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# Comments on the 2004 financial report

Sales and corporate output	<p>In the year under review Rieter reported a 1.8% increase in sales to 3 173.2 million CHF and a 2.1% rise in corporate output to 3 054.6 million CHF. Sales growth of 5.5% at the Division Automotive Systems more than compensated for the 4.3% decline in sales at the Division Textile Systems. At constant exchange rates, sales grew by 2.6%. The continued decline in the value of the US dollar compared with the previous year was only offset approximately 50% by the rise in the value of the Euro as reflected in sales figures. The main sales markets for Textile Systems in 2004 were again in Asia; they accounted for almost 70% of the division's sales (some 61% in 2003). The acoustic segment supplied by Automotive Systems continues to grow faster than automotive production as a whole.</p>
EBIT and EBITDA	<p>In the year under review Rieter reported a 3.1% increase in the operating result before interest, taxes, depreciation and amortization (EBITDA) to 343.1 million CHF and a 4.0% rise in the operating result before interest and taxes (EBIT) to 210.5 million CHF. At the same time the relevant operating margins as a proportion of corporate output each improved by 0.1 of a percentage point; the EBITDA margin amounted to 11.2% in 2004, while the EBIT margin improved to 6.9%. Automotive Systems posted a 16.2% increase in the operating result to 98.3 million CHF, corresponding to an EBIT margin of 5.1% (4.6% in 2003). Operational improvements and higher volumes more than compensated for the effects of price increases for raw materials and the pressure imposed on sales prices by the automotive manufacturers. As a result of lower sales at Textile Systems, EBIT declined by 7.0% to 114.1 million CHF, although this still corresponds to a very good operating margin of 10.2% (10.6% in 2003).</p>
Financial income/expense	<p>Rieter reported a positive financial income/expense in the year of 6.1 million CHF (-14.2 million CHF in 2003). This comprises a reduction of some 10 million CHF in interest cost and financial expense and a positive contribution of 20.6 million CHF (9.4 million CHF in 2003) from income from securities and other financial income. At the end of 2004 Rieter held securities of 141.2 million CHF (144.0 million CHF in 2003). Valuation reserves of 8.1 million CHF included in shareholders' equity for marketable securities available for sale and investments were 3.8 million CHF higher at the end of 2004 compared with the previous year.</p>

Taxes	Under an increase to pre-tax profit of 29.5 million CHF, tax charge increased by a less than proportionate 7.7 million CHF to 76.2 million CHF. The corporate tax rate declined to 35.6% (37.1% in 2003).
Net profit and earnings per share	Rieter's net profit increased substantially by 18.8% to 137.8 million CHF (116.0 million CHF in 2003), driven by both improvements in operating results and financial income. The net profit margin increased from 3.9% in 2003 to 4.5% in the year under review. The increase in earnings per share was also encouraging: this figure improved by 20.9% to 31.04 CHF (25.68 CHF in 2003).
Cash flow and net liquidity	The higher net profit (+21.8 million CHF) was the main factor of the improvement in cash flow to 281.8 million CHF; this corresponds to 9.2% of corporate output (8.6% in 2003). Action taken to optimize net working capital contributed to a 69.7 million CHF reduction in bound resources (-48.0 million CHF in 2003), which corresponds to a 116.0 million CHF increase in free cash flow to 202.2 million CHF. The high free cash flow and the reduction of some 360 000 of Rieter registered shares held by the company on December 31 increased net liquidity by 239.7 million CHF to 217.5 million CHF.
Balance sheet	Total assets grew by 7.0% to 2 490.0 million CHF. This was mainly due to the increase in cash and cash equivalents. Net working capital was 69.7 million CHF lower, despite the increase in the volume of business. Bank borrowings declined by a further 16.9 million CHF to a total of 109.4 million CHF. Shareholders' equity of 1 069.8 million CHF at the end of 2004 (918.0 million CHF in 2003) resulted in an equity ratio of 43.0% (39.5% in 2003); this figure was at the upper end of the target range. Goodwill at the end of 2004 amounted to 140.4 million CHF (154.6 million CHF in 2003), which was equivalent to 13.1% of shareholders' equity (16.8% in 2003).
Proposed dividend	With a net profit for the year of 43.7 million CHF reported by Rieter Holding Ltd. (36.6 million CHF in 2003), a total of 63.1 million CHF is at the disposal of the annual general meeting to be held on April 28, 2005 (54.6 million CHF in 2003). The Board of Directors will propose the payment of a dividend of 10.00 CHF per registered share (8.60 CHF in 2003). This increase of 16.3% will maintain an attractive payout ratio of one-third of net profit after deduction of minority interests; this is equivalent to a dividend yield of 3.0%.
Development of the Rieter share price	The price of Rieter shares rose by 15.4% in 2004, from 286 CHF to 330 CHF. In the previous year the share price rose from 278 CHF to 286 CHF, resulting in a total price rise of 18.7% for the years 2003 and 2004 together (cf. p. 101).

# Consolidated income statement

	Notes <sup>1</sup>	2004 CHF million	%*	2003 CHF million	%*
<b>Sales</b>	(3)	<b>3 173.2</b>		<b>3 118.3</b>	
Sales deductions		-116.2		-137.8	
Change in semi-finished and finished goods		-5.1		6.5	
Own work capitalized		2.7		4.3	
<b>Corporate output</b>		<b>3 054.6</b>	<b>100.0</b>	<b>2 991.3</b>	<b>100.0</b>
Material costs		-1 384.4	45.3	-1 356.1	45.3
Employee costs	(4)	-909.5	29.8	-891.1	29.8
Operating expense		-417.6	13.7	-411.4	13.8
<b>Operating result before interest, taxes, depreciation and amortization (EBITDA)</b>		<b>343.1</b>	<b>11.2</b>	<b>332.7</b>	<b>11.1</b>
Depreciation and amortization	(5)	-132.6	4.3	-130.3	4.3
<b>Operating result before interest and taxes (EBIT)</b>		<b>210.5</b>	<b>6.9</b>	<b>202.4</b>	<b>6.8</b>
Financial income/expense	(6)	6.1		-14.2	
Other income/expense		-2.6		-3.7	
<b>Profit before taxes</b>		<b>214.0</b>	<b>7.0</b>	<b>184.5</b>	<b>6.2</b>
Taxes	(7)	-76.2		-68.5	
<b>Net profit<sup>2</sup></b>		<b>137.8</b>	<b>4.5</b>	<b>116.0</b>	<b>3.9</b>
Minority shareholders' interest in net profit		-13.0		-13.7	
<b>Net profit after deduction of minority interests</b>		<b>124.8</b>		<b>102.3</b>	
Earnings per share					
- average number of registered shares outstanding: 4 020 633 (3 983 970 in 2003)	CHF	31.04 <sup>3</sup>		25.68 <sup>3</sup>	
Diluted earnings per share					
- average number of registered shares including conditional capital: 4 742 945 (4 706 282 in 2003)	CHF	26.31 <sup>3</sup>		21.74 <sup>3</sup>	

\* in % of corporate output

<sup>1</sup> Refer to the notes starting on page 68.

<sup>2</sup> Net profit before deduction of minority interests.

<sup>3</sup> Shares held by the company are not included in the average number of shares.

# Consolidated balance sheet

		December 31, 2004	December 31, 2003
	Notes	CHF million	CHF million
<b>Assets</b>			
Tangible fixed assets	(9)	651.3	666.9
Intangible assets	(10)	145.7	160.7
Financial assets	(11)	137.3	143.7
Deferred tax assets	(7)	10.2	11.1
<b>Fixed assets</b>		<b>944.5</b>	<b>982.4</b>
Inventories	(12)	350.1	369.4
Trade receivables	(13)	527.2	522.1
Other receivables	(14)	121.4	134.0
Marketable securities	(15)	141.2	144.0
Cash and cash equivalents	(16)	405.6	175.0
<b>Current assets</b>		<b>1 545.5</b>	<b>1 344.5</b>
<b>Assets</b>		<b>2 490.0</b>	<b>2 326.9</b>
<b>Shareholders' equity and liabilities</b>			
Share capital		22.3	22.8
Share premium account (capital reserve)		27.5	27.5
Group reserves		1 020.0	867.7
<b>Shareholders' equity</b>		<b>1 069.8</b>	<b>918.0</b>
in % of total shareholders' equity and liabilities		43.0%	39.5%
<b>Minority interests</b>	(17)	<b>77.8</b>	<b>79.6</b>
Loans from banks		82.5	83.4
Bonds	(18)	200.0	200.0
Deferred tax liabilities	(7)	43.0	45.4
Provisions	(19)	162.8	173.8
Other long-term liabilities	(20)	10.6	12.7
<b>Long-term liabilities</b>		<b>498.9</b>	<b>515.3</b>
Trade payables		380.5	386.9
Advance payments by customers		137.0	102.7
Short-term bank borrowings		26.9	42.9
Other short-term liabilities	(21)	299.1	281.5
<b>Current liabilities</b>		<b>843.5</b>	<b>814.0</b>
<b>Liabilities</b>		<b>1 342.4</b>	<b>1 329.3</b>
<b>Shareholders' equity and liabilities</b>		<b>2 490.0</b>	<b>2 326.9</b>

# Consolidated statement of cash flows

	Notes	2004 CHF million	2003 CHF million
<b>Net profit</b>		137.8	116.0
Depreciation and amortization of tangible and intangible fixed assets		132.6	130.3
Valuation adjustments on financial assets		11.4	12.0
Minority interests in profits		-13.0	-13.7
Change in provisions		-13.4	0.9
Change in accruals		20.0	6.9
Change in inventories		19.3	-50.8
Change in trade receivables		-5.1	-32.1
Change in trade payables		-6.4	33.9
Change in other liabilities, other assets		41.9	-5.9
<b>Cash provided by operations</b>		<b>325.1</b>	<b>197.5</b>
Capital expenditure on tangible and intangible assets		-120.8	-128.4
Disposals of tangible and intangible assets		4.7	8.3
Investments		-16.1	-21.6
Disposals of investments		9.3	24.4
Changes in holdings of marketable securities		2.7	-18.2
Changes in the scope of consolidation <sup>1</sup>	(22)	0.0	6.0
<b>Cash used for investing activities</b>		<b>-120.2</b>	<b>-129.5</b>
Dividend paid to shareholders of Rieter Holding Ltd.		-34.5	-35.0
Change in holding of own shares/share repurchase		75.4	-56.9
Change in minority interests		4.3	6.2
Change in short-term bank borrowings		-15.9	-10.7
Change in short-term, interest-bearing liabilities		5.4	4.7
Change in long-term loans from banks		-0.9	20.2
Change in other long-term liabilities		-0.5	-4.1
<b>Cash provided by financing activities</b>		<b>33.3</b>	<b>-75.6</b>
Changes in basis of valuation, currency effects and consolidation items		-7.6	-9.8
<b>Change in cash and cash equivalents</b>		<b>230.6</b>	<b>-17.4</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>175.0</b>	<b>192.4</b>
<b>Cash and cash equivalents at end of year</b>		<b>405.6</b>	<b>175.0</b>
Financial expense		19.2	21.2
Taxes paid		73.8	71.0
Interest income		4.3	5.6
Dividends received		0.5	0.7

<sup>1</sup> Changes in the scope of consolidation are summarized on one line (Note 22).

# Changes in consolidated equity

	Share capital CHF million	Own shares CHF million	Share premium account CHF million	Valuation reserves CHF million	Retained earnings CHF million	Total CHF million
<b>At December 31, 2002</b>	22.8	-0.9	27.5	211.6	612.3	873.3
Dividend payment	0.0	0.0	0.0	0.0	-35.0	-35.0
<b>At January 1, 2003</b>	22.8	-0.9	27.5	211.6	577.3	838.3
Currency effects, other	0.0	0.0	0.0	11.6	0.0	11.6
Net profit after deduction of minority interests	0.0	0.0	0.0	0.0	102.3	102.3
Change in holding of own shares	0.0	-1.0	0.0	0.0	-55.9	-56.9
Change in marketable securities available for sale	0.0	0.0	0.0	22.7	0.0	22.7
<b>At December 31, 2003</b>	<b>22.8</b>	<b>-1.9</b>	<b>27.5</b>	<b>245.9</b>	<b>623.7</b>	<b>918.0</b>
Dividend payment	0.0	0.0	0.0	0.0	-34.5	-34.5
<b>At January 1, 2004</b>	22.8	-1.9	27.5	245.9	589.2	883.5
Currency effects, other	0.0	0.0	0.0	-17.8	0.0	-17.8
Net profit after deduction of minority interests	0.0	0.0	0.0	0.0	124.8	124.8
Share repurchase	-0.5	0.0	0.0	0.0	-34.6	-35.1
Change in holding of own shares	0.0	1.8	0.0	0.0	108.8	110.6
Change in marketable securities available for sale	0.0	0.0	0.0	3.8	0.0	3.8
<b>At December 31, 2004</b>	<b>22.3</b>	<b>-0.1</b>	<b>27.5</b>	<b>231.9</b>	<b>788.2</b>	<b>1 069.8</b>

Valuation reserves include a valuation gain of 8.1 million CHF (4.3 million CHF in 2003) on marketable securities available for sale and investments.

## 1 Principles of consolidation and accounting principles

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### **Principles of consolidation**

The basis for the consolidated financial statements are the financial statements of the individual group companies at December 31, 2004. These are formed using uniform accounting policies. The consolidated financial statements of the Rieter Group prepared in accordance with the consolidation and accounting principles set out below are based on fair value for the financial instruments and historical costs for other assets and liabilities, and they conform to International Financial Reporting Standards (IFRS).

The consolidation and accounting principles applied to the 2004 consolidated financial statements are unchanged from the previous year. No new International Financial Reporting Standards were adopted in 2004.

### **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. 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 pages 102 and 103.

### **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, see note 29.

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



**Change in the scope of consolidation**

There were no changes in the scope of consolidation in the year under review.

**Tangible fixed assets**

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

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

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

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

The various categories of assets also include assets financed by long-term contracts (finance leasing). The related liabilities are included in the balance sheet under long-term 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 up to eight 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 on the date control of the acquired company is assumed. It is carried in the currency of the relevant acquisition and, until the end of 2004, amortized against income on a straight-line basis over its estimated useful life, not exceeding 20 years. Currency differences arising from translation are posted to group reserves.

**Cash and cash equivalents**

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

**Marketable securities**

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

**Trade receivables**

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

**Inventories**

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

**Provisions**

If legal or likely liabilities are incurred as a consequence of past events, provisions are made to cover the expected outflow of funds. Provisions are classified as pension liabilities, business risks and other provisions.

Pension liabilities are liabilities arising from unfunded pension commitments or deficits on funded plans.

If no separate institutions exist, appropriate liabilities are recorded in provisions for pension liabilities in the balance sheet.

Business risks include provisions for warranties and technical risks in the context of product deliveries and services.

Other provisions are made for current and probable future legal proceedings, environmental liabilities, burdensome contracts (where the unavoidable direct costs of performance exceed the expected financial benefit) and other likely or legal liabilities of group companies.

**Income taxes**

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

**Deferred taxes**

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

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

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

**Research and development**

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

**Sales and realization of profits**

Sales revenues arising from deliveries of products are recorded when benefit and risk pass to the customer, and sales revenues arising from services are recorded on completion of delivery. 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. These risks are monitored on the basis of risk reporting procedures.

**Exchange rate risks**

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

**Credit risks**

Collection risks at 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. 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.

## 2 Segment information

### by division

#### Sales

CHF million	2004	2003
Textile Systems	1 175.9	1 228.2
Automotive Systems	1 978.9	1 875.6
Other activities	18.4	14.5
<b>Total</b>	<b>3 173.2</b>	<b>3 118.3</b>

#### Operating result (EBIT)

CHF million	2004	2003
Textile Systems	114.1	122.7
Automotive Systems	98.3	84.6
Other activities, incl. group costs	-1.9	-4.9
<b>Total</b>	<b>210.5</b>	<b>202.4</b>

#### Assets

CHF million	2004	2003
Textile Systems	834.1	959.8
Automotive Systems	1 274.2	1 247.8
Other activities, incl. group liquidity	381.7	119.3
<b>Total</b>	<b>2 490.0</b>	<b>2 326.9</b>

#### Liabilities

CHF million	2004	2003
Textile Systems	581.1	580.7
Automotive Systems	850.0	852.8
Other activities, incl. group liabilities	-88.7	-104.2
<b>Total</b>	<b>1 342.4</b>	<b>1 329.3</b>

#### Capital expenditure on tangible and intangible assets

CHF million	2004	2003
Textile Systems	35.3	29.6
Automotive Systems	84.9	97.7
Other activities	0.6	1.4
<b>Total</b>	<b>120.8</b>	<b>128.7</b>

**Depreciation and amortization of tangible and intangible assets**

CHF million	2004	2003
Textile Systems	34.6	39.1
Automotive Systems	97.8	90.6
Other activities	0.2	0.6
<b>Total</b>	<b>132.6</b>	<b>130.3</b>

**Number of employees at year-end**

	2004	2003
Textile Systems	4 491	4 559
Automotive Systems	8 940	8 629
Other activities	126	128
<b>Total</b>	<b>13 557</b>	<b>13 316</b>

**by geographical region****Sales**

CHF million	2004	2003
Europe	1 483.8	1 472.8
Asia incl. Turkey	875.4	792.4
North America	674.3	695.8
Latin America	96.9	96.3
Africa	42.8	61.0
<b>Total</b>	<b>3 173.2</b>	<b>3 118.3</b>

**Assets**

CHF million	2004	2003
Europe	1 728.8	1 520.5
Asia incl. Turkey	61.5	70.3
North America	666.6	704.6
Latin America	26.7	26.4
Africa	6.4	5.1
<b>Total</b>	<b>2 490.0</b>	<b>2 326.9</b>

**Capital expenditure on tangible and intangible assets**

CHF million	2004	2003
Europe	86.2	99.8
Asia incl. Turkey	9.3	2.4
North America	24.0	25.7
Latin America	0.8	0.7
Africa	0.5	0.1
<b>Total</b>	<b>120.8</b>	<b>128.7</b>

**Number of employees at year-end**

	2004	2003
Europe	9 155	9 163
Asia incl. Turkey	823	725
North America	2 835	2 762
Latin America	683	645
Africa	61	21
<b>Total</b>	<b>13 557</b>	<b>13 316</b>

**3 Sales****Change in sales**

CHF million	2004	2003
Change in sales due to volume and price, Textile Systems	-50.4	123.3
Change in sales due to volume and price, Automotive Systems	126.7	31.5
Change in sales due to volume and price, other activities	3.8	-5.2
Change in the scope of consolidation	0.0	74.5
Currency effects	-25.2	-82.0
<b>Total change in sales</b>	<b>54.9</b>	<b>142.1</b>

**4 Employee costs**

CHF million	2004	2003
Wages and salaries	746.5	740.9
Social security and other personnel expenses	163.0	150.2
<b>Total</b>	<b>909.5</b>	<b>891.1</b>

**5 Depreciation and amortization**

CHF million	2004	2003
Tangible fixed assets	121.7	113.5
Intangible assets	1.2	7.0
Goodwill	9.7	9.8
<b>Total</b>	<b>132.6</b>	<b>130.3</b>

## 6 Financial income/expense

CHF million	2004	2003
Interest cost and other financial expense	-19.3	-29.9
Interest income	4.3	5.6
Income from marketable securities and other financial income	20.6	9.4
Income from non-consolidated investments	0.5	0.7
<b>Total</b>	<b>6.1</b>	<b>-14.2</b>

The financial income/expense contributed 6.1 million CHF to net profit in the year under review (-14.2 million CHF in 2003). Persistently low interest rates on time deposits and rising stock pricing of selected securities had a considerable impact on the financial result in 2004. Part of the securities holdings are held as marketable securities available for sale. As in the previous year, the change in market value of this portion of the securities portfolio required no value adjustment in the income statement in the year under review.

## 7 Taxes

CHF million	2004	2003
Income taxes	64.2	57.2
Deferred taxes	-1.5	-2.5
Other	13.5	13.8
<b>Total</b>	<b>76.2</b>	<b>68.5</b>

The tax charge in the year under review was 7.7 million CHF higher than in the previous year on a 29.5 million CHF higher pre-tax profit, resulting in a corporate tax rate of 35.6% (37.1% in 2003). The reduction in the tax charge as a proportion of pre-tax profits was due mainly to the improvement in the financial result.

### Income taxes

The tax charge includes the following income taxes:

CHF million	2004	2003
Expected income taxes on pre-tax profits of 214.0 million CHF (184.5 million CHF in 2003) at an average rate of 22.7% (26.9% in 2003)	48.5	49.7
Impact of losses and loss carry-forwards	14.9	-3.7
Impact of changes in tax rates and tax legislation	-0.6	-0.5
Other effects	-0.1	9.2
<b>Total income taxes</b>	<b>62.7</b>	<b>54.7</b>



## Deferred taxes

<b>Assets</b>		
CHF million	2004	2003
Tangible fixed assets	1.9	3.1
Inventories	4.3	5.4
Other assets	7.3	7.9
Provisions	4.5	4.4
Other liabilities	13.9	15.5
Adjustments of tax assets and liabilities	-26.1	-21.1
Accrued losses and tax credits	21.5	13.2
<b>Deferred tax assets, gross</b>	<b>27.3</b>	<b>28.4</b>
Offsetting with liabilities	-17.1	-17.3
<b>Deferred tax assets</b>	<b>10.2</b>	<b>11.1</b>

<b>Liabilities</b>		
CHF million	2004	2003
Tangible fixed assets	38.1	37.8
Inventories	8.8	9.8
Other assets	15.4	13.6
Provisions	1.1	3.1
Other liabilities	3.7	1.8
Adjustments of tax assets and liabilities	-7.0	-3.4
<b>Deferred tax liabilities, gross</b>	<b>60.1</b>	<b>62.7</b>
Offsetting with assets	-17.1	-17.3
<b>Deferred tax liabilities</b>	<b>43.0</b>	<b>45.4</b>

Capitalized or not-capitalized deferred taxes based on tax loss carryforwards, presented by year of expiry:

CHF million	not capitalized	capitalized	2004
Expiry in			
1-3 years	2.3	0.1	2.4
4-6 years	4.4	3.1	7.5
7 and more years	70.8	7.0	77.8
<b>Total</b>	<b>77.5</b>	<b>10.2</b>	<b>87.7</b>

CHF million	not capitalized	capitalized	2003
Expiry in			
1-3 years	0.4	0.3	0.7
4-6 years	2.3	1.4	3.7
7 and more years	60.0	9.4	69.4
<b>Total</b>	<b>62.7</b>	<b>11.1</b>	<b>73.8</b>

## 8 Research and development

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135.4 million CHF was spent on research and development (128.8 million CHF in 2003).

The Textile Systems Division focused on the development of new spinning preparation and final spinning machines for cotton spinning mills, primarily in the fields of carding, combing and rotor spinning machines, as well as tire cord and carpet yarn ply twisting machines and texturing machines in the field of filament spinning machinery. In the field of nonwovens machinery further developments were also made in the spunbond and spunlace processes. Additions were made to the range of pelletizing machines.

Developments at Automotive Systems included applications for new models and customized acoustic products, carpets and underbody components for automotive manufacturers in Europe, America and Asia (China). Automotive Systems also invests continuously in new processes and materials in order to increase quality and provide customers with cost benefits.

No development costs were capitalized in the 2004 financial year.

## 9 Tangible fixed assets

	Land and buildings CHF million	Machinery, equipment and tools <sup>1</sup> CHF million	Data processing equipment CHF million	Vehicles and furniture <sup>2</sup> CHF million	Machinery and tools under construction CHF million	Total fixed assets CHF million
<b>At December 31, 2002</b>	<b>232.4</b>	<b>332.0</b>	<b>13.5</b>	<b>14.9</b>	<b>47.1</b>	<b>639.9</b>
Reclassification	-2.8	42.8	0.4	0.0	-40.4	0.0
Changes in the scope of consolidation	0.2	16.5	0.0	0.2	0.0	16.9
Capital expenditure	15.9	71.9	8.4	7.2	23.8	127.2
Disposals	-6.1	-1.7	-0.5	0.0	0.0	-8.3
Depreciation	-13.2	-86.1	-7.4	-6.8	0.0	-113.5
Currency effects	1.9	0.4	0.3	0.5	1.6	4.7
<b>At December 31, 2003</b>	<b>228.3</b>	<b>375.8</b>	<b>14.7</b>	<b>16.0</b>	<b>32.1</b>	<b>666.9</b>
Accumulated depreciation at Dec. 31, 2003	254.7	935.8	61.1	63.0	0.0	1 314.6
<b>Cost at December 31, 2003</b>	<b>483.0</b>	<b>1 311.6</b>	<b>75.8</b>	<b>79.0</b>	<b>32.1</b>	<b>1 981.5</b>
Reclassification	0.3	26.3	0.1	0.3	-27.0	0.0
Capital expenditure	13.1	66.4	5.4	5.6	29.9	120.4
Disposals	-2.6	-1.0	-0.1	-0.2	0.0	-3.9
Depreciation	-13.7	-94.6	-7.1	-6.3	0.0	-121.7
Currency effects <sup>3</sup>	-2.6	-6.9	-0.1	-0.2	-0.6	-10.4
<b>At December 31, 2004</b>	<b>222.8</b>	<b>366.0</b>	<b>12.9</b>	<b>15.2</b>	<b>34.4</b>	<b>651.3</b>
Accumulated depreciation at Dec. 31, 2004	261.2	931.2	51.4	64.8	0.0	1 308.6
<b>Cost at December 31, 2004</b>	<b>484.0</b>	<b>1 297.2</b>	<b>64.3</b>	<b>80.0</b>	<b>34.4</b>	<b>1 959.9</b>

<sup>1</sup> Including machinery and operating facilities.

<sup>2</sup> Including pilot machines.

<sup>3</sup> Negative changes mainly at the North American companies resulted in a 10.4 million CHF reduction in net asset values due to currency translation effects.

## Land and buildings

CHF million	2004	2003
Land in operational use	26.8	30.3
Factory and office buildings	175.0	170.3
Residential properties, land	21.0	27.7
<b>Total</b>	<b>222.8</b>	<b>228.3</b>

Factory and office buildings were insured at the replacement value of 1 168.0 million CHF at balance sheet date (964.9 million CHF in 2003) and residential properties at the replacement value of 40.8 million CHF (43.6 million CHF in 2003).

## Investment property

Land and Buildings include the following investment property:

CHF million	2004	2003
<b>Consolidated value at January 1</b>	21.2	28.1
Capital expenditure	0.0	0.1
Disposals	-1.4	-6.8
Depreciation	-0.2	-0.2
<b>Consolidated value at December 31</b>	<b>19.6</b>	<b>21.2</b>
<b>Market value at December 31</b>	28.4	32.4

A net income value with an anticipated average gross yield of 7.0% (7.1% in 2003), less prospective taxes in the event of sale, was established as the market value of the investment property on the basis of estimates of future rental income calculated by the company.

## 10 Intangible assets

	Goodwill CHF million	Patents CHF million	Other intangible assets CHF million	Total intangible assets CHF million
<b>At December 31, 2002</b>	159.5	10.1	1.8	171.4
Changes in the scope of consolidation	0.3	0.0	0.0	0.3
Capital expenditure/disposals	-0.1	0.0	1.3	1.2
Amortization	-9.8	-5.4	-1.6	-16.8
Currency effects	4.7	0.0	-0.1	4.6
<b>At December 31, 2003</b>	<b>154.6</b>	<b>4.7</b>	<b>1.4</b>	<b>160.7</b>
Accumulated amortization at December 31, 2003	49.2	7.1	3.6	59.9
<b>Total at December 31, 2003</b>	<b>203.8</b>	<b>11.8</b>	<b>5.0</b>	<b>220.6</b>
Capital expenditure/disposals	-0.8	0.0	0.4	-0.4
Amortization	-9.7	-0.9	-0.3	-10.9
Currency effects	-3.7	0.0	0.0	-3.7
<b>At December 31, 2004</b>	<b>140.4</b>	<b>3.8</b>	<b>1.5</b>	<b>145.7</b>
Accumulated amortization at December 31, 2004	51.3	8.0	0.7	60.0
<b>Total at December 31, 2004</b>	<b>191.7</b>	<b>11.8</b>	<b>2.2</b>	<b>205.7</b>

There were no additions to goodwill in the year under review. In the previous year an additional 1% share in Rieter Saifa in Spain was acquired.

## 11 Financial assets

CHF million	2004	2003
Investments in non-consolidated companies	28.2	37.3
Long-term interest-bearing receivables	42.1	41.9
Other long-term receivables	19.8	17.3
Pension funds	47.2	47.2
<b>Total</b>	<b>137.3</b>	<b>143.7</b>

Rieter Holding Ltd. held direct or indirect interests in Spindelfabrik Suessen (19%, Germany) and Lakshmi Machine Works (13%, India) at the balance sheet date. The interest in Spindelfabrik Suessen was increased to 100% at the beginning of 2005, at which point this company will be fully consolidated.

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

**12 Inventories**

CHF million	2004	2003
Raw materials and consumables	45.3	52.0
Purchased parts and goods for resale	90.1	88.7
Semi-finished and finished goods	82.0	84.0
Work in progress	132.7	144.7
<b>Total</b>	<b>350.1</b>	<b>369.4</b>

**13 Trade receivables**

Trade receivables increased by less than the growth in sales.

**14 Other receivables**

CHF million	2004	2003
Short-term, interest-bearing receivables	0.5	1.9
Advance payments to suppliers	13.8	13.2
Other short-term receivables	107.1	118.9
<b>Total</b>	<b>121.4</b>	<b>134.0</b>

**15 Marketable securities**

CHF million	2004	2003
Securities held for trading	69.5	53.6
Securities available for sale	71.7	90.4
<b>Total</b>	<b>141.2</b>	<b>144.0</b>

Securities are stated at fair value of which 1.8 million CHF (2.5 million CHF in 2003) was invested in options. These were mainly call options. 71.7% of the equity portfolio (71.5% in 2003) was invested in Swiss shares. Investments in marketable securities are primarily in listed companies in the industrial, banking and service sectors. The investment risks of the securities portfolio are periodically reviewed.

## 16 Cash and cash equivalents

CHF million	2004	2003
Cash and banks	296.9	164.1
Time deposits	108.7	10.9
<b>Total</b>	<b>405.6</b>	<b>175.0</b>

The majority of cash and cash equivalents are managed centrally in Swiss francs in order to limit currency risk. A netting system and group cash pools further reduce currency exposure.

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

## 17 Minority interests

The main minority interests held by third parties are in UGN (USA), Magee Rieter (USA and Canada, wholly owned by Rieter as of January 2005), Rieter Saifa (Spain) and Rieter-LMW Machinery Ltd. (India).

## 18 Bonds

CHF million	2004	2003
4% bonds, maturing 2007	200.0	200.0
<b>Total</b>	<b>200.0</b>	<b>200.0</b>

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

**19 Provisions**

	<b>Pension liabilities</b> CHF million	<b>Business risks</b> CHF million	<b>Other provisions</b> CHF million	<b>Total provisions</b> CHF million
<b>Provisions at December 31, 2002</b>	59.3	55.5	56.1	170.9
Changes in the scope of consolidation	0.0	0.0	2.8	2.8
Utilization	-5.3	-27.3	-4.9	-37.5
Release	0.0	-7.4	-3.1	-10.5
Additions	6.1	27.3	10.6	44.0
Currency effects	3.9	0.3	-0.1	4.1
<b>Provisions at December 31, 2003</b>	<b>64.0</b>	<b>48.4</b>	<b>61.4</b>	<b>173.8</b>
Utilization	-1.1	-15.6	-13.0	-29.7
Release	-3.3	-16.5	-13.2	-33.0
Additions	8.3	31.3	13.5	53.1
Currency effects	-0.9	-0.1	-0.4	-1.4
<b>Provisions at December 31, 2004</b>	<b>67.0</b>	<b>47.5</b>	<b>48.3</b>	<b>162.8</b>

**20 Other long-term liabilities**

CHF million	2004	2003
Other long-term, interest-bearing liabilities	10.4	10.9
Other long-term liabilities	0.2	1.8
<b>Total</b>	<b>10.6</b>	<b>12.7</b>

**21 Other short-term liabilities**

CHF million	2004	2003
Sales commissions	19.7	21.7
Tax liabilities	20.9	17.0
Short-term, interest-bearing liabilities	10.0	5.9
Other short-term liabilities	118.6	116.7
Accrued liabilities	129.9	120.2
<b>Total</b>	<b>299.1</b>	<b>281.5</b>



## 22 Changes in the scope of consolidation

CHF million	2004	2003
Tangible fixed assets	0.0	15.7
Financial assets	0.0	-13.7
Goodwill	0.0	0.3
Cash and cash equivalents	0.0	6.7
Trade receivables	0.0	14.3
Other receivables	0.0	0.3
Inventories	0.0	8.6
Trade payables	0.0	-11.7
Other liabilities	0.0	-7.1
Minority interests	0.0	-12.7
<b>Net additions</b>	<b>0.0</b>	<b>0.7</b>
Less cash and cash equivalents	0.0	-6.7
Cash provided by changes in the scope of consolidation	0.0	-6.0

There were no additions to or disposals in the scope of consolidation in the year under review. The first-time consolidation of Rieter Saifa was the only addition in 2003.

## 23 Pension plans

The expenditure for pension plans is charged to employee costs.

### Defined-contribution pension plans

The expenditure for defined-contribution pension plans amounted to 9.5 million CHF (10.0 million CHF in 2003).

### Defined-benefit pension 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 IFRS rules.

### Pension costs of defined-benefit plans

CHF million	2004	2003
Current service cost	12.4	12.8
Interest cost	38.6	37.5
Expected return on plan assets	-33.8	-31.8
Employees' contributions	-6.2	-4.8
<b>Expense for the defined-benefit plans</b>	<b>11.0</b>	<b>13.7</b>

### Funded status of defined-benefit plans

CHF million	2004	2003
Actuarial present value of defined-benefit obligation		
– unfunded	-56.3	-54.9
– funded	-878.3	-867.9
Fair value of plan assets	1 010.7	937.2
Recognized in the balance sheet		
– as assets	50.4	47.7
– as pension provisions	-56.3	-54.9
<b>Net assets at December 31</b>	<b>-5.9</b>	<b>-7.2</b>

Actuarial gains are capitalized under financial assets to the extent the company will be able to utilize them. Pension plan assets included 136 092 Rieter shares (207 000 in 2003) and loans to group companies of 0.3 million CHF (3.0 million CHF in 2003).

### Development of balance sheet items

CHF million	2004	2003
Net assets at January 1	-7.2	-2.6
Expense for defined-benefit plans	-11.0	-13.7
Employer's contributions	12.3	9.1
<b>Net assets at December 31</b>	<b>-5.9</b>	<b>-7.2</b>

### Actuarial assumptions

in %	2004	2003
Discount rate	3.9	3.9
Expected return on assets	3.8	3.9
Future wage growth	1.6	1.8
Future pension growth	0.9	0.9

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

## 24 Staff share purchase plans

There is a share purchase plan for executives. In the year under review 86 participants purchased 20 134 shares at a price of 223.00 CHF per share (21 255 shares at 183.00 CHF in 2003). At least two-thirds of these shares cannot be sold for three years. At year-end, 41 185 shares were held in blocked accounts (42 003 in 2003). The shares for this program were taken from the holdings of Rieter Holding Ltd.

In addition, the members of the Group Executive Committee could subscribe to one additional free option for each share which was purchased and subject to restrictions on sale under the above plan. Each option entitles the holder to purchase a share after two years at a price of 318.15 CHF (244.00 CHF in 2003), which corresponded to the average market price on the date the options were issued. A total of 3 856 options were issued.

Summary of options held:

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

No options had been exercised up to the end of 2004.

Long-service bonuses are also granted in the form of shares at some group companies, and 11 369 shares are reserved for this purpose (12 314 shares in 2003).

## 25 Future liabilities of finance leasing

CHF million	2004	2003
Current	2.1	5.0
2-5 years	4.6	2.9
Over 5 years	4.3	4.7
<b>Total</b>	<b>11.0</b>	<b>12.6</b>

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

## 26 Related persons and associated companies

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

## 27 Cash flow

CHF million	2004	2003
<b>Net profit</b>	<b>137.8</b>	<b>116.0</b>
Depreciation and amortization of tangible and intangible assets	132.6	130.3
Valuation adjustments on financial assets	11.4	12.0
<b>Cash flow</b>	<b>281.8</b>	<b>258.3</b>
Minority interests in profits	-13.0	-13.7
Change in provisions	-13.4	0.9
<b>Net cash flow</b>	<b>255.4</b>	<b>245.5</b>
Change in current assets	69.7	-48.0
Capital expenditure on tangible and intangible assets, net	-116.1	-120.1
Change in financial assets	-6.8	2.8
Changes in the scope of consolidation	0.0	6.0
<b>Free cash flow</b>	<b>202.2</b>	<b>86.2</b>

## 28 Net liquidity

CHF million	2004	2003
Cash and cash equivalents	405.6	175.0
Marketable securities	141.2	144.0
Short-term, interest-bearing receivables	0.5	1.9
Short-term bank borrowings	-26.9	-42.9
Short-term, interest-bearing liabilities	-10.0	-5.9
Long-term loans from banks	-82.5	-83.4
Bonds issued	-200.0	-200.0
Other long-term, interest-bearing liabilities	-10.4	-10.9
<b>Net liquidity</b>	<b>217.5</b>	<b>-22.2</b>

## 29 Exchange rates for currency translation

		Average annual rates		Year-end rates	
		2004 CHF	2003 CHF	2004 CHF	2003 CHF
Argentina	1 ARS	0.42	0.46	0.38	0.42
Brazil	1 BRL	0.43	0.44	0.43	0.43
China	100 CNY	15.01	16.25	13.67	15.00
Euro countries	1 EUR	1.54	1.52	1.54	1.56
Great Britain	1 GBP	2.28	2.20	2.19	2.21
Hong Kong	100 HKD	15.95	17.26	14.55	16.00
India	100 INR	2.74	2.89	2.60	2.71
Canada	1 CAD	0.96	0.96	0.94	0.96
Poland	100 PLN	34.17	34.63	38.00	33.13
Taiwan	100 TWD	3.72	3.92	3.55	3.64
Czech Republic	100 CZK	4.84	4.78	5.07	4.80
USA	1 USD	1.24	1.34	1.13	1.24

### 30 Events after balance sheet date

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After balance sheet date the holdings in Magee Rieter and Spindelfabrik Suessen were increased to 100% in January 2005.

The Partnership Agreement between Rieter and Magee Ltd. states that Magee Ltd. had the right to sell its 50% interest in the American partnership of Magee Rieter Automotive Systems to Rieter at market value. In 2004 Magee Ltd. advised Rieter of its intention to exercise this right. Rieter and Magee Ltd. signed a purchase agreement for the remaining 50% interest in January 2005. Magee Rieter, based in Bloomsburg, Pennsylvania, generated sales of around 150 million USD with some 800 employees at three locations in the USA and Canada in 2004. Rieter Magee is wholly owned by Rieter as of January 12, 2005, therefore the partner's minority interest will be eliminated as of that date.

A 19% interest in Spindelfabrik Suessen in Germany was acquired in 2001. Rieter had the right to acquire the remaining share by 2007. Rieter acquired the remaining 81% of the capital of Spindelfabrik Suessen GmbH in Süssen (Southern Germany) in January 2005, increasing its holding from 19% to 100%. These activities will be consolidated in group accounts as of the date of purchase. Consolidated sales in 2004 amounted to around 70 million CHF, with Rieter companies accounting for about one-fifth of these sales. Suessen employs a workforce of some 250 at its headquarters and a further 350 in a manufacturing plant in India.

Calculation of the financial impact of the two acquisitions on the 2005 consolidated financial statements had not been completed when the 2004 consolidated statements were published.

### 31 Approval for publication of the consolidated financial statements

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The consolidated financial statements were approved for publication by the Board of Directors on March 22, 2005. They are also subject to approval by the Annual General Meeting of shareholders. No events have occurred up to March 22, 2005, which would necessitate adjustments to the book values of the group's assets or liabilities, or which require additional 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 64 to 89 and pages 102 to 103) of Rieter Holding Ltd. for the year ended December 31, 2004.

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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

PricewaterhouseCoopers AG

Handwritten signature of Christian Kessler in black ink.

Christian Kessler

Handwritten signature of Stefan Haag in black ink.

Stefan Haag

Zurich, March 23, 2005

# Income statement of Rieter Holding Ltd.

for the financial year from January 1 to December 31

	Notes	2004 CHF million	2003 CHF million
<b>Income</b>			
Income from investments	(1)	118.5	64.6
Income from marketable securities and interest income	(2)	29.0	5.1
Other income	(3)	9.7	9.8
<b>Total income</b>		<b>157.2</b>	<b>79.5</b>
<b>Expenditure</b>			
Financial expense	(4)	14.3	13.8
Administration expense		4.2	4.1
Value adjustments, provisions	(5)	95.0	25.0
<b>Total expenditure</b>		<b>113.5</b>	<b>42.9</b>
<b>Net profit</b>		<b>43.7</b>	<b>36.6</b>

# Balance sheet of Rieter Holding Ltd.

at December 31, before appropriation of profit

	Notes	2004 CHF million	2003 CHF million
<b>Assets</b>			
Investments in and loans to subsidiaries	(6)	542.8	653.4
<b>Fixed assets</b>		<b>542.8</b>	<b>653.4</b>
Accrued income and prepayments	(7)	2.7	3.3
Receivables from third parties	(8)	2.8	2.6
Receivables from subsidiaries	(9)	28.2	29.4
<b>Receivables</b>		<b>33.7</b>	<b>35.3</b>
<b>Liquid funds</b>	(10)	<b>281.0</b>	<b>214.0</b>
<b>Current assets</b>		<b>314.7</b>	<b>249.3</b>
<b>Total assets</b>		<b>857.5</b>	<b>902.7</b>
<b>Shareholders' equity and liabilities</b>			
Share capital	(11)	22.3	22.8
Legal reserves			
– General reserve	(12)	27.5	27.5
– Reserve for own shares	(13)	1.7	113.1
Other reserves	(14)	253.0	176.3
Retained earnings	(15)		
– Balance brought forward		19.4	18.0
– Net profit for the year		43.7	36.6
<b>Shareholders' equity</b>		<b>367.6</b>	<b>394.3</b>
Short-term liabilities	(16)	273.0	284.7
Accrued liabilities	(17)	5.6	6.2
<b>Current liabilities</b>		<b>278.6</b>	<b>290.9</b>
Bonds	(18)	200.0	200.0
Loans from subsidiaries		0.0	6.2
Provisions	(19)	11.3	11.3
<b>Long-term liabilities</b>		<b>211.3</b>	<b>217.5</b>
<b>Liabilities</b>		<b>489.9</b>	<b>508.4</b>
<b>Total shareholders' equity and liabilities</b>		<b>857.5</b>	<b>902.7</b>



## 1 Income from investments

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Income from investments comprises of dividends received from subsidiaries and associated companies. The change compared to the previous year is due to non-recurring, extraordinary dividend payments.

## 2 Income from marketable securities and interest income

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This includes income from marketable securities, interest income and foreign exchange income. Higher income was recorded in 2004 due to the positive performance of securities holdings.

## 3 Other income

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The contractually agreed compensation payments for services by group companies to the parent company were unchanged from the previous year.

## 4 Financial expense

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The cost of interest on liabilities to group companies in the group cash pools and interest on bond issues are the main elements of financial expense.

## 5 Value adjustments, provisions

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Provisions were increased by 95.0 million CHF and deducted from investments in and loans to subsidiaries.

## 6 Investments in and loans to subsidiaries

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CHF million	2004	2003
Investments in subsidiaries	129.5	201.0
Loans to subsidiaries	413.3	452.4
<b>Total</b>	<b>542.8</b>	<b>653.4</b>

The lower value of investments in subsidiaries compared with the previous year is due mainly to a repayment of capital. The main subsidiaries and associated companies are listed on pages 102 to 103. These investments are held directly or indirectly by Rieter Holding Ltd.

**7 Accrued income and prepayments**

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

**8 Receivables from third parties**

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

**9 Receivables from subsidiaries**

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

**10 Liquid funds**

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CHF million	2004	2003
Cash and cash equivalents	139.3	56.5
Marketable securities	141.7	157.5
<b>Total</b>	<b>281.0</b>	<b>214.0</b>

**11 Share capital**

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Rieter successfully completed a share repurchase program with the repurchase of 118 200 registered shares on March 16, 2004. The annual general meeting on May 5, 2004, approved the cancelation of these shares and the associated 2.6% reduction in capital, from 22 845 280 CHF to 22 254 280 CHF. The reduction in share capital was entered in the register on August 6, 2004.

**12 General reserve**

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

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

	Number
Registered shares held at January 1, 2004	377 130
Purchases January-December 2004 (average price CHF 322.27)	126 606
Share repurchase, Reduction of share capital (average price CHF 297.99)	118 200
Sales January-December 2004 (average price CHF 321.28)	369 473
Registered shares held at December 31, 2004	16 063

A reserve for own shares has been made in the amount of the acquisition cost of 1.7 million CHF. This amount was deducted from other reserves.

**14 Other reserves**

CHF million	2004	2003
Opening balance	176.3	214.9
Transfer to reserve for own shares	111.4	-38.1
Share repurchase	-34.6	0.0
Other	-0.1	-0.5
<b>Total</b>	<b>253.0</b>	<b>176.3</b>

**15 Retained earnings**

Including the balance brought forward, the Annual General Meeting has a total of 63.1 million CHF at its disposal (54.6 million CHF in 2003).

**16 Short-term liabilities**

CHF million	2004	2003
Liabilities to group companies	272.3	280.8
Liabilities to third parties	0.7	3.9
<b>Total</b>	<b>273.0</b>	<b>284.7</b>

Rieter Holding Ltd. manages liquid funds for group companies and third parties in the central cash pool. The reduction in these liabilities through set-off against extraordinary dividend payments by subsidiaries was offset by an inflow of funds from assets of operating companies.

**17 Accrued liabilities**

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

## 18 Bonds

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CHF million	2004	2003
4% bonds, maturing 2007	200.0	200.0
<b>Total</b>	<b>200.0</b>	<b>200.0</b>

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

## 19 Provisions

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Provisions include foreign exchange risks and guarantee commitments.

## 20 Guarantees to third parties

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CHF million	2004	2003
Guarantees	1.3	19.8

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

## 21 Shareholders

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Major groups of shareholders with holdings exceeding 5% of all voting rights (pursuant to Art. 663c of the Swiss Code of Obligations) at December 31, 2004:  
None

Rieter Holding Ltd. held at December 31, 2004 16 063 of its own shares directly or indirectly (377 130 shares in 2003).

## for the appropriation of profit (2004 financial year)

	2004 CHF	2003 CHF
Net profit for the year	43 696 508	36 565 969
Retained earnings brought forward from previous year	20 582 422	17 950 875
Waiver of dividends on own shares	-1 135 965	112 909
<b>Retained earnings at the disposal of the Annual General Meeting</b>	<b>63 142 965</b>	<b>54 629 753</b>
<b>Proposal</b>		
Dividend on registered shares	41 248 560	34 047 331
Retained earnings	21 894 405	20 582 422
<b>Retained earnings at the disposal of the Annual General Meeting</b>	<b>63 142 965</b>	<b>54 629 753</b>

Upon approval of this proposal by the Annual General Meeting, a dividend for the 2004 financial year of CHF 10.00 will be paid on each registered share of CHF 5.00 p.v. on May 6, 2005. The dividend, less Swiss withholding tax, of CHF 6.50 will be paid into the bank or postal account specified by the holder of the shares.



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

As statutory auditors, we have audited the accounting records and the financial statements (income statement, balance sheet and notes on pages 91 to 97 and pages 102 to 103) of Rieter Holding Ltd. for the year ended December 31, 2004.

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

Handwritten signature of Christian Kessler in black ink.

Christian Kessler

Handwritten signature of Stefan Haag in black ink.

Stefan Haag

Zurich, March 23, 2005

## Capital structure

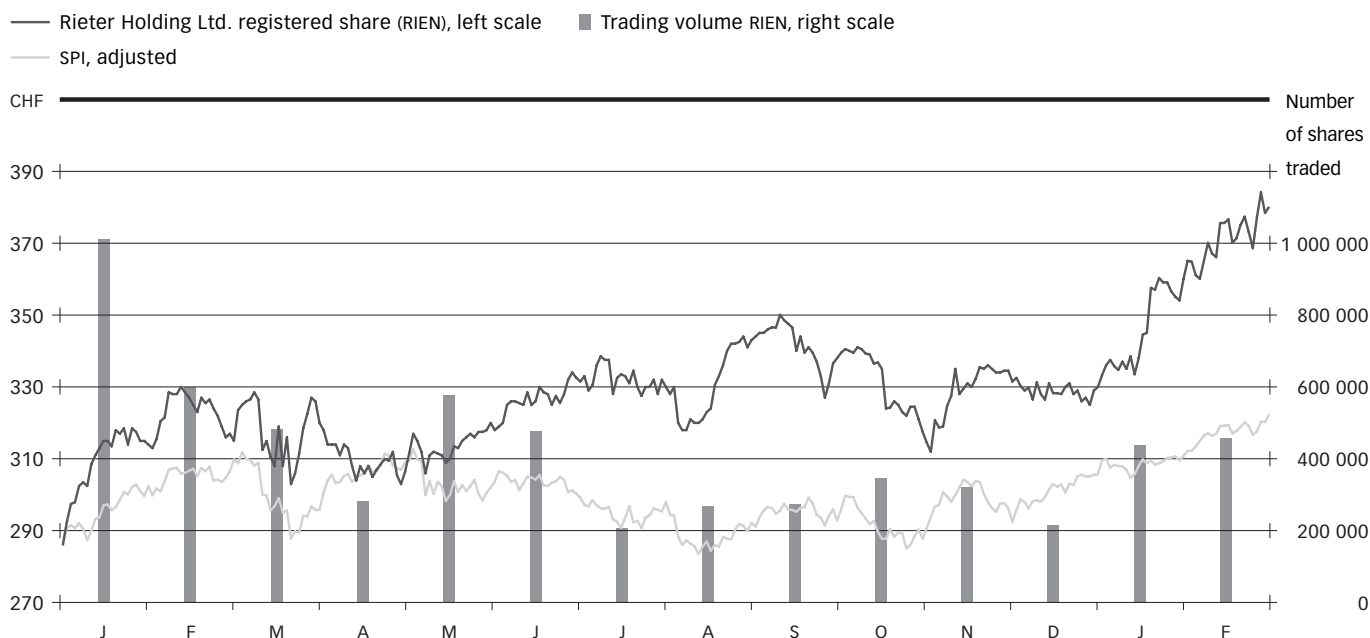
At the end of the year 7 708 shareholders were entered in the shareholders' register of Rieter Holding Ltd. (7 070 in the previous year). The analysis of shareholders is as follows:

Registered shareholders	2004		2003	
	shares in %	holders in %	shares in %	holders in %
<b>Total:</b>				
- Individuals	17.7	89.4	17.0	90.7
- Legal entities	55.4	10.6	50.2	9.3
- Floating shares	26.9		32.8	
<b>Foreign investors</b>				
- Individuals	1.1	5.8	1.1	6.0
- Legal entities	20.8	1.3	8.6	0.9

## Rieter registered shares at December 31, 2004 (Listed on the Swiss Stock Exchange swx)

	Number	
Securities code 367144 (Investdata: RIEN; Reuters: RITZN)		
Share capital	4 450 856	registered shares of CHF 5.00 p.v.
Share capital eligible for dividend	4 124 856	- including no own shares held by Rieter Holding Ltd. - 16 063 own shares held by group companies
Conditional share capital	396 312	registered shares

## Share price development 2004/2005



<b>Consolidated income statement</b>		<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Sales	CHF million	3 173.2	3 118.3	2 976.2	3 170.2	2 931.0
– Europe	CHF million	1 484	1 473	1 333	1 444	1 324
– Asia (incl. Turkey)	CHF million	875	792	685	645	527
– North America	CHF million	674	696	794	860	864
– Latin America	CHF million	97	96	120	182	181
– Africa	CHF million	43	61	44	39	35
Corporate output	CHF million	3 054.6	2 991.3	2 872.2	3 025.4	2 841.8
Operating result before interest, taxes, depreciation and amortization (EBITDA)	CHF million	343.1	332.7	322.5	337.1	323.3
– in % of corporate output		11.2	11.1	11.2	11.1	11.4
Operating result before interest and taxes (EBIT)	CHF million	210.5	202.4	200.9	203.9	199.5
– in % of corporate output		6.9	6.8	7.0	6.7	7.0
Net profit <sup>1</sup>	CHF million	137.8	116.0	83.8	111.2	146.0
– in % of corporate output		4.5	3.9	2.9	3.7	5.1
<b>Consolidated balance sheet</b>						
Fixed assets	CHF million	944.5	982.4	990.1	1 044.9	966.6
Current assets	CHF million	1 545.5	1 344.5	1 233.5	1 283.8	1 462.1
Shareholders' equity before appropriation of profit	CHF million	1 069.8	918.0	873.3	907.8	919.6
Minority interests	CHF million	77.8	79.6	66.6	82.4	74.8
Long-term liabilities	CHF million	498.9	515.3	494.7	437.8	561.0
Current liabilities	CHF million	843.5	814.0	789.0	900.7	873.3
Total assets	CHF million	2 490.0	2 326.9	2 223.6	2 328.7	2 428.7
Shareholders' equity (%)		43.0	39.5	39.3	39.0	37.9
<b>Consolidated statement of cash flows<sup>2</sup></b>						
Cash provided by operations	CHF million	325.1	197.5	240.4	248.4	316.4
Cash used for investing activities	CHF million	–120.2	–129.5	–80.5	–187.7	–259.5
Cash provided by financing activities	CHF million	33.3	–75.6	–135.2	–149.1	–48.5
Net cash flow	CHF million	255.4	245.5	172.9	216.8	234.6
Free cash flow	CHF million	202.2	86.2	100.2	60.7	56.9
<b>Number of employees at year-end</b>		<b>13 557</b>	<b>13 316</b>	<b>12 983</b>	<b>12 977</b>	<b>12 232</b>

<sup>1</sup> Net profit before deduction of minority interests.

<sup>2</sup> See page 66 and 88.



<b>Information for investors</b>			<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Share capital	CHF million		22.3	22.8	22.8	45.7	45.5
Net profit of Rieter Holding Ltd.	CHF million		43.7	36.6	31.1	36.1	45.3
Gross distribution	CHF million		41.2 <sup>1</sup>	34.0	35.8	36.5	36.3
Payout ratio (as a % of net profit) <sup>2</sup>	in %		33	33	52	39	28
Market capitalization (Dec. 31) <sup>3</sup>	CHF million		1 361	1 214	1 180	1 485	2 080
Market capitalization as a % of							
– sales	in %		43	39	40	47	71
– net cash flow	in %		533	494	682	685	887
– equity	in %		127	132	135	164	226

<sup>1</sup> Proposed by the Board of Directors (cf. page 97)

<sup>2</sup> Net profit after deduction of minority interests.

<sup>3</sup> Market capitalization is based on the number of shares eligible for dividend, including own shares.

<b>Data per share (RIEN)</b>			<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>	
Shareprices on the SWX Swiss Exchange, registered shares								
	high	CHF	350	290	404	493	598	
	low	CHF	293	237	275	348	461	
Price/earnings ratio								
	high		11.3	11.3	23.8	21.4	19.2	
	low		9.4	9.2	16.2	15.1	14.8	
Shareholders' equity (group) per registered share			CHF	266.08	230.42	214.50	222.55	222.73
Tax value per registered share			CHF	330.00	286.00	278.00	360.00	479.00
Gross distribution per registered share			CHF	10.00 <sup>1</sup>	8.60	8.60	8.60	8.60
– of which capital repayment			CHF			5.00		
Gross yield on registered shares								
	high	in %	2.9 <sup>1</sup>	3.0	2.1	1.7	1.4	
	low	in %	3.4 <sup>1</sup>	3.6	3.1	2.5	1.9	
Net profit after deduction of minority interests per registered share			CHF	31.04	25.68	16.95	22.85	31.22
Net cash flow per registered share			CHF	63.52	61.62	42.47	53.15	56.82

<sup>1</sup> Proposed by the Board of Directors (see page 97).

Data per share are based on the average number of registered shares.

# Significant subsidiaries and associated companies

at December 31, 2004

		Paid-in capital in local currency		Group interest	Research & development	Sales/trading	Production	Services/financing
Argentina	Rieter Automotive Argentina S.A., Córdoba	ARS	7 070 000	95%		•	•	
Belgium	Rieter Automotive Belgium N.V., Genk	EUR	1 797 228	100%		•	•	
Brazil	Rieter Automotive Brazil-Artefatos de Fibras Texteis Ltda., São Bernardo d. C.	BRL	35 107 000	100%	•	•	•	
	Rieter South America Ltda., São Paulo	BRL	2 173 653	100%		•		
China	Rieter Changzhou Textile Instruments Co. Ltd., Changzhou	EUR	4 500 000	100%			•	
	Rieter Nittoku (Guangzhou) Automotive Sound-Proof Co. Ltd., Guangzhou City	USD	3 000 000	51%		•	•	
	Rieter Textile Systems (Shanghai) Co. Ltd., Shanghai	USD	200 000	100%		•		
	Rieter Asia (Hong Kong) Ltd., Hongkong	HKD	1 000	100%		•		
Germany	Rieter Ingolstadt Spinnereimaschinenbau AG, Ingolstadt	EUR	12 273 600	100%	•	•	•	•
	Rieter Automotive Germany GmbH, Rossdorf	EUR	11 248 421	100%	•	•	•	
	Rieter Automatik GmbH, GROSSOSTHEIM	EUR	7 158 086	100%	•	•	•	•
	Rieter Vertriebs GmbH, Ingolstadt	EUR	15 338 756	100%		•		•
	Rieter Deutschland GmbH & Co. OHG, Ingolstadt	EUR	15 645 531	100%		•		•
	Wilhelm Stahlecker GmbH, Reichenbach im Täle	EUR	255 624	100%	•			
	Spindelfabrik Suessen, Schurr, Stahlecker & Grill GmbH <sup>1</sup>	EUR	5 050 029	19%	•	•	•	•
France	Rieter Automotive France SASU, Aubergenville	EUR	8 000 000	100%	•	•	•	
	Rieter Textile Machinery France SAS, Valence	EUR	791 525	100%	•	•	•	•
	Rieter Perfojet SAS, Grenoble	EUR	1 033 600	100%	•	•	•	•
	Rieter France SAS, Valence	EUR	39 852 500	100%				•
Great Britain	Rieter Automotive Great Britain Ltd., Heckmondwike	GBP	27 200 000	100%	•	•	•	
India	Lakshmi Machine Works Ltd., Coimbatore <sup>1</sup>	INR	123 692 500	13%	•	•	•	•
	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., Mailand	EUR	8 400 000	100%	•	•	•	
	Rieter Italiana S.r.l., Mailand	EUR	46 800	100%		•		
	Idea Institute S.p.A., Turin	EUR	3 500 000	100%	•			•
Canada	Rieter Automotive Mastico Ltd., Tillsonburg	CAD	381 000	100%	•	•	•	
	Magee Rieter Automotive Systems Canada Ltd., London		<sup>2</sup>	50%		•	•	
Netherlands	Rieter Automotive Nederland B.V., Weert	EUR	2 042 010	100%		•	•	
Poland	Rieter Automotive Poland Sp.z.o.o., Katowice	PLN	20 844 000	100%		•	•	
Portugal	Rieter Componentes para Veículos Lda., Setúbal	EUR	598 557	87%		•	•	
Switzerland	Rieter Management AG, Winterthur	CHF	5 000 000	100%				•
	Maschinenfabrik Rieter AG, Winterthur	CHF	8 500 000	100%	•	•	•	•
	Schaltag AG, Effretikon	CHF	400 000	100%	•	•	•	
	Rieter Automotive Heatshields AG, Sevelen	CHF	250 000	100%	•	•	•	
	Rieter Automotive Management AG, Winterthur	CHF	1 300 000	100%	•			•
	Rieter Automotive (International) AG, Winterthur	CHF	1 300 000	100%				•
	Tefina Holding AG, Zug	CHF	5 000 000	100%				•
	Bräcker AG, Pfäffikon	CHF	1 000 000	100%	•	•	•	•
	Rieter Immobilien AG, Winterthur	CHF	2 000 000	100%				•
	Rieter Services AG, Winterthur	CHF	3 000 000	100%				•

			Paid-in capital in local currency	Group interest	Research & development	Sales/trading	Production	Services/financing
Spain	Rieter Saifa S.A., Barcelona	EUR	847 410	50%	•	•	•	
Taiwan	Rieter Asia (Taiwan) Ltd., Taipeh	TWD	5 000 000	100%		•		
Turkey	Rieter Textile Machinery Trading & Services Ltd., Levent	TRY	25 000	69%				•
	Rieter Erkurt Otomotive Yan Sanayi ve Ticaret AS, Bursa	TRY	700 000	51%	•	•	•	
Czech Republic	Rieter CZ a.s., Ústí nad Orlicí	CZK	982 169 000	100%	•	•	•	•
	Novibra Boskovice s.r.o., Boskovice	CZK	40 000 000	100%	•	•	•	
USA	Rieter Automotive North America, Inc., Farmington Hills	USD	1 000	100%	•	•	•	
	Rieter Corporation, Spartanburg	USD	1 249	100%		•		
	Rieter Greensboro, Inc., Greensboro	USD	4 431	100%		•		
	UGN, Inc., Chicago	USD	500 000	50%	•	•	•	
	Magee Rieter Automotive Systems, Bloomsburg	USD	<sup>2</sup>	50%	•	•	•	
	Rieter Acquisition Corporation, Farmington Hills	USD	1	100%				•

<sup>1</sup> Non-consolidated associated company.

<sup>2</sup> Partnership without registered paid-in capital.

