

1996 financial year: Growth momentum due to successful strategy

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Dear Shareholder,

In the past financial year, the Rieter Group boosted sales by 10% to 2211 million CHF and orders received by 13% to 2124 million CHF. The Automotive Systems Division in particular recorded rapid growth and for the first time booked more than half of total consolidated sales with 1171 million CHF. This is equivalent to an increase of 40%. Sales at the Textile Systems Division declined by 12% to 1007 million CHF, and orders received were 9% lower at 919 million CHF.

The remarkable success of Rieter Automotive Systems is primarily due to a stable market situation and the integra-

tion of the acquisitions made in North America and Italy in 1995 and 1996.

Through the breadth of its product range and its global presence, the Textile Systems Division was able to compensate partially for the setback suffered in the first half of the year. The Rieter Group's strategy of concentrating on two industrial sectors, pursuing geographic and currency diversification, and strengthening the automotive supply business through acquisition, has proved successful.

The net profit of the Rieter Group will reach at least the previous year's level.

| Rieter Group | | 1996 | 1995 | Change in % | |
|--------------------------------|-------|-------------------|-------------------|-------------|------------------------|
| | | | | actual | at 1995 exchange rates |
| Orders received | CHF m | 2124 | 1875 | + 13 | + 11 |
| - Textile Systems | CHF m | 919 | 1006 | - 9 | - 9 |
| - Automotive Systems | CHF m | 1171 | 836 ¹⁾ | + 40 | + 35 |
| - other companies | CHF m | 34 | 33 | + 3 | + 3 |
| Sales | CHF m | 2211 | 2008 | + 10 | + 8 |
| - Textile Systems | CHF m | 1007 | 1139 | - 12 | - 12 |
| - Automotive Systems | CHF m | 1171 | 836 ¹⁾ | + 40 | + 35 |
| - other companies | CHF m | 33 | 33 | | |
| Capital expenditure | CHF m | 108 | 84 | + 29 | |
| Number of employees | | 12 320 | 12 056 | + 2 | |
| - Czech Republic, India, China | | 1887 | 1635 | | |
| - acquisitions | | 367 ²⁾ | | | |

¹⁾ Acquisition of Rieter Automotive Globe, Inc. consolidated with effect from June 1, 1995.

²⁾ Fimit S.p.A.

Textile Systems: adjustment to the changed market environment

The subdued level of demand on the world market for textile machinery since mid-1995 was reflected in orders received and sales at Rieter Textile Systems in the 1996 financial year. Order intake was weaker, especially in the first half of 1996 and notably versus the very strong comparative period in the previous year. More orders were received in the second half. The Chemical Fiber Systems Division, which operated as an independent unit until mid-1996, contributed 263 million CHF to the sales of Rieter Textile Systems (vs. 271 million CHF in the previous year) and 198 million CHF of orders received (236 million CHF).

Trends varied in the regional markets during the past year. As in the previous year, there was a gratifying level of demand from Turkey, and a growth trend was evident in certain regions of Latin America and east Asia. By contrast, the US textile industry is still struggling with structural problems. In India, one of the world's most important textile machinery markets, recession intensified and had a negative impact on investment behaviour throughout the year.

The production, sales and service facilities established in the new markets of Asia and Latin America in recent years were further expanded in 1996. Product development was vigorously pursued, and will enable a number of innovations to be launched on the market in the current year.

Rieter Textile Systems foresees only slight growth in the world market for textile machinery in the medium term, and is basing its strategy on this outlook. The division therefore initiated extensive cost-cutting programmes and increased prices during the past financial year. Synergies were also created by the merger of the previously separate divisions of Spinning Systems and Chemical Fiber Systems. As announced in September 1996, the workforce will be reduced by 700 in Germany and Switzerland by mid-1997 in order to adjust capacity to the market outlook. Alongside the cyclical new machinery business, Textile Systems is also expanding its service and spare parts activities with a view to achieving earnings growth.

Automotive Systems: further rapid growth

Market conditions varied in the automotive supply business in the past financial year. Output of passenger cars increased by 3.7% in Europe, but declined by 1.9% in the USA. A striking feature in both economic regions is the success of light trucks, which consumers are increasingly preferring to traditional passenger cars.

Rieter Automotive Systems has strengthened its market position worldwide, boosting sales in Europe by 26% to 839 million CHF and in North America by 96% to 332 million CHF. Consolidation of American automotive supplier Globe (acquired on June 1, 1995) and Fimit S.p.A. in Italy for a full year had a favourable impact on this trend, but the ongoing businesses also contributed to growth. Sales growth adjusted for acquisitions amounted to 15%. Automotive Systems succeeded in further enhancing efficiency and focusing even more closely on the market's requirements through reorganization efforts at certain European units.

Rieter Automotive Systems continued to implement its globalization strategy in the past financial year. The acquisition of Fimit has broadened Rieter's product range on the Italian market, further consolidated its position vis-à-vis its customer Fiat, and reinforced its manufacturing base in southern Europe. Together with its partners, Automotive Systems is in a position to act as a systems supplier for the passenger compartment, luggage

compartment and engine compartment in Europe and North America. In the globalization process being pursued by the major automotive manufacturers, Rieter is also accompanying its customers into new markets. For example, Rieter Automotive Systems has brought a plant in Cordoba (Argentina) into operation to supply Fiat and other manufacturers on the spot.

The forecasts for the automotive industry in the current year are still contradictory. Rieter Automotive Systems is also well prepared to operate successfully in less favourable market conditions.

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Capital market and shareholders


The steady growth of the Rieter Group confirms that the strategy which has been pursued for a number of years is continuing to prove its worth. The price of Rieter shares shows that this is also viewed favourably by the capital market. Rieter therefore sees no reason to change its strategy. Rieter continues to seek widely diversified public ownership of its shares.

The shareholders' warrants issued in accordance with the resolution adopted by last year's annual general meeting are also benefiting from the share price trend. The shareholders' warrants expire on February 28, 1997.

Final results will be announced at the beginning of April. We should like to take this opportunity of extending a warm welcome to attend the annual general meeting of shareholders, which will be held in Winterthur on May 22, 1997. Any proposals regarding the agenda must be submitted to Rieter Holding Ltd., Group Secretary's Office, Klosterstrasse 20, CH-8406 Winterthur, by March 25, 1997, together with the relevant motions and evidence of the necessary shareholdings with a par value of 1 million CHF (according to Swiss Code of Obligations Art. 699).

Yours faithfully,

Rieter Holding AG



Dr. Heinrich Steinmann
Chairman of the Board of Directors



Kurt Feller
President