee of the board of directors makes an annual assessment of the performance, fees and independence of the statutory and group auditors. It submits a proposal to the annual general meeting regarding who should be elected as statutory and group auditors. Further information on auditing can be found in Section 3.

## 9 Information policy

Rieter maintains regular, open communication with the company's shareholders. They are informed through the medium of letters to shareholders about the group's annual financial statements and semi-annual results. Price-relevant events are publicized in accordance with the ad hoc publicity requirements of the Swiss Exchange (SWX). The annual report is available in printed form and on the Internet at [www.rieter.com](http://www.rieter.com). Press releases for the public, financial and industrial media are also available on this website. Press conferences and meetings with analysts are held at least once a year. The board of directors and the group executive committee provide information on the annual accounts and the course of business at the company, as well as answering shareholders' questions, at the annual general meeting.

Important dates:

- Annual general meeting	May 8, 2003
- Disbursement of dividends to the shareholders	May 14, 2003
- Semi-annual report 2003	End of August 2003
- Results press conference	End of March 2004
- Annual general meeting	Beginning of May 2004

The exact dates are published at [www.rieter.com](http://www.rieter.com).

## Divisional chief executive

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**Peter Gnägi** (since July 1, 2002)

## Orders received

---

1 131.9 (954.6) million CHF

## Sales

---

1 108.2 (1 238.5) million CHF

## Operating result before interest and taxes

---

94.3 (97.9) million CHF  
8.9% (8.5%) of corporate output

## Number of employees at year-end

---

4 520 (4 675) employees

## Capital expenditure

---

22.8 (32.2) million CHF

Previous year's figures are in brackets.

## Products

---

Machines, systems, technology components and service offerings for processing fibers and plastics into yarns, nonwovens and pellets.



**“Textile Systems took full advantage of the favorable economic conditions with attractive products and a strong market position. Orders received by the division increased to 1 132 million CHF, equivalent to growth of 18.6% compared with the previous year. This growth was entirely organic.**

**The operating result before interest and taxes was 94.3 million CHF (97.9 million CHF in 2001). This is equivalent to 8.9% of corporate output (8.5% in 2001), which exceeded the high figures of the previous two years, despite the decline in sales.”**

## Sharp rise in order intake and operating margin improved to 8.9%

Rieter Textile Systems recorded a sharp rise in orders received in the 2002 financial year.

With an attractive product range, the division took full advantage of the upturn on the world market for staple fiber machinery which commenced in the spring. By contrast, sales declined as a result of the slump in the market in the autumn of 2001. By maintaining pricing discipline and cost management, Textile Systems improved on the healthy operating margins recorded in the two previous years, despite the decline in sales.

Rieter Textile Systems is the leading supplier of integrated systems for manufacturing yarns from natural and man-made fibers for all applications. Rieter Textile Systems is the world's only supplier of products and technology covering the entire spinning process and can therefore develop optimal solutions for customers. Textile Systems is also a leading manufacturer of machinery and systems for producing and finishing continuous man-made yarns. These yarns are used in industrial applications, carpet manufacturing, textiles and the electronics industry. Rieter Textile Systems supplies technologies for producing nonwovens, a segment with numerous applications ranging from the industrial to the medical sector. For the plastics industry, the division develops and produces systems for manufacturing pellets – which are used, for example, for the production of PET bottles, as well as being processed further into fibers.

### **Strong position as supplier of technology components**

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

### **Sharp rise in order intake**

The world market for textile machinery was characterized by wide fluctuations in the 2002 financial year. Following the slowdown in economic activity in the autumn of 2001, demand for staple fiber machinery remained subdued at the beginning of the year. Staple fiber machinery is Rieter Textile System's largest product segment, including machines for processing cotton fibers and fiber blends into yarns. A steep upswing commenced in the spring, driven mainly by the Chinese and Turkish markets. Demand continued at a healthy level in the second half of 2002. The market for man-made fiber machinery was still characterized by excess capacity worldwide, and only began to show slight signs of revival towards year-end. The nonwovens sector also benefited with new technologies from the revival in demand in the final quarter.

Textile Systems took full advantage of the favorable business environment with an attractive range of products and a strong market position. Orders received by the division rose to 1 132 million CHF, equivalent to an increase of 18.6% compared with the previous year. This growth was entirely organic. Sales were lower in the first half of 2002 due to weak demand in the autumn of 2001; they then rose sharply in the second half. They totalled 1 108 million CHF for the 2002 financial year, equivalent to a decline of 10.5% compared with the previous year. Exchange rate fluctuations had a negative impact of 1.0% and 1.4%, respectively, on order intake and sales.

### **Operating margin increased from 8.5% to 8.9%**

The operating result before interest and taxes declined slightly compared with 2001 to a figure of 94.3 million CHF (97.9 million CHF in 2001). This is equivalent to 8.9% of corporate output (8.5% in 2001), which thus exceeded the high figures recorded in the previous two years, despite lower sales. This excellent outcome was achieved due to a product range which was well received by customers, flexibility in manufacturing operations, healthy capacity utilization in the second half of the year, pricing discipline and strict cost management.

### Sales development

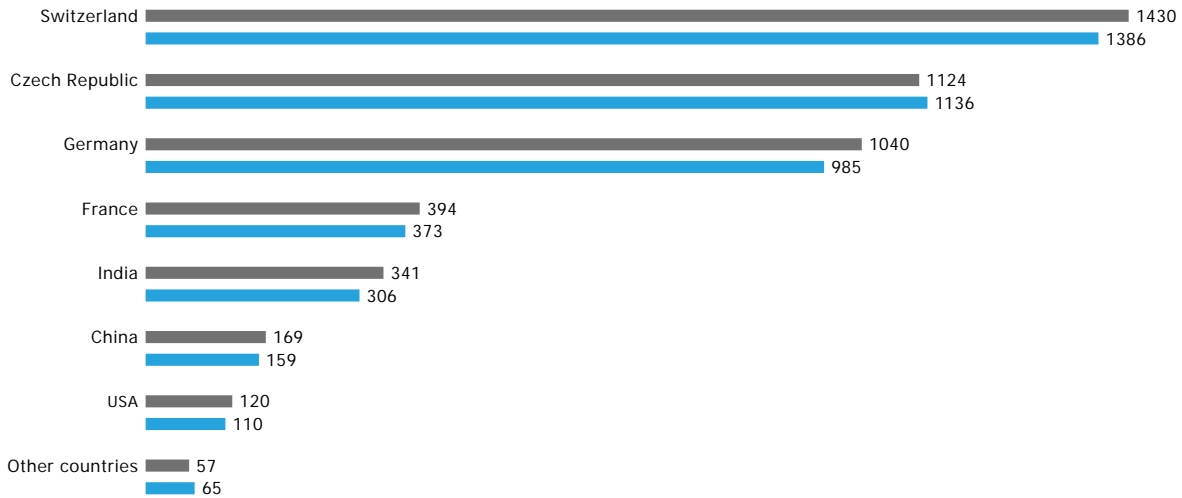
CHF million



Orders received totalled 1131.9 million CHF in the year under review (vs. 954.6 million CHF in 2001).

### Number of employees at year-end

— 2001 total 4675  
— 2002 total 4520



### Successful new products

In 2002 Rieter successfully launched a new integrated system for manufacturing rotor yarns under the name of the Rieter Rotor System. This system was introduced to the market within a short time and received strong interest from customers. It comprises the new C 60 high-performance card, the SB-D15 and RSB-D 35 drawframes and the R 40 rotor spinning machine, and enables high-quality rotor yarns to be manufactured with high productivity and shorter processes. Each of these machines is the most productive on the world market in its segment.

Rieter Textile Systems' compact spinning machines are enjoying heavy demand. Yarns produced using this spinning process have outstanding properties and help Rieter customers to gain a decisive competitive edge. These yarns are gaining acceptance as standard quality in Europe and are establishing themselves on the market worldwide.

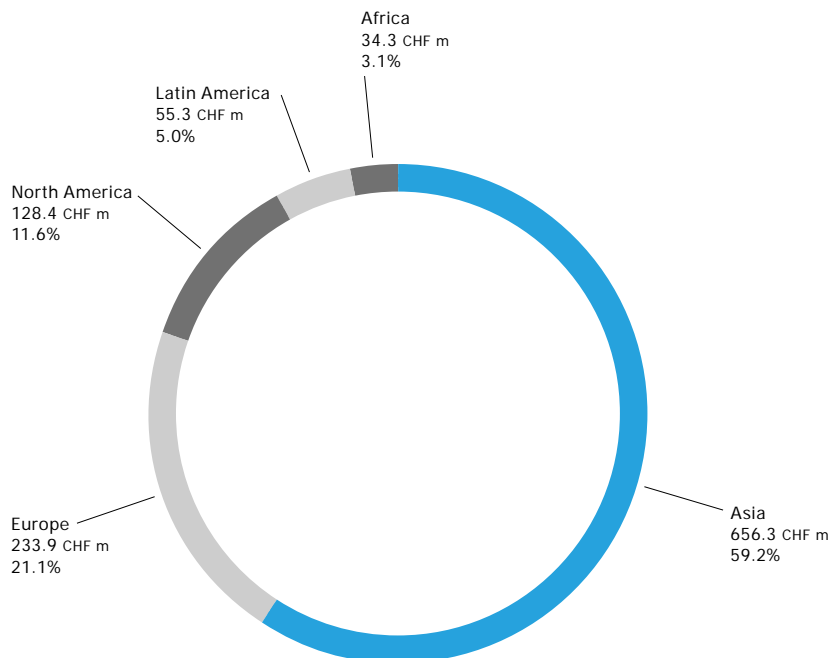
The units of the German-based Suessen Group acquired by Rieter in the spring of 2001 were rapidly integrated and are contributing to the reinforcement of Rieter Textile Systems' market position and innovative thrust. Since acquiring these units Rieter Textile Systems has become one of the world's largest suppliers of technology components, upgrades and service offerings for staple fiber machines. This sector also developed positively in the past year. In contrast to the machinery business, it is less affected by the fluctuations in demand, which are typical of the industry, because this business provides continuous upgrade service offerings.

In the 2002 financial year, the Suessen companies wholly owned by Rieter had a positive impact on the earnings of Textile Systems. Suessen's parent company, in which Rieter holds an interest of 19%, has been rapidly restructured. Rieter has an option to acquire the remaining share capital in stages following restructuring and refocusing.

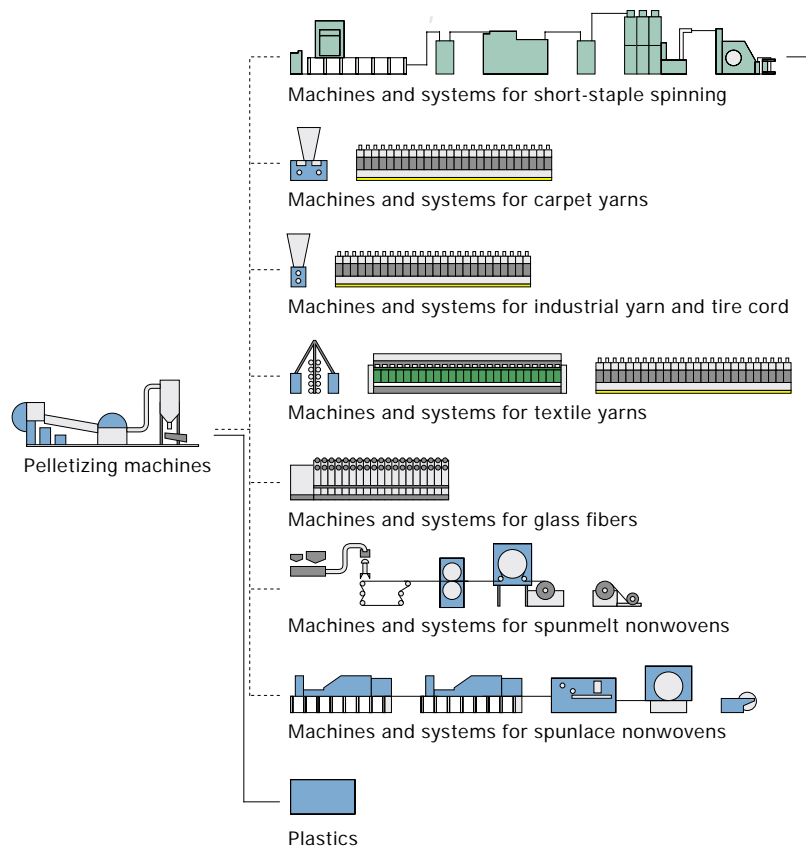
**Successful involvement in the Czech Republic**

Major steps in innovation have been made to enhance productivity and quality in the case of the rotor spinning machines manufactured in the Czech Republic. A new process for manufacturing stretch yarns was launched on the market under the "Rotona" trademark in 2002. This machine enables production costs to be reduced and processes to be shortened. Rieter is the world's only supplier to have this type of machine in its product range. The manufacture of components and subassemblies for Textile Systems in the Czech plants also reached new peak levels.

**Sales by geographical region 2002**



Machines, components and systems for the textile industry



**Further potential for improvement in man-made fiber machinery**

The integration of the units acquired from ICBT in 2000 was completed in 2002. With these companies Rieter Textile Systems gained access to strategically important market segments in the man-made fiber business and for nonwoven production machines. The earnings trend of the division has been depressed both by integration and restructuring costs for these units and by subdued markets. A technological breakthrough has been achieved with the nonwoven machines in the field of the melt blown process. This provides potential growth and earnings potential for Textile Systems in future.

Rieter Textile Systems has expanded its Shanghai-based distribution company in order to intensify its activities on the important Chinese market. The production plant for man-made fiber machinery in Changzhou, Jiangsu Province, has also been expanded. Textile Systems has opened a sales office in Urumqi, in the west of the country, which is a major center of the Chinese textile industry.



## Divisional chief executive

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**Erwin Stoller** (since August 1, 2002)

## Sales

---

1 848.2 (1 899.9) million CHF

## Operating result before interest and taxes

---

109.6 (102.0) million CHF

6.1% (5.5%) of corporate output

## Number of employees at year-end

---

8 336 (8 180) employees

## Capital expenditure

---

109.8 (96.7) million CHF

Previous year's figures are in brackets.

## Products

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Systems, products, services and know-how for acoustic comfort and thermal insulation in motor vehicles, based on fibers, plastics and metals; design, styling and engineering services.



**“Automotive Systems increased its earning power in 2002. The operating result before interest and taxes rose to 109.6 million CHF (102.0 million CHF in 2001), equivalent to 6.1% of corporate output (5.5% in 2001). This positive trend was due to the programs initiated in previous years to enhance productivity and to increase capacity utilization in North America.”**

## Positive trend in earning power

Rieter Automotive Systems recorded higher sales in local currencies in the 2002 financial year, despite the adverse business environment in major European markets. This growth is attributable especially to the division's broadly diversified customer base worldwide and its innovative products. Automotive Systems posted an increase in operating results and margins due to action taken to improve profitability.

Rieter Automotive Systems is one of the world's largest manufacturers of systems for acoustic comfort and thermal insulation in motor vehicles. By virtue of its core competences of acoustic and thermal management in motor vehicles, Automotive Systems is a leading supplier of products and acoustic systems for the passenger compartment, the luggage compartment, the underfloor and the engine compartment. Rieter develops innovative solutions and products under contract to and in close cooperation with all major automotive manufacturers worldwide. Automotive Systems maintains ten acoustics laboratories and one-half dozen centers of excellence for material, product and module development worldwide with a total of more than 300 research and development specialists. Automotive Systems operates some forty production plants in Europe, North and Latin America and Africa. It also has cooperative ventures with partners for the markets in Japan and other Asian countries.

### **Innovative noise and heat protection systems**

The systems, modules and components developed by Automotive Systems contribute to noise and weight reduction as well as the heat insulation of passenger cars and commercial vehicles. They enhance driving comfort and reduce fuel consumption. Environmentally friendly manufacturing and recyclability take high priority in product development.

### **Subdued economic activity in Europe, strong US market**

Trends in vehicle output in Rieter Automotive Systems' two main markets – Western Europe and the Nafta region – diverged in 2002. Compared with the previous year, the production of passenger cars in Western Europe declined by 1.9% to some 16.5 million vehicles as a result of subdued economic activity. Contrary to forecasts at the start of the year, production of passenger cars and light trucks in the Nafta region rose by 5.7% to 16.4 million vehicles. This increase was mainly due to the use of sales incentives such as cash rebates and low-interest leasing offers by the manufacturers. In 2002 the Japanese and several of the European manufacturers gained market share in North America at the expense of Ford and DaimlerChrysler. By contrast, General Motors increased output by 10.2% compared with the previous year. Output in South America was 7.5% lower at 1.9 million vehicles, thus falling well below the level of the previous year, which had already been weak.

### **Sustained boom in vans and off-road vehicles**

The light truck category, which in addition to vans and pickups also includes sport utility vehicles (SUVs), continued to be very popular in North America. More light trucks than passenger cars were sold for the first time in the Nafta region. The market for conventional passenger cars in Europe also declined relative to the "lifestyle" segment. Model diversity is growing rapidly worldwide, calling for high levels of innovation and flexibility on the part of suppliers, with development lead times becoming progressively shorter.

### **Growth in local currencies and higher operating earnings**

Automotive Systems posted sales growth of 3.3% in local currencies. This growth was entirely organic. Sales at Rieter Automotive Systems expressed in CHF were slightly lower in the 2002 financial year due to the negative impact of exchange rate fluctuations. Sales totalled 1 848 million CHF, equivalent to a decline of 2.7% compared with the previous year. Sales growth in Western Europe exceeded that of the market as a whole. In America, the division benefited from healthy vehicle sales, recording an increase in sales corresponding to the growth of the market as a whole.

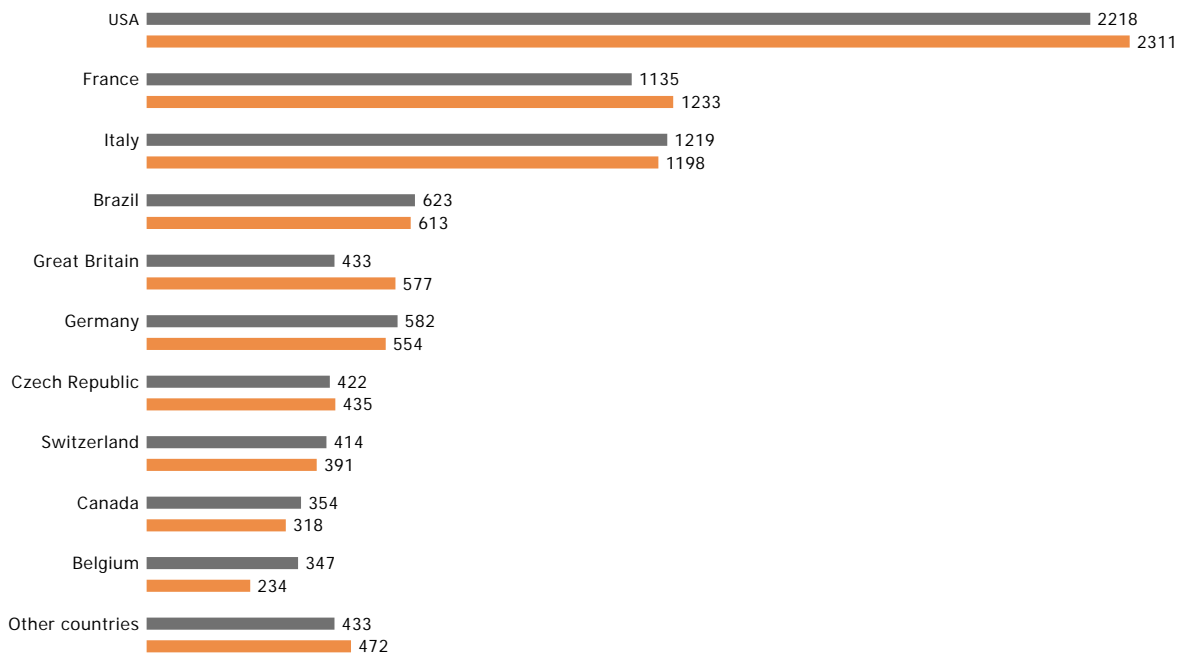
**Sales development**

CHF million

**Number of employees at year-end**

— 2001 total 8180

— 2002 total 8336



Automotive Systems' earning power increased in the 2002 financial year. The operating result before interest and taxes increased to 109.6 million CHF (102.0 million CHF in 2001), equivalent to 6.1% of corporate output (5.5% in 2001). This positive trend was due to the programs initiated in previous years to improve productivity and to increase capacity utilization in North America.

**Cost and quality management**

Car manufacturers are continuing to exert unrelenting pricing pressure on suppliers. Rieter Automotive Systems is meeting this challenge by continuously implementing programs to improve processes and project management, to make production more flexible and to reduce costs. In addition to applying general methods of value analysis, Rieter Automotive Systems conducts regular Kaizen workshops in its plants. This method of continuous process improvement, which originated in Japan, involves mixed teams – independent of everyday activities and hierarchies – seeking simple, practicable solutions. The themes of the Kaizen workshops in 2002 involved various aspects of development and manufacturing. The division also employs e-business solutions in the context of its global procurement strategy to realize additional cost-cutting potential.

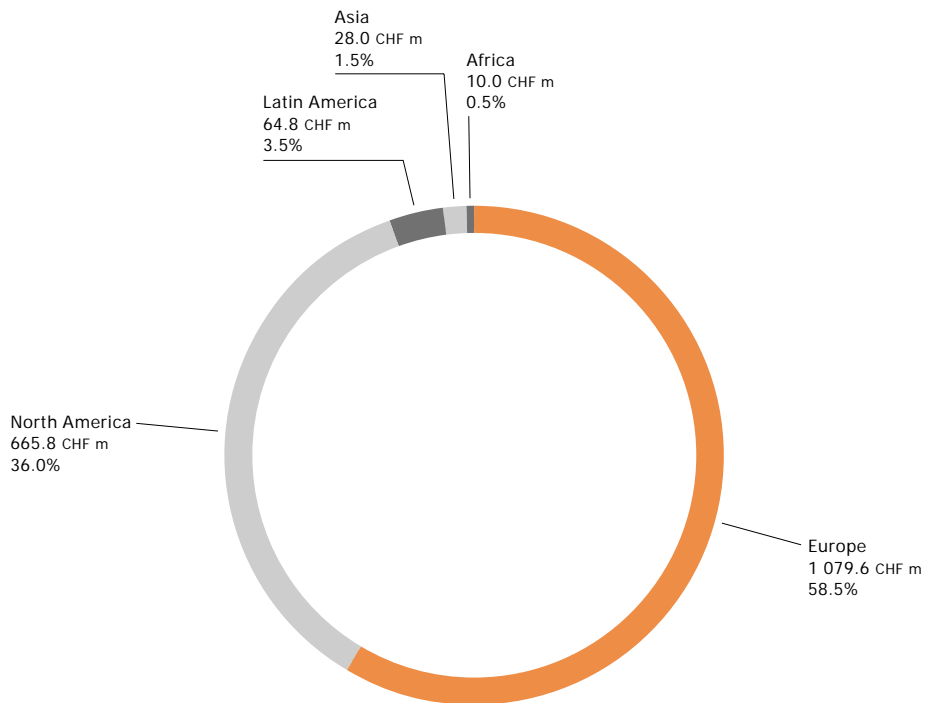
**Magee Rieter again received GM's "Supplier of the Year" award**

Additional Automotive Systems' plants were certified for compliance with environmental, safety and quality standards in 2002. Eleven more locations were awarded the ISO 14001 certificate. US joint venture Magee Rieter received the "Supplier of the Year" quality award from General Motors for the tenth successive year. Only three companies worldwide have demonstrated this remarkable level of consistency in performance to date.

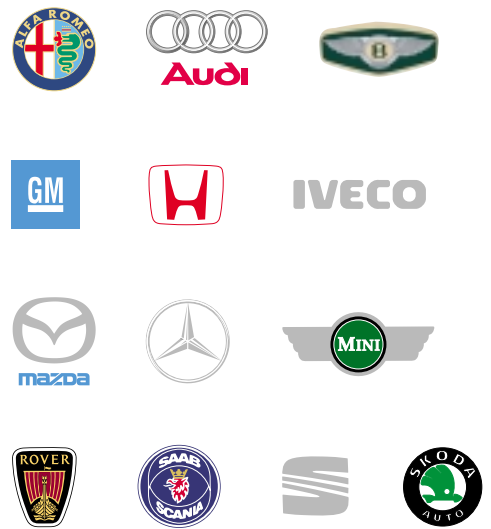
**Successful innovations**

Rieter Automotive Systems worked intensively on further innovations in systems, products and material combinations in 2002. Further applications were developed for the Rieter Ultra Light acoustic system, which enables weight to be reduced considerably in conjunction with high acoustic performance. Rieter Ultra Light is establishing itself on the market and is now also in demand from Japanese manufacturers in particular.

**Sales by geographical region 2002**



### All major vehicle manufacturers are Rieter customers



Further progress has also been made in the development of the new underfloor module, which features outstanding aerodynamic properties. This innovation secured new orders for Automotive Systems in European and American models.

Idea Institute, the Italian design, styling and engineering firm in which a majority holding was acquired in 2000, has been a wholly-owned subsidiary of the Rieter Group since July 1, 2002. Through its cooperation with Idea Institute, Rieter Automotive Systems has expanded the scope of its offering and reinforced its market position. In joint contacts with customers, Idea supports Rieter Automotive in implementing its strategy of operating as an acoustic integrator. Idea Institute possesses extensive know-how in the development of vehicles for emerging economies and also works for the Chinese market, which is regarded as having major potential for the future.



#### Exploiting advantages of location

In order to follow its customers' geographical expansion, cut costs and make its manufacturing operations more flexible, Automotive Systems is expanding in low-wage countries such as the Czech Republic and Poland. In 2002, the division enlarged its plant in Poland and continued to transfer individual production lines from Western European locations to Eastern Europe. Rieter's locations in the Czech Republic and Poland are utilized not only for manufacturing but also for engineering services (for example development work in tooling).

#### Investments in new production facilities

The Magee Rieter joint venture opened a plant in Canada for the production of carpet systems in 2002. The UGN joint venture, which supplies Japanese customers in North America, has also established a production location in Jackson, Tennessee.

As announced at the beginning of 2003, Rieter has increased its holding in Spanish automotive supplier Saifa-Keller to 50% and at the same time assumed responsibility for industrial management. Rieter Automotive Systems has thus reinforced its presence in Europe's third-largest national market. This company, now trading as Rieter Saifa, posted sales of some 65 million CHF with about 400 employees in 2002. It will be fully consolidated as from January 1, 2003.

### Outlook

Rieter Automotive Systems will pursue further developments in the product groups of carpet and acoustic systems (Rieter Ultra Light), thermal management and underfloor systems in the current year. Rieter believes that vehicle production in its main markets in 2003 will be lower than in the previous year due to the rather subdued economic trend. In view of the first-time consolidation of Rieter Saifa (sales of some 45 million Euro) and launches of new models featuring Rieter products, we believe that the previous year's sales level can almost be equalled in the current year. Automotive Systems is intensifying its cost-cutting efforts in order to counteract customers' sustained pressure on prices. At the same time the improvement processes aimed at enhancing productivity are being pursued with undiminished energy.

### Sales by product group

— 2001 total 1899.9 CHF million  
— 2002 total 1848.2 CHF million

