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Sales and corporate output in the year under review did not reach the previous year's levels, since the low order intake in the textile machinery business in the autumn of 2001 resulted in declining sales at Textile Systems. Automotive Systems achieved organic growth of 3.3% at constant exchange rates, while sales at current exchange rates were slightly lower. Mainly in North America sales were higher at constant exchange rates. Exchange rate fluctuations, especially the decline in value of the US dollar and the Euro, had a negative impact on the sales trend compared to the CHF. The currency-related decline in sales was around 4%, so that sales at constant exchange rates were only 2% lower than the previous year's figure. Nevertheless, sales of 2 976 million CHF were the second-highest in Rieter's history. Sales by Textile Systems in Asia were higher, while those in the other regions of the world declined.

The operating result before interest, taxes, depreciation and goodwill amortization (EBITDA) was equal to the previous year's outcome at 11.1% of corporate output.

At 200.9 million CHF, the operating result before interest and taxes (EBIT) was maintained at the previous year's level, despite the difficult business environment. It improved from 6.7% to 7.0% as a proportion of corporate output. Textile Systems' again performed well in achieving an operating return of 8.9% (8.5% in 2001). Continued strict cost management and deliveries in the second half of the year 40% higher than in the first half of the year were decisive elements in this successful outcome. Automotive Systems improved its operating return to 6.1% (5.5% in 2001). Improved capacity utilization in North America and cost-cutting efforts resulted in higher earnings.

The trend on the international equity markets resulted in clearly negative net financial income in the year under review. The loss of 30 million CHF recorded under securities and other financial income includes a valuation adjustment for the marketable securities available for sale in compliance with IAS 39. The financial results and the regionally uneven distribution of operating earnings had an unfavorable influence on the tax charge, which increased by 13% to 69.9 million CHF. Due mainly to negative financial income and the higher tax charge, net profit declined by 27.4 million CHF to 83.8 million CHF, equivalent to 2.9% of corporate output (3.7% in 2001).

Total assets were reduced by 5% to 2 224 million CHF. Both the 50 million CHF reduction in net working capital and the 55 million CHF decline in fixed assets contributed to this favorable development. Bank debt was reduced by 13 million CHF to 117 million CHF. A further reduction in debt of 65 million CHF was achieved by the repayment of 139.9 million CHF of convertible bonds compared to a 75 million CHF increase – to 200 million CHF – in the existing issue of 4% bonds maturing in 2007. Shareholders' equity on December 31 amounted to 873.3 million CHF (907.8 million in 2001), which was equivalent to 39.3% of total assets (39.0% in 2001). The equity ratio is within the target range of 35–40%.

Lower net profit also had a negative impact on cash flow of 205.4 million CHF, which was 17% lower than in the previous year. By contrast, free cash flow was more than 60% higher at 100.2 million CHF. Net liquidity – liquid funds less interest-bearing liabilities – improved by some 62 million CHF to +15.0 million CHF. Lower net debt and the higher equity ratio highlight the fact that the Rieter Group again achieved its goal of financial stability in the year under review.

Consolidated income statement

| | Notes ¹ | 2002 CHF million | %* | 2001 CHF million | %* |
|----------------------------------------------------------------------------------------|--------------------|---------------------|--------------|---------------------|--------------|
| Sales | (1) | 2 976.2 | | 3 170.2 | |
| Sales deductions | | -116.3 | | -129.9 | |
| Change in semi-finished and finished goods | | 9.5 | | -18.0 | |
| Own work capitalized | | 2.8 | | 3.1 | |
| Corporate output | | 2 872.2 | 100.0 | 3 025.4 | 100.0 |
| Material costs | | -1 270.4 | 44.2 | -1 358.6 | 44.9 |
| Employee costs | (2) | -878.4 | 30.6 | -889.8 | 29.5 |
| Operating expense | | -404.6 | 14.1 | -439.9 | 14.5 |
| Operating result before interest, taxes, depreciation and amortization (EBITDA) | | 318.8 | 11.1 | 337.1 | 11.1 |
| Depreciation and amortization | (3) | -117.9 | 4.1 | -133.2 | 4.4 |
| Operating result before interest and taxes (EBIT) | | 200.9 | 7.0 | 203.9 | 6.7 |
| Financial expense | | -28.0 | | -28.9 | |
| Financial income | (4) | -16.0 | | 0.4 | |
| Other expenses/income | | -3.2 | | -2.1 | |
| Profit before taxes | | 153.7 | 5.3 | 173.3 | 5.7 |
| Taxes | (5) | -69.9 | | -62.1 | |
| Net profit | | 83.8 | 2.9 | 111.2 | 3.7 |

* as a % of corporate output

| | | | | | |
|-----------------------------------------------------------------------------------------|--|--------------------|--|--------------------|--|
| Minority shareholders' interest in net profit | | -14.8 | | -18.0 | |
| Net profit after deduction of minority interests | | 69.0 | | 93.2 | |
| Earnings per share | | | | | |
| – average number of outstanding registered shares 2002: 4 071 343 | | 16.95 ² | | 22.85 ² | |
| Earnings per share, including the shares reserved for the board | | | | | |
| – average number of registered shares in 2002, including conditional capital: 4 793 655 | | 14.39 ² | | 19.85 ² | |

¹ The numbers in this column refer to the comments in the notes (commencing on page 57).

² Shares held by the company are not included in the average number of shares.

Consolidated balance sheet

| | | December 31 2002 | December 31 2001 |
|---------------------------------------------------------------|-------|---------------------|---------------------|
| | Notes | CHF million | CHF million |
| Assets | | | |
| Tangible fixed assets | (7) | 639.9 | 682.4 |
| Investments | | 58.7 | 62.1 |
| Long-term receivables | | 49.9 | 42.5 |
| Goodwill | (8) | 159.5 | 168.6 |
| Other receivables and rights | (9) | 82.1 | 89.3 |
| Fixed assets | | 990.1 | 1 044.9 |
| Liquid funds | (10) | 295.4 | 321.0 |
| Trade receivables | (11) | 474.6 | 519.4 |
| Other receivables | | 154.2 | 138.8 |
| Inventories | (12) | 309.3 | 304.6 |
| Current assets | | 1 233.5 | 1 283.8 |
| Assets | | 2 223.6 | 2 328.7 |
| Shareholders' equity and liabilities | | | |
| Share capital | | 22.8 | 45.7 |
| Share premium account (capital reserve) | | 27.5 | 27.2 |
| Group reserves | | 754.0 | 741.7 |
| Net profit for the year after deduction of minority interests | | 69.0 | 93.2 |
| Shareholders' equity | | 873.3 | 907.8 |
| in % of total shareholders' equity and liabilities | | 39.3% | 39.0% |
| Minority interests | (13) | 66.6 | 82.4 |
| Trade payables | | 340.4 | 313.5 |
| Advance payments by customers | | 116.9 | 105.6 |
| Short-term bank borrowings | | 53.5 | 69.5 |
| Bonds | (14) | 0.0 | 139.9 |
| Other short-term liabilities | (15) | 278.2 | 272.2 |
| Current liabilities | | 789.0 | 900.7 |
| Loans from banks | | 63.3 | 59.8 |
| Bonds | (14) | 200.0 | 125.0 |
| Deferred taxes | (5) | 44.6 | 47.0 |
| Provisions | (16) | 170.9 | 186.1 |
| Other long-term liabilities | | 15.9 | 19.9 |
| Long-term liabilities | | 494.7 | 437.8 |
| Liabilities | | 1 283.7 | 1 338.5 |
| Shareholders' equity and liabilities | | 2 223.6 | 2 328.7 |

Consolidated statement of cash flows

| | Notes | 2002 CHF million | 2001 CHF million |
|-------------------------------------------------------------------------|-------|---------------------|---------------------|
| Net profit | | 83.8 | 111.2 |
| Depreciation of tangible fixed assets | | 108.6 | 123.7 |
| Amortization of goodwill/financial assets | | 13.0 | 11.2 |
| Cash flow | | 205.4 | 246.1 |
| Minority interests in profits | | -14.8 | -18.0 |
| Change in provisions | | -17.7 | -11.3 |
| Accruals | | -7.5 | 57.6 |
| Change in inventories | | -4.7 | 18.2 |
| Change in trade receivables | | 44.8 | 31.7 |
| Change in trade payables | | 26.9 | -49.5 |
| Change in other liabilities, other assets | | 8.0 | -26.4 |
| Cash provided by operations | | 240.4 | 248.4 |
| Capital expenditure | | -133.6 | -129.7 |
| Disposals of tangible fixed assets | | 12.7 | 17.9 |
| Investments | | -29.2 | -66.6 |
| Disposals of investments | | 22.5 | 7.0 |
| Changes in the scope of consolidation | (17) | -12.6 | -16.3 |
| Cash used for investing activities | | -140.2 | -187.7 |
| Free cash flow | | 100.2 | 60.7 |
| Dividend paid to shareholders of Rieter Holding Ltd. | | -14.6 | -35.3 |
| Increase in share capital/capital repayment | | -22.9 | 10.1 |
| Change in holding of own shares | | -2.0 | -50.5 |
| Change in marketable securities | | -1.1 | -17.8 |
| Change in minority interests | | -15.8 | 7.6 |
| Change in short-term bank borrowings | | -15.9 | -55.3 |
| Change in short-term, interest-bearing liabilities | | -0.9 | -17.1 |
| Change in long-term loans from banks | | 3.4 | -20.1 |
| Change in bonds issued | | -64.9 | 25.0 |
| Change in other long-term liabilities | | -1.6 | 4.3 |
| Cash provided by financing activities | | -136.3 | -149.1 |
| Changes in bases of valuation, currency effects and consolidation items | | 10.5 | -8.6 |
| Change in liquid funds | | -25.6 | -97.0 |
| Liquid funds at beginning of year | | 321.0 | 418.0 |
| Liquid funds at end of year | | 295.4 | 321.0 |
| Interest paid | | 25.7 | 27.2 |
| Taxes paid | | 68.6 | 73.9 |
| Interest income | | 8.7 | 8.4 |
| Dividends received | | 1.8 | 3.1 |

Changes in the scope of consolidation are stated as a total figure, and not in the individual items (Note 17).

Changes in consolidated equity

| | Share capital CHF million | Share premium account CHF million | Group reserves CHF million | Net profit for the year CHF million | Total CHF million |
|-------------------------------------------------------------------------|------------------------------|--------------------------------------|-------------------------------|----------------------------------------|----------------------|
| At December 31, 2000 | 45.5 | 46.0 | 699.2 | 128.9 | 919.6 |
| Change in accounting principles according to IAS, Financial instruments | 0.0 | 0.0 | 35.5 | 0.0 | 35.5 |
| Dividend payment | 0.0 | 0.0 | 0.0 | -35.3 | -35.3 |
| Appropriation of profit | 0.0 | 0.0 | 93.6 | -93.6 | 0.0 |
| At January 1, 2001 | 45.5 | 46.0 | 828.3 | 0.0 | 919.8 |
| Currency effects, other | 0.0 | 0.0 | -11.5 | 0.0 | -11.5 |
| Net profit after deduction of minority interests | 0.0 | 0.0 | 0.0 | 93.2 | 93.2 |
| Own shares | 0.0 | -28.7 | -21.8 | 0.0 | -50.5 |
| Increase in share capital | 0.2 | 9.9 | 0.0 | 0.0 | 10.1 |
| Change in marketable securities available for sale | 0.0 | 0.0 | -53.3 | 0.0 | -53.3 |
| At December 31, 2001 | 45.7 | 27.2 | 741.7 | 93.2 | 907.8 |
| Dividend payment | 0.0 | 0.0 | 0.0 | -14.6 | -14.6 |
| Capital repayment | -22.9 | 0.0 | 0.0 | 0.0 | -22.9 |
| Appropriation of profit | 0.0 | 0.0 | 78.6 | -78.6 | 0.0 |
| At January 1, 2002 | 22.8 | 27.2 | 820.3 | 0.0 | 870.3 |
| Currency effects, other | 0.0 | 0.0 | -62.9 | 0.0 | -62.9 |
| Net profit after deduction of minority interests | 0.0 | 0.0 | 0.0 | 69.0 | 69.0 |
| Own shares | 0.0 | 0.3 | -2.3 | 0.0 | -2.0 |
| Change in marketable securities available for sale | 0.0 | 0.0 | -1.1 | 0.0 | -1.1 |
| At December 31, 2002 | 22.8 | 27.5 | 754.0 | 69.0 | 873.3 |

Included in group reserves is a valuation loss of 22.2 million CHF for securities available for sale not recognized in the income statement.

Exchange rates for currency translation

| | | Average annual rates | | Year-end rates at Dec. 31 | |
|----------------|---------|----------------------|-------------|---------------------------|-------------|
| | | 2002 CHF | 2001 CHF | 2002 CHF | 2001 CHF |
| Argentina | 1 ARS | 0.58 | 1.69 | 0.41 | 1.66 |
| Brazil | 1 BRL | 0.56 | 0.72 | 0.39 | 0.72 |
| China | 100 CNY | 18.79 | 20.38 | 16.75 | 20.00 |
| Euro countries | 1 EUR | 1.47 | 1.51 | 1.45 | 1.48 |
| Great Britain | 1 GBP | 2.33 | 2.43 | 2.23 | 2.42 |
| Hong Kong | 100 HKD | 19.94 | 21.63 | 17.75 | 21.25 |
| India | 100 INR | 3.19 | 3.58 | 2.88 | 3.44 |
| Canada | 1 CAD | 0.99 | 1.09 | 0.88 | 1.05 |
| Poland | 100 PLN | 38.18 | 40.08 | 36.10 | 41.90 |
| South Africa | 1 ZAR | 0.15 | 0.20 | 0.16 | 0.14 |
| Taiwan | 100 TWD | 4.51 | 5.00 | 3.99 | 4.75 |
| Czech Republic | 100 CZK | 4.76 | 4.44 | 4.60 | 4.66 |
| USA | 1 USD | 1.55 | 1.69 | 1.38 | 1.66 |

Segment information

by division

Sales

| CHF m | 2002 | 2001 |
|--------------------|----------------|----------------|
| Textile Systems | 1 108.2 | 1 238.5 |
| Automotive Systems | 1 848.2 | 1 899.9 |
| Other activities | 19.8 | 31.8 |
| Total | 2 976.2 | 3 170.2 |

Operating result

| CHF m | 2002 | 2001 |
|----------------------------------------|--------------|--------------|
| Textile Systems | 94.3 | 97.9 |
| Automotive Systems | 109.6 | 102.0 |
| Other activities, incl. group costs | -3.0 | 4.0 |
| Total | 200.9 | 203.9 |

Assets

| CHF m | 2002 | 2001 |
|--------------------------------------------|----------------|----------------|
| Textile Systems | 985.7 | 986.8 |
| Automotive Systems | 1 110.9 | 1 160.0 |
| Other activities, incl. group liquidity | 127.0 | 181.9 |
| Total | 2 223.6 | 2 328.7 |

Liabilities

| CHF m | 2002 | 2001 |
|----------------------------------------------|----------------|----------------|
| Textile Systems | 582.2 | 585.4 |
| Automotive Systems | 721.1 | 726.1 |
| Other activities, incl. group liabilities | -19.6 | 27.0 |
| Total | 1 283.7 | 1 338.5 |

Capital expenditure and investments incl. goodwill

| CHF m | 2002 | 2001 |
|--------------------|--------------|--------------|
| Textile Systems | 24.1 | 56.2 |
| Automotive Systems | 121.1 | 96.7 |
| Other activities | 1.0 | 0.7 |
| Total | 146.2 | 153.6 |

Depreciation of fixed assets incl. amortization of goodwill

| CHF m | 2002 | 2001 |
|--------------------|--------------|--------------|
| Textile Systems | 34.9 | 41.2 |
| Automotive Systems | 82.1 | 88.4 |
| Other activities | 0.9 | 3.6 |
| Total | 117.9 | 133.2 |

Number of employees at year-end

| | 2002 | 2001 |
|--------------------|---------------|---------------|
| Textile Systems | 4 520 | 4 675 |
| Automotive Systems | 8 336 | 8 180 |
| Other activities | 127 | 122 |
| Total | 12 983 | 12 977 |

by geographical region

Sales

| CHF m | 2002 | 2001 |
|-------------------|----------------|----------------|
| Europe | 1 333.3 | 1 444.4 |
| Asia incl. Turkey | 684.3 | 645.0 |
| North America | 794.2 | 860.4 |
| Latin America | 120.1 | 181.6 |
| Africa | 44.3 | 38.8 |
| Total | 2 976.2 | 3 170.2 |

Assets

| CHF m | 2002 | 2001 |
|-------------------|----------------|----------------|
| Europe | 1 353.9 | 1 305.9 |
| Asia incl. Turkey | 50.0 | 59.8 |
| North America | 787.3 | 905.3 |
| Latin America | 27.7 | 53.7 |
| Africa | 4.7 | 4.0 |
| Total | 2 223.6 | 2 328.7 |

Capital expenditure and investments incl. goodwill

| CHF m | 2002 | 2001 |
|-------------------|--------------|--------------|
| Europe | 97.1 | 102.7 |
| Asia incl. Turkey | 1.1 | 6.2 |
| North America | 45.5 | 38.8 |
| Latin America | 2.2 | 5.9 |
| Africa | 0.3 | 0.0 |
| Total | 146.2 | 153.6 |

Number of employees at year-end

| | 2002 | 2001 |
|-------------------|---------------|---------------|
| Europe | 8 980 | 8 990 |
| Asia incl. Turkey | 578 | 605 |
| North America | 2 739 | 2 692 |
| Latin America | 668 | 674 |
| Africa | 18 | 16 |
| Total | 12 983 | 12 977 |

Principles of consolidation

The basis for the consolidated financial statements are the financial statements of the individual group companies at December 31, 2002. These are formed using uniform accounting policies. The consolidated financial statements of the Rieter Group prepared in accordance with the consolidation and accounting principles set out below are based on fair value for the financial instruments and historical costs for other assets and liabilities, and they conform to International Financial Reporting Standards (IFRS), formerly International Accounting Standards (IAS).

The consolidation and accounting principles applied to the 2002 consolidated financial statements are unchanged from the previous year. No new International Accounting Standards had to be adopted in the year under review.

Scope of consolidation

The financial statements of Rieter Holding Ltd. and those group companies in which it controls at least 50% of the voting rights, either directly or indirectly, are fully consolidated. Joint ventures in which a 50% interest is held are also fully consolidated if Rieter exercises control, either by appointing management, by being the company's main customer, or by integrating the joint venture in the group's customer services organization and product policies. Changes in the scope of consolidation are included with effect from the date of the addition or disposal. Capital is offset according to the Anglo-Saxon method. Minority interests are stated separately in the balance sheet and the income statement. Intercompany transactions are eliminated.

Holdings of 20% to 49% are included in the consolidated financial statements using the equity method. Holdings of less than 20% are included in the balance sheet at fair value. The significant subsidiaries and associated companies are listed on page 73.

Currency translation

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

Currency differences arising from translation are recorded directly to equity without any impact on income. In the event of the disposal or liquidation of foreign group companies, the accumulated currency differences are offset against sale or liquidation proceeds. Exchange rates for currencies in hyper-inflation countries take due account of monetary depreciation in the local currency. Foreign currency balances held by group companies are translated at year-end rates. The resulting gains or losses are posted to income.

Change in the scope of consolidation

No new companies were added to the scope of consolidation in the year under review. The remaining 20% of the share capital of Temkom AG, Pfäffikon, was acquired, and the 2% of the share capital of Rieter Ingolstadt AG which was still held by public shareholders last year was also purchased. Trading in shares of Rieter Ingolstadt on the Stock Exchange was then discontinued. The remaining shares of Idea Institute S.p.A., Turin, the Italian automotive design and engineering firm, were also acquired.

Our interest in Rieter Saifa was increased to 50% on January 1, 2003. Rieter Saifa will be incorporated in Rieter's customer organization and consolidated as a Rieter group company with effect from January 1, 2003.

Investments

A 19% holding in the Suessen spindle plant in Germany was acquired in the previous year. Rieter has the right to acquire the remaining share capital in two steps until 2007.

In terms of the partnership agreement between Rieter and Magee Ltd., Magee Ltd. is entitled to sell its 50% interest in Magee Rieter Automotive Systems to Rieter as from 2003, with a two-year period of notice. If the parties are unable to agree on a purchase price, this will be determined on the basis of a valuation of the company commissioned by both parties.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at acquisition cost less accumulated depreciation.

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

The useful lives applied are as follows:

| | |
|-------------------------------------------|-------------|
| Factory buildings, investment property | 20–50 years |
| Machinery/plant and equipment | 5–15 years |
| Tools/data processing equipment/furniture | 3–10 years |

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

The various categories of assets also include assets financed by long-term contracts (finance leasing).

The related liabilities are included in the balance sheet under long-term liabilities. The costs of assets held under operating leases are charged to income in the period in which they are incurred.

Intangible assets

Intangible assets such as product licenses, patents and trademark rights acquired from third parties are included in the balance sheet at acquisition cost and are amortized on a straight-line basis over a period of 1 to 8 years.

Goodwill

Goodwill represents the difference between the purchase price of an acquired company and the estimated market value of its net assets; it is capitalized and amortized against income on a straight-line basis over its estimated useful life, not exceeding 20 years.

Liquid funds

Liquid funds include cash, short-term time deposits and marketable securities.

Marketable securities are acquired in accordance with the group's funds management policy. Changes in the value of marketable securities held for trading purposes are posted to income. Changes in the value of marketable securities available for sale are recorded in shareholders' equity until they are sold. When these securities are sold the changes in the market value that were previously recorded in equity are reclassified into the income statement. Any impairment in the value of marketable securities available for sale is charged to income.

Receivables

Receivables are stated at face value less allowances to reduce them to net realizable value.

Inventories

Purchased goods are stated at average cost, while products manufactured in-house are stated at the lower of manufacturing cost or net realizable value. Adjustments are made for slow-moving items and excess stock.

Provisions

If legal or likely liabilities are incurred as a consequence of past events, provisions are made to cover the expected outflow of funds.

Deferred taxes

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

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

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

Research and development

No research and development costs were capitalized in the financial year under review. The development costs of major projects are capitalized only if the present value of future cash flows is likely to exceed the expected costs and sales are firm when costs are capitalized.

Pension funds

Employee pension plans are operated by certain subsidiaries, depending upon the level of coverage provided by the government pension facilities in the various countries in which they operate. Some of these are provided by independent pension funds. If no separate institutions exist, appropriate liabilities are recorded in provisions for pension liabilities in the balance sheet. As a rule, pensions are funded by employees' and employer's contributions. Pension plans exist on the basis of both defined contributions and defined benefits. Pension liabilities arising from defined-benefit plans are calculated according to the "projected unit credit method" and are usually appraised annually by independent actuaries. If the actual assets and pension liabilities differ by more than 10% from the projected values, these actuarial gains or losses are posted to income on a straight-line basis over the remaining service life of the employees covered. In the case of defined-contribution pension plans, the contributions are recorded as expenses in the period in which they are incurred.

Sales and realization of profits

Sales arising from deliveries of products and services are recorded on completion of delivery. Sales or value-added taxes, credits, discounts and rebates are deducted from gross proceeds, as well as sales deductions arising from actual or foreseeable defaults.

Financing costs

Financing costs are recognized in the income statement.

Financial risk management

Business activities are exposed to market risks such as fluctuations in exchange rates and interest rates, as well as volatile stock market prices. The group executive committee monitors on basis of risk reporting procedures the principles the group has established.

Exchange rate risks

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

Credit risks

Collection risks at Textile Systems are usually hedged by insurance, advance payments, letters of credit or other instruments. Bulk risks are avoided by diversifying the customer portfolio in terms of sector and region. The business relationships of Automotive Systems are mostly with well-known manufacturers. Banking relationships depend on the credit rating and range of services of the relevant institutions.

Market and interest rate risks

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

1 Sales

| Change in sales | | |
|-------------------------------------------------------------|---------------|--------------|
| CHF m | 2002 | 2001 |
| Change in sales due to volume and price, Textile Systems | -112.3 | 73.3 |
| Change in sales due to volume and price, Automotive Systems | 62.5 | 107.8 |
| Change in sales due to volume and price, other activities | -12.1 | 17.2 |
| Change in the scope of consolidation | 0.0 | 106.3 |
| Currency effects | -132.1 | -65.4 |
| Total change in sales | -194.0 | 239.2 |

Compared with the previous year, Textile Systems posted a 9.1% decline in sales at constant exchange rates due to weak order intake in the second half of the previous year. Automotive Systems recorded organic growth of 3.3% at constant exchange rates. The negative currency effect of 6.0% resulted in a decline in sales for Automotive Systems expressed in Swiss francs, the reporting currency of the consolidated financial statements. The 4.2% reduction in sales for the group as a whole due to currency effects was caused primarily by changes in the exchange rates of the US dollar, the Euro and the South American currencies against the Swiss franc. The scope of consolidation was unchanged from the previous year.

2 Employee costs

| CHF m | 2002 | 2001 |
|----------------------------------------------|--------------|--------------|
| Wages and salaries | 722.9 | 730.0 |
| Social security and other personnel expenses | 155.5 | 159.8 |
| Total | 878.4 | 889.8 |

3 Depreciation and amortization

| CHF m | 2002 | 2001 |
|-----------------------|--------------|--------------|
| Tangible fixed assets | 108.6 | 123.7 |
| Goodwill | 9.3 | 9.5 |
| Total | 117.9 | 133.2 |

4 Financial income

| CHF m | 2002 | 2001 |
|--------------------------------------------------------------|--------------|------------|
| Interest income | 8.7 | 8.4 |
| Income from marketable securities and other financial income | -30.0 | -11.1 |
| Income from non-consolidated investments | 5.3 | 3.1 |
| Total | -16.0 | 0.4 |

Persistently low interest rates on time deposits and negative price trends on the major securities markets again had an impact on financial income in the year under review. A net financial loss was reported in the year under review, which represents a significant deterioration compared with the previous year. In conformity with IAS 39, part of the securities holdings are carried as marketable securities available for sale. The change in value of this portion of the securities portfolio was reflected in the income statement by an impairment of 25.8 million CHF (13.8 million CHF in 2001).

5 Taxes

| CHF m | 2002 | 2001 |
|----------------|-------------|-------------|
| Income taxes | 59.3 | 65.3 |
| Deferred taxes | 1.3 | -11.8 |
| Other taxes | 9.3 | 8.6 |
| Total | 69.9 | 62.1 |

The tax charge rose by 7.8 million CHF while pre-tax earnings declined. This was primarily due to the geographical distribution of taxable operating income. The potential positive impact of accrued losses on income taxes is only capitalized when it is certain that it can be offset in the foreseeable future.

Income taxes

| CHF m | 2002 | 2001 |
|--------------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Expected charge on pre-tax profits of 153.7 (vs. 173.3) million CHF at an average rate of 39.1% (vs 32.5% in 2001) | 60.1 | 56.4 |
| Impact of losses and accrued losses | 1.1 | 3.6 |
| Impact of changes in tax rates and tax legislation | -0.2 | -0.1 |
| Other effects | -0.4 | -6.4 |
| Total income taxes | 60.6 | 53.5 |

Deferred taxes

| CHF m | 2002 | 2001 |
|-------------------------------------------|------------|-------------|
| Assets | | |
| Tangible fixed assets | 3.3 | 2.8 |
| Inventories | 2.0 | 3.9 |
| Other assets | 6.0 | 3.8 |
| Provisions | 4.0 | 2.9 |
| Other liabilities | 11.5 | 7.6 |
| Adjustments of tax assets and liabilities | -11.5 | -6.9 |
| Accrued losses and tax credits | 12.3 | 15.7 |
| Deferred taxes, gross | 27.6 | 29.8 |
| Offsetting with liabilities | -19.0 | -18.4 |
| Deferred taxes, net | 8.6 | 11.4 |

Liabilities

| CHF m | 2002 | 2001 |
|-------------------------------------------|-------------|-------------|
| Tangible fixed assets | 41.2 | 43.3 |
| Inventories | 9.1 | 7.7 |
| Other assets | 14.2 | 12.7 |
| Provisions | 2.9 | 3.9 |
| Other liabilities | 2.6 | 1.5 |
| Adjustments of tax assets and liabilities | -6.4 | -3.7 |
| Deferred taxes, gross | 63.6 | 65.4 |
| Offsetting with assets | -19.0 | -18.4 |
| Deferred taxes, net | 44.6 | 47.0 |

6 Research and development

128.9 million CHF was spent on research and development (143.5 million CHF in 2001). The focus in the Textile Systems Division was on the development of new machines for cotton and filament spinning, primarily in the fields of rotor and ring spinning machinery for cards and drawframes, as well as texturing.

Developments at Automotive Systems included applications for new models and customer-specific acoustic products, carpets and underbody components.

The reduction is mainly due to currency influences and the expiration of third party contracts.

7 Tangible fixed assets

| | Land and buildings CHF m | Machinery, equipment and tools ¹ CHF m | Data processing equipment CHF m | Vehicles and furniture ² CHF m | Machinery and tools under construction CHF m | Total fixed assets CHF m |
|---------------------------------------|--------------------------------|------------------------------------------------------------|------------------------------------------|-------------------------------------------------|----------------------------------------------------------|--------------------------------|
| At December 31, 2000 | 259.7 | 337.3 | 20.3 | 16.8 | 49.6 | 683.7 |
| Reclassification | 1.9 | 19.7 | 0.4 | 0.2 | -22.2 | 0.0 |
| Changes in the scope of consolidation | 5.8 | 3.1 | 0.0 | 0.0 | 0.0 | 8.9 |
| Capital expenditure | 16.9 | 68.1 | 6.8 | 6.5 | 31.4 | 129.7 |
| Disposals | -14.2 | -1.7 | -0.2 | -1.1 | -0.3 | -17.5 |
| Depreciation | -18.2 | -89.0 | -9.6 | -6.9 | 0.0 | -123.7 |
| Currency effects | 0.6 | 0.6 | -0.1 | -0.1 | 0.3 | 1.3 |
| At December 31, 2001 | 252.5 | 338.1 | 17.6 | 15.4 | 58.8 | 682.4 |
| Accumulated depreciation | 249.1 | 855.9 | 54.7 | 61.2 | 0.0 | 1 220.9 |
| Cost at December 31, 2001 | 501.6 | 1 194.0 | 72.3 | 76.6 | 58.8 | 1 903.3 |
| Reclassification | -1.9 | 19.8 | 0.2 | 1.5 | -19.6 | 0.0 |
| Changes in the scope of consolidation | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Capital expenditure | 18.0 | 88.0 | 4.6 | 6.3 | 16.7 | 133.6 |
| Disposals | -9.2 | -1.5 | -0.1 | -0.3 | -1.6 | -12.7 |
| Depreciation | -13.8 | -78.7 | -8.1 | -8.0 | 0.0 | -108.6 |
| Currency effects ³ | -13.2 | -33.7 | -0.7 | 0.0 | -7.2 | -54.8 |
| At December 31, 2002 | 232.4 | 332.0 | 13.5 | 14.9 | 47.1 | 639.9 |
| Accumulated depreciation | 248.3 | 840.6 | 56.3 | 61.7 | 0.0 | 1 206.9 |
| Cost at December 31, 2002 | 480.7 | 1 172.6 | 69.8 | 76.6 | 47.1 | 1 846.8 |

¹ Including machinery and operating facilities.

² Including pilot machines.

³ Changes at the US companies (31.7 million CHF) and a reduction in the value of equipment from Brazil (10.4 million CHF) and Canada (3.5 million CHF) were the main components of the 54.8 million CHF reduction in net asset values due to currency effects.

Land and buildings

| CHF m | 2002 | 2001 |
|------------------------------|--------------|--------------|
| Land in operational use | 27.1 | 27.4 |
| Factory and office buildings | 171.0 | 177.6 |
| Residential properties, land | 34.3 | 47.5 |
| Total | 232.4 | 252.5 |

Factory and office buildings were insured at the replacement value of 952.4 million CHF at balance sheet date (983.8 million CHF in 2001) and residential properties at the replacement value of 62.6 million CHF (88.8 million CHF in 2001).

Investment property**Consolidated value**

| CHF m | 2002 | 2001 |
|------------------------------------|-------------|-------------|
| At January 1 | 41.4 | 45.4 |
| Capital expenditure | 0.2 | 0.0 |
| Disposals | -13.2 | -3.2 |
| Depreciation | -0.3 | -0.8 |
| At December 31 | 28.1 | 41.4 |
| Market value at December 31 | 44.4 | 63.2 |

A net income value with an anticipated gross yield was established as the market value of the investment property on the basis of calculations made by the company.

8 Goodwill

| CHF m | 2002 | 2001 |
|-------------------------------------------------|--------------|--------------|
| At January 1 | 168.6 | 156.0 |
| Change in the scope of consolidation | 12.6 | 23.9 |
| Amortization | -9.3 | -9.5 |
| Currency effects | -12.4 | -1.8 |
| At December 31 | 159.5 | 168.6 |
| Accumulated amortization incl. currency effects | 39.4 | 30.1 |
| Total goodwill at cost at December 31 | 198.9 | 198.7 |

9 Other receivables and rights

The asset of 47.2 million CHF for employee benefits remained unchanged. The calculation of this figure is based on the potential future benefit to group companies.

10 Liquid funds

| CHF m | 2002 | 2001 |
|---------------------------------|--------------|--------------|
| Bank balances and time deposits | 192.4 | 158.3 |
| Marketable securities | 103.0 | 162.7 |
| Total | 295.4 | 321.0 |

The majority of liquid funds are managed centrally in CHF in an effort to limit currency risk. A netting system and a group cash pool further reduce currency exposure.

Securities are valued at market value. Of the holdings of securities totalling 103.0 million CHF, 2.5 million CHF was invested in options (1.8 million CHF in 2001). These were mainly call options. 62% of the shareholdings were in securities of Swiss-based companies (48% in 2001). Investments in equities were mainly listed investments in the industrial, banking and service sectors.

Most of the funds held by group companies were in their local currencies. The valuation risks of the investments in securities and in foreign currencies are reviewed periodically.

11 Trade receivables

Trade receivables arise from the sale of products and services. Receivables are mainly in the local currencies of the relevant companies and are stated after deductions for possible losses. In the case of receivables in foreign currencies, possible currency risks are limited by entering into financial transactions.

Payment risks are avoided at Textile Systems by the use of advance payments, letters of credit and insurance.

12 Inventories

| CHF m | 2002 | 2001 |
|--------------------------------------|--------------|--------------|
| Raw materials and consumables | 51.2 | 53.0 |
| Purchased parts and goods for resale | 62.1 | 55.9 |
| Semi-finished and finished goods | 91.9 | 94.8 |
| Work in progress | 104.1 | 100.9 |
| Total | 309.3 | 304.6 |

13 Minority interests

The primary minority interests held by third parties are in United Globe Nippon (USA), Magee Rieter (USA) and Rieter-LMW Machinery Ltd. (India).

14 Bonds

| CHF m | 2002 | 2001 |
|--------------------------------------|--------------|--------------|
| 1½% convertible bonds, maturing 2002 | 0.0 | 139.9 |
| 4% bonds, maturing 2007 | 200.0 | 125.0 |
| Total | 200.0 | 264.9 |
| Short-term liabilities | 0.0 | 139.9 |
| Long-term liabilities | 200.0 | 125.0 |

16 Provisions

| | Pension liabilities CHF m | Business risks CHF m | Other provisions CHF m | Total provisions CHF m |
|----------------------------------------|------------------------------|-------------------------|---------------------------|---------------------------|
| Provisions at December 31, 2000 | 60.2 | 52.4 | 80.2 | 192.8 |
| Reclassification | 0.0 | -4.0 | 3.5 | -0.5 |
| Change in the scope of consolidation | 1.7 | 0.0 | 0.2 | 1.9 |
| Utilization | -4.9 | -18.0 | -16.0 | -38.9 |
| Release | -4.2 | -8.7 | -24.6 | -37.5 |
| Additions | 7.6 | 25.8 | 36.3 | 69.7 |
| Currency effects | -1.4 | -0.1 | 0.1 | -1.4 |
| Provisions at December 31, 2001 | 59.0 | 47.4 | 79.7 | 186.1 |
| Reclassification | 0.0 | -1.0 | 1.0 | 0.0 |
| Change in the scope of consolidation | 0.0 | 0.0 | 0.0 | 0.0 |
| Utilization | -9.4 | -8.9 | -25.7 | -44.0 |
| Release | -0.1 | -8.0 | -3.5 | -11.6 |
| Additions | 11.3 | 26.5 | 5.5 | 43.3 |
| Currency effects | -1.5 | -0.5 | -0.9 | -2.9 |
| Provisions at December 31, 2002 | 59.3 | 55.5 | 56.1 | 170.9 |

The 139.9 million CHF of 1½% convertible bonds issued in 1997 matured and were paid at the end of October 2002. At a conversion price of 430 CHF per share, conversion was not an attractive proposition for bondholders. This issue was partially refinanced by increasing the 125 million CHF issue of 4% bonds maturing in 2007 by 75 million CHF to 200 million CHF. The remainder of the repayment was financed from ordinary cash flow.

15 Other short-term liabilities

| CHF m | 2002 | 2001 |
|------------------------------------------|--------------|--------------|
| Sales commissions | 17.8 | 19.0 |
| Tax liabilities | 19.2 | 20.2 |
| Short-term, interest-bearing liabilities | 6.0 | 3.7 |
| Other short-term liabilities | 108.4 | 112.7 |
| Accrued liabilities | 126.8 | 116.6 |
| Total | 278.2 | 272.2 |

17 Changes in the scope of consolidation

| CHF m | 2002 | 2001 |
|--------------------------------------------------------|-------------|-------------|
| Tangible fixed assets | 0.0 | 8.9 |
| Financial assets | 0.0 | 7.3 |
| Goodwill | 12.6 | 17.9 |
| Liquid funds | 0.0 | 0.4 |
| Trade receivables | 0.0 | 5.0 |
| Other receivables | 0.0 | 1.1 |
| Inventories | 0.0 | 4.8 |
| Trade payables | 0.0 | -2.7 |
| Other liabilities | 0.0 | -26.0 |
| Additions | 12.6 | 16.7 |
| less liquid funds | 0.0 | -0.4 |
| Cash provided by changes in the scope of consolidation | 12.6 | 16.3 |

The addition to goodwill arose from the acquisition of the remaining 20% of the share capital of Temkom, the outstanding 2% of the share capital of Rieter Ingolstadt and the remaining shares of Idea Institute.

18 Pension plans**Defined-contribution plans**

The expenditure for defined-contribution pension plans amounted to 8.0 million CHF (8.4 million CHF in 2001).

Defined-benefit plans

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

Pension costs of defined-benefit plans

| CHF m | 2002 | 2001 |
|---------------------------------------------------|-------------|------------|
| Current service cost | 12.4 | 11.1 |
| Interest cost | 38.1 | 40.0 |
| Expected return on plan assets | -34.8 | -38.4 |
| Employees' contributions | -5.3 | -5.1 |
| Expense recognized in the income statement | 10.4 | 7.6 |

Funded status of defined-benefit plans

| CHF m | 2002 | 2001 |
|-------------------------------------------------------------|-------------|-------------|
| Actuarial present value of defined benefit obligation (DBO) | | |
| - unfunded | -50.5 | -26.9 |
| - funded | -873.6 | -871.2 |
| Fair value of plan assets adjusted by actuarial risk rate | 863.3 | 928.4 |
| Recognized in the balance sheet | | |
| - as assets | 47.9 | 51.5 |
| - as pension provisions | -50.5 | -28.1 |
| Net assets at December 31 | -2.6 | 23.4 |

Actuarial gains are capitalized to the extent the company will be able to utilize them.

The fair value of plan assets of the defined benefit plans contains Rieter shares in the value of 4.5 million CHF and loans to Group companies of 3.2 million CHF.

Development of balance sheet items

| CHF m | 2002 | 2001 |
|--------------------------------------|-------------|-------------|
| Net assets at January 1 | 23.4 | 23.4 |
| Change in the scope of consolidation | 0.0 | -1.2 |
| Additions | -25.7 | 0.0 |
| Expense for defined-benefit plans | -10.4 | -7.6 |
| Employer's contributions | 10.1 | 8.8 |
| Net assets at December 31 | -2.6 | 23.4 |

Actuarial assumptions

| in % | 2002 | 2001 |
|---------------------------|------|------|
| Discount rate | 4.1 | 4.2 |
| Expected return on assets | 4.2 | 4.2 |
| Future wage growth | 2.4 | 2.7 |
| Future pension growth | 1.8 | 1.7 |

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

19 Staff share purchase plans

There is a share purchase plan for executives. In the year under review, 65 participants purchased 12 768 shares at a price of 299 CHF per share (272 CHF in 2001). Two-thirds of these shares cannot be sold for three years. At year-end, 37 019 shares were held in blocked accounts (33 412 in 2001). The shares for this program were delivered from the holdings of Rieter Holding Ltd.

In addition, top executives could subscribe for one additional option for each share which was purchased and subject to restrictions on sale under the above plan. Each option entitles the holder to purchase a share after two years at a price of 352 CHF (419 CHF in 2001), which corresponds to the average market price on the date the options were issued. A total of 2 927 options were issued and can be exercised until 2007.

A total of 9 822 options were open at year-end (6 895 in 2001).

Long-service bonuses are also granted in the form of shares at some companies, and 13 314 shares are reserved for this purpose.

20 Future liabilities of finance leasing

| CHF m | 2002 | 2001 |
|--------------|------------|------------|
| Current | 1.6 | 1.3 |
| 2-5 years | 3.8 | 0.5 |
| Over 5 years | 2.0 | 0.0 |
| Total | 7.4 | 1.8 |

No purchase liabilities in respect of large projects were open at year-end.

21 Associated persons and companies

As in the previous year, there are no receivables from or payables to directors, associated persons and companies.

22 Approval for publication of the consolidated financial statements

The consolidated financial statements were approved for publication by the Board of Directors on April 1, 2003. They are also subject to approval by the annual general meeting of shareholders. No events have occurred up to April 1, 2003, which would necessitate adjustments to the book values of the group's assets or liabilities, or which require disclosure.



Report of the group auditors to the general meeting of Rieter Holding Ltd., Winterthur

As auditors of the group, we have audited the consolidated financial statements (income statement, balance sheet, statement of cash flows, changes in equity and notes on pages 49 to 63 and page 73) of Rieter Holding Ltd. for the year ended December 31, 2002.

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

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

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

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

PricewaterhouseCoopers AG

Handwritten signature of Christian Kessler in black ink.

Christian Kessler

Handwritten signature of Stefan Haag in black ink.

Stefan Haag

Zurich, April 2, 2003

Income statement of Rieter Holding Ltd.

for the financial year from January 1 to December 31

| | Notes | 2002 CHF | 2001 CHF |
|-------------------------------------------------------|-------|-------------------|-------------------|
| Income | | | |
| Income from investments | (1) | 69 181 655 | 64 256 248 |
| Income from marketable securities and interest income | (2) | -28 944 988 | -18 045 094 |
| Other income | (3) | 9 597 006 | 12 615 032 |
| Total income | | 49 833 673 | 58 826 186 |
| Expenditure | | | |
| Financial expense | (4) | 14 382 386 | 19 928 093 |
| Administration expense | | 4 305 622 | 2 767 689 |
| Total expenditure | | 18 688 008 | 22 695 782 |
| Net profit | | 31 145 665 | 36 130 404 |

Balance sheet of Rieter Holding Ltd.

At December 31, before appropriation of profit

| | Notes | December 31 2002 CHF | December 31 2001 CHF |
|---------------------------------------------------|-------|----------------------------|----------------------------|
| Assets | | | |
| Investments in and loans to subsidiaries | (5) | 699 749 415 | 676 090 475 |
| Fixed assets | | 699 749 415 | 676 090 475 |
| Accrued income and prepayments | (6) | 3 352 337 | 2 002 110 |
| Receivables from third parties | (7) | 4 764 009 | 11 713 472 |
| Receivables from subsidiaries | (8) | 26 143 268 | 55 520 248 |
| Receivables | | 34 259 614 | 69 235 830 |
| Liquid funds | (9) | 145 408 927 | 165 667 939 |
| Current assets | | 179 668 541 | 234 903 769 |
| Total assets | | 879 417 956 | 910 994 244 |
| Shareholders' equity and liabilities | | | |
| Share capital | (10) | 22 845 280 | 45 690 560 |
| Legal reserves | | | |
| - General reserve | (11) | 27 500 000 | 27 500 000 |
| - Reserve for own shares | (12) | 74 904 352 | 76 232 520 |
| Other reserves | (13) | 214 903 316 | 193 575 148 |
| Retained earnings | (14) | | |
| - Balance brought forward | | 22 586 834 | 21 381 177 |
| - Net profit for the year | | 31 145 665 | 36 130 404 |
| Shareholders' equity | | 393 885 447 | 400 509 809 |
| Short-term liabilities | (15) | 256 326 231 | 222 545 332 |
| Accrued liabilities | (16) | 11 932 530 | 5 860 603 |
| Current liabilities | | 268 258 761 | 228 405 935 |
| Bonds | (17) | 200 000 000 | 264 909 100 |
| Loans from subsidiaries | | 6 173 748 | 6 069 400 |
| Provisions | (18) | 11 100 000 | 11 100 000 |
| Long-term liabilities | | 217 273 748 | 282 078 500 |
| Liabilities | | 485 532 509 | 510 484 435 |
| Total shareholders' equity and liabilities | | 879 417 956 | 910 994 244 |

1 Income from investments

This comprises the dividend income received from subsidiaries and associated companies. The slight increase in income compared with the previous year arose from sales of shares in associated companies.

2 Income from marketable securities and interest income

The downtrend on the equity markets continued in 2002, resulting in a loss on holdings of marketable securities. Foreign interest income and profits from foreign exchange were lower than in the previous year due to the strong Swiss franc.

3 Other income

Income in the past financial year was slightly lower due to subsequent offsetting of income from services rendered.

4 Financial expense

The cost of interest on liabilities to group companies in the group cash pool and interest on bond issues are the main elements of financial expense. This was reduced by generally lower interest rates and the elimination of an interest rate swap.

5 Investments in and loans to subsidiaries

| CHF m | 2002 | 2001 |
|-----------------------------|--------------|--------------|
| Investments in subsidiaries | 214.4 | 202.4 |
| Loans to subsidiaries | 485.3 | 473.7 |
| Total | 699.7 | 676.1 |

The main subsidiaries and associated companies are listed on page 73. These investments are held directly or indirectly by Rieter Holding Ltd.

6 Accrued income and prepayments

Accrued income and prepayments include accrued interest income on bond holdings and money market investments, as well as prepaid financing costs.

7 Receivables from third parties

Receivables from third parties consist of receivables from withholding tax credits and current account relationships with personnel welfare funds and foundations.

8 Receivables from subsidiaries

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

9 Liquid funds

| CHF m | 2002 | 2001 |
|---------------------------------|--------------|--------------|
| Bank balances and time deposits | 74.3 | 26.7 |
| Marketable securities | 71.1 | 139.0 |
| Total | 145.4 | 165.7 |

10 Share capital

Share capital was halved as a result of the repayment of capital of 5 CHF per registered share in 2002, involving the disbursement of 22.8 million CHF to shareholders.

11 General reserve

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

12 Reserve for own shares**Shares held by all group companies**

| | Number |
|-----------------------------------------------------------|---------|
| Registered shares held at January 1, 2002 | 178 275 |
| Purchases January-December 2002 (average price 300.57) | 22 465 |
| Sales January-December 2002 (average price 294.44) | 24 277 |
| Registered shares held at December 31, 2002 | 176 463 |

The reserve for own shares was made at acquisition cost.

13 Other reserves

| CHF m | 2002 | 2001 |
|---------------------------------------|--------------|--------------|
| Opening balance | 193.6 | 230.3 |
| Allocation from profits | 20.0 | 4.0 |
| Premium on newly issued shares | 0.0 | 9.9 |
| Transfer to reserve for own shares | 1.3 | -50.6 |
| Total | 214.9 | 193.6 |

14 Retained earnings

Including the balance brought forward, the annual general meeting has 53.7 million CHF at its disposal (57.5 million CHF in 2001).

15 Short-term liabilities

| CHF m | 2002 | 2001 |
|--------------------------------|--------------|--------------|
| Liabilities to group companies | 255.4 | 221.5 |
| Liabilities to third parties | 0.9 | 1.0 |
| Total | 256.3 | 222.5 |

Rieter Holding Ltd. manages the liquid funds of group companies and pension funds in the central cash pool.

16 Accrued liabilities

Accrued liabilities include accrued interest payable and open foreign exchange transactions.

17 Bonds

| CHF m | 2002 | 2001 |
|--------------------------------------------|--------------|--------------|
| 1 1/2% convertible bonds, maturing 2002 | 0.0 | 139.9 |
| 4% bonds, maturing 2007 | 200.0 | 125.0 |
| Total | 200.0 | 264.9 |

The issue of 4% bonds was increased by 75 million CHF in 2002 which enabled to partially refinance the 1 1/2% convertible bonds due for repayment. Further details are provided on page 70.

18 Provisions

Provisions include foreign exchange risks and guarantee commitments.

19 Guarantees to third parties

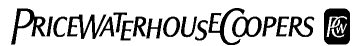
| CHF m | 2002 | 2001 |
|------------|------|------|
| Guarantees | 37.6 | 42.1 |

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

Proposal of the board of directors

| for the appropriation of profit (2002 financial year) | | |
|-----------------------------------------------------------------|-------------------|-------------------|
| | 2002 CHF | 2001 CHF |
| Net profit for the year | 31 145 665 | 36 130 404 |
| Retained earnings brought forward from previous year | 22 236 579 | 20 389 287 |
| Waiver of dividends on own shares | 350 255 | 991 890 |
| At the disposal of the annual general meeting | 53 732 499 | 57 511 581 |
| Proposal | | |
| Dividend on registered shares | 35 781 624 | 15 275 002 |
| Allocation to other reserves | 0 | 20 000 000 |
| Retained earnings | 17 950 875 | 22 236 579 |
| Net profit at the disposal of the annual general meeting | 53 732 499 | 57 511 581 |

Upon approval of this proposal by the annual general meeting, a dividend for the 2002 financial year of CHF 8.60 (CHF 5.59 net dividend) will be paid on each registered share of CHF 5.00 p.v. on May 14, 2003. The dividend, less Swiss withholding tax, will be paid into the bank or postal account specified by the holder of the shares.



Report of the statutory auditors to the general meeting of Rieter Holding Ltd.

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes on pages 65 to 68 and page 73) of Rieter Holding Ltd. for the year ended December 31, 2002.

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

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

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

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

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read 'Ch. Kessler'.

Christian Kessler

A handwritten signature in black ink, appearing to read 'Stefan Haag'.

Stefan Haag

Zurich, April 2, 2003

Shareholdings and capital structure

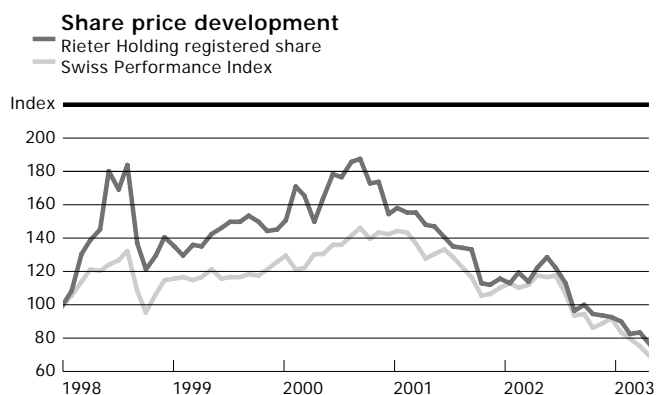
At the end of the year 4 922 shareholders were entered in the shareholders' register of Rieter Holding Ltd. (4 898 in the previous year). The analysis of shareholders is as follows:

| Registered shareholders | 2002 | | 2001 | |
|---------------------------|-------------|--------------|-------------|--------------|
| | shares in % | holders in % | shares in % | holders in % |
| Total: | | | | |
| - individuals | 12.2 | 93.7 | 12.6 | 94.3 |
| - legal entities | 43.7 | 6.3 | 50.9 | 5.7 |
| - floating shares | 44.1 | | 36.5 | |
| Foreign investors: | | | | |
| - individuals | 0.9 | 7.1 | 0.8 | 6.9 |
| - legal entities | 8.1 | 0.6 | 5.4 | 0.6 |

Major shareholders and groups of shareholders with holdings exceeding 5% of all voting rights (pursuant to Art. 633c of the Swiss Code of Obligations) at December 31, 2002: BZ Group, Wilen: 1 286 957 shares.

Rieter Holding Ltd. held 233 463 of its own shares directly or indirectly.

Rieter Holding Ltd. has issued put options with the obligation to buy in December 2003 50 000 shares for a price of CHF 350 per share.



Capital structure at December 31, 2002

| | Number | |
|-----------------------------------------------------------|-----------|-------------------------------------------------------------------------------------------------------|
| Securities code 367144 (Investdata: RIEN; Reuters: RITZn) | | |
| Paid-in: | 4 569 056 | registered shares of CHF 5.- p.v. |
| Eligible for dividend, incl. own shares: | 4 243 056 | including 82 402 own shares held by Rieter Holding Ltd. and 94 061 own shares held by group companies |
| Conditional capital: | 396 312 | registered shares |
| Listed on the Swiss Stock exchange | | |

Bonds

| Securities code 1236261 (Reuters: CH 1236261=S) | CHF million | |
|-------------------------------------------------|-------------|-------------------------------------|
| 4% bonds, maturing 2007 | 200.0 | Annual interest payments on June 21 |

Information for investors

| | | 2002 | 2001 | 2000 | 1999 | 1998 |
|---------------------------------------------------|-------|-------------------|-------|-------|-------|-------|
| Share capital | CHF m | 22.8 | 45.7 | 45.5 | 45.5 | 47.5 |
| Net profit of Rieter Holding Ltd. | CHF m | 31.1 | 36.1 | 45.3 | 39.1 | 38.6 |
| Net profit | CHF m | 83.8 | 111.2 | 146.0 | 124.0 | 129.4 |
| Cash flow | CHF m | 205.4 | 246.1 | 271.7 | 230.8 | 233.2 |
| Gross distribution | CHF m | 35.8 ¹ | 36.5 | 36.3 | 31.5 | 32.9 |
| Payout ratio (as a % of net profit) | in % | 52 | 39 | 28 | 28 | 27 |
| Market capitalization (Dec. 31) | CHF m | 1 180 | 1 485 | 2 080 | 1 977 | 1 844 |
| Market capitalization as a % of | | | | | | |
| - sales | in % | 40 | 47 | 71 | 81 | 70 |
| - cash flow after deduction of minority interests | in % | 620 | 651 | 817 | 904 | 822 |
| - equity | in % | 135 | 164 | 226 | 239 | 231 |

Data per share:

Prices on the Swiss Stock Exchange:

| | | | | | | | |
|-----------------------------------------------------------------------|------|------|-------------------|--------|--------|--------|--------|
| - Registered shares ² | high | CHF | 404 | 493 | 598 | 484 | 590 |
| | low | CHF | 275 | 348 | 461 | 395 | 300 |
| Gross distribution per registered share | | CHF | 8.60 ¹ | 8.60 | 8.60 | 7.50 | 7.50 |
| - of which capital repayment | | CHF | | 5.00 | | | |
| Gross yield on registered shares | high | in % | 2.1 ¹ | 1.7 | 1.4 | 1.5 | 1.3 |
| | low | in % | 3.1 ¹ | 2.5 | 1.9 | 1.9 | 2.5 |
| Net profit after deduction of minority interests per registered share | | CHF | 16.95 | 22.85 | 31.22 | 27.09 | 27.45 |
| Cash flow after deduction of minority interests per registered share | | CHF | 46.82 | 55.92 | 61.66 | 52.97 | 51.12 |
| Price/earnings ratio of registered share | high | | 23.8 | 21.4 | 19.2 | 17.9 | 21.5 |
| | low | | 16.2 | 15.1 | 14.8 | 14.6 | 10.9 |
| Shareholders' equity (group) per registered share | | CHF | 214.50 | 222.55 | 222.73 | 200.09 | 182.10 |
| Tax value per registered share | | CHF | 278.00 | 360.00 | 479.00 | 453.00 | 425.00 |

¹ Proposed by the board of directors (cf. page 68).

² Per-share data for 1998 to 1999 restated to reflect 2-for-1 share split.

Market capitalization is based on the number of shares eligible for dividend, including own shares.
Data per share are based on the average number of registered shares.

Review – 1998 to 2002

| Consolidated income statement | | 2002 | 2001 | 2000 | 1999 | 1998 |
|---------------------------------------------------------------------------------|-------|---------------|---------------|---------------|---------------|---------------|
| Sales | CHF m | 2 976.2 | 3 170.2 | 2 931.0 | 2 435.4 | 2 643.0 |
| – Europe | CHF m | 1 333 | 1 444 | 1 324 | 1 266 | 1 288 |
| – Asia (incl. Turkey) | CHF m | 685 | 645 | 527 | 270 | 385 |
| – North America | CHF m | 794 | 860 | 864 | 725 | 726 |
| – Latin America | CHF m | 120 | 182 | 181 | 137 | 205 |
| – Africa | CHF m | 44 | 39 | 35 | 37 | 39 |
| Corporate output | CHF m | 2 872.2 | 3 025.4 | 2 841.8 | 2 364.7 | 2 546.2 |
| Operating result before interest, taxes, depreciation and amortization (EBITDA) | CHF m | 318.8 | 337.1 | 323.3 | 245.7 | 264.5 |
| – as a % of corporate output | | 11.1 | 11.1 | 11.4 | 10.4 | 10.4 |
| Operating result before interest and taxes (EBIT) | CHF m | 200.9 | 203.9 | 199.5 | 135.3 | 165.7 |
| – as a % of corporate output | | 7.0 | 6.7 | 7.0 | 5.7 | 6.5 |
| Net profit | CHF m | 83.8 | 111.2 | 146.0 | 124.0 | 129.4 |
| – as a % of corporate output | | 2.9 | 3.7 | 5.1 | 5.2 | 5.1 |
| Cash flow | CHF m | 205.4 | 246.1 | 271.7 | 230.8 | 233.2 |
| – as a % of corporate output | | 7.2 | 8.1 | 9.6 | 9.8 | 9.2 |
| Capital expenditure | CHF m | 133.6 | 129.7 | 122.9 | 100.9 | 141.4 |
| Consolidated balance sheet | | | | | | |
| Fixed assets | CHF m | 990.1 | 1 044.9 | 966.6 | 864.0 | 815.0 |
| Current assets | CHF m | 1 233.5 | 1 283.8 | 1 462.1 | 1 292.2 | 1 328.7 |
| Shareholders' equity before appropriation of profit | CHF m | 873.3 | 907.8 | 919.6 | 825.7 | 798.6 |
| Minority interests | CHF m | 66.6 | 82.4 | 74.8 | 68.1 | 56.6 |
| Current liabilities | CHF m | 789.0 | 900.7 | 873.3 | 647.4 | 638.2 |
| Long-term liabilities | CHF m | 494.7 | 437.8 | 561.0 | 615.0 | 650.3 |
| Total assets/liabilities | CHF m | 2 223.6 | 2 328.7 | 2 428.7 | 2 156.2 | 2 143.7 |
| Shareholders' equity (%) | | 39.3 | 39.0 | 37.9 | 38.3 | 37.3 |
| Number of employees at year-end | | 12 983 | 12 977 | 12 232 | 11 262 | 12 266 |

Significant subsidiaries and associated companies

at March 31, 2003

| | | | Paid-in capital in local currency | Group interest | Research & development | Sales/trading | Production | Services/financing |
|----------------|------------------------------------------------------------------|-----|--------------------------------------|----------------|------------------------|---------------|------------|--------------------|
| Switzerland | Maschinenfabrik Rieter AG, Winterthur | CHF | 85 000 000 | 100% | • | • | • | • |
| | Schaltag AG, Effretikon | CHF | 400 000 | 100% | • | • | • | |
| | Rieter Automotive Heatshields AG, Sevelen | CHF | 250 000 | 100% | • | • | • | |
| | Rieter Management AG, Winterthur | CHF | 5 000 000 | 100% | | | | • |
| | Rieter Automotive Management AG, Winterthur | CHF | 1 300 000 | 100% | • | | | • |
| | Tefina Holding AG, Zug | CHF | 5 000 000 | 100% | | | | • |
| | Temkom AG, Pfäffikon | CHF | 1 000 000 | 100% | • | • | • | • |
| | Rieter Immobilien AG, Winterthur | CHF | 2 000 000 | 100% | | | | • |
| | Rieter Services AG, Winterthur | CHF | 3 000 000 | 100% | | | | • |
| Argentina | Rieter Automotive Argentina S.A., Córdoba | ARS | 7 070 000 | 95% | | • | • | |
| Belgium | Rieter Automotive Belgium N.V., Genk | EUR | 1 797 228 | 100% | | • | • | |
| Brazil | Rieter-Ello Artefatos de Fibras Textis Ltda., São Bernardo d. C. | BRL | 35 107 000 | 100% | • | • | • | |
| | Rieter South America Ltda., São Paulo | BRL | 2 173 653 | 100% | | • | | |
| China | Rieter Changzhou Textile Instruments Co. Ltd., Changzhou | RMB | 6 000 000 | 100% | | | | • |
| | Rieter Textile Systems (Shanghai) Co. Ltd., Shanghai | USD | 200 000 | 100% | | • | | |
| Germany | Rieter Ingolstadt Spinnereimaschinenbau AG, Ingolstadt | EUR | 12 273 600 | 100% | • | • | • | • |
| | Rieter Automotive Germany GmbH, Rossdorf | EUR | 11 248 421 | 100% | • | • | • | |
| | Rieter Automatik GmbH, Grossostheim | EUR | 7 158 086 | 100% | • | • | • | • |
| | Rieter Vertriebs GmbH, Ingolstadt | EUR | 15 338 756 | 100% | | • | | • |
| | Rieter Deutschland GmbH & Co. OHG, Ingolstadt | EUR | 15 644 172 | 100% | | • | | • |
| | Wilhelm Stahlecker GmbH, Reichenbach im Täle | EUR | 255 624 | 100% | • | | | |
| France | Rieter Automotive France S.A., Aubergenville | EUR | 8 000 000 | 100% | • | • | • | |
| | Rieter ICBT S.A., Valence | EUR | 4 120 500 | 100% | • | • | • | • |
| | Rieter Perfojet S.A., Grenoble | EUR | 336 000 | 100% | • | • | • | • |
| Great Britain | Rieter Automotive Great Britain Ltd., Heckmondwike | GBP | 6 500 000 | 100% | • | • | • | |
| Hong Kong | Rieter Asia (Hong Kong) Ltd., Hong Kong | HKD | 1 000 | 100% | | • | | |
| India | Rieter-LMW Machinery Ltd., Perianaickenpalayam | INR | 250 000 000 | 50% | | | | • |
| | Rieter India Pvt. Ltd., New Delhi | INR | 10 000 000 | 100% | | • | | |
| Italy | Rieter Automotive Fimit S.p.A., Milano | EUR | 8 400 000 | 100% | • | • | • | |
| | Rieter Italiana S.r.l., Milano | EUR | 46 800 | 100% | | • | | |
| | Idea Institute S.p.A., Torino | EUR | 3 500 000 | 100% | • | | | • |
| Canada | Rieter Automotive Mastico Ltd., Ontario | CAD | 381 000 | 100% | • | • | • | |
| Netherlands | Rieter Automotive Nederland B.V., Weert | EUR | 2 042 010 | 100% | | • | • | |
| Portugal | Rieter Componentes para Veiculos Lda., Setúbal | EUR | 598 557 | 87% | | • | • | |
| Spain | Rieter Saifa S.A., Barcelona | EUR | 847 410 | 50% | • | • | • | |
| Taiwan | Rieter Asia (Taiwan) Ltd., Taipei | TWD | 5 000 000 | 100% | | • | | |
| Czech Republic | Rieter CZ a.s., Ustí nad Orlicí | CZK | 982 169 000 | 100% | • | • | • | • |
| | Novibra Boscovice s.r.o., Boscovice | CZK | 40 000 000 | 100% | • | • | • | |
| USA | Rieter Automotive North America, Inc., Farmington Hills | USD | 5 700 000 | 100% | • | • | • | |
| | Rieter Corporation, Spartanburg | USD | 1 249 | 100% | | • | | |
| | Rieter Greensboro, Inc., Greensboro | USD | 5 000 | 100% | | • | | |
| | UGN, Inc., Chicago | USD | 500 000 | 50% | • | • | • | |
| | Magee Rieter Automotive Systems, Bloomsburg ¹ | USD | | 50% | • | • | • | |

¹ no registered paid-in capital

April 2003

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