

1997 Interim Report: Substantial increase in profitability throughout the Rieter Group

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Textile Systems division reports markedly improved results

August 21, 1997

Dear Shareholder,

The Rieter Group is reporting an all-round gratifying trend in business for the first half of 1997. Compared with the previous year, sales increased by 16% to 1223 million CHF. Over the same period, orders received went up by 21% to 1219 million CHF. Exchange rates have had a positive impact on these key indicators. Taking last year's exchange rates, there would have been a 7% increase in sales and a 12% increase in orders received.

Profits have developed even more positively. The operating result before interest and taxes increased by 52% to 73 million CHF compared with the first half of 1996. This corresponds to 6.1% of corporate output. Net profit grew by 67% to 57 million CHF and thus reached 4.8% of corporate output. Cash flow increased by 30% to 106 million CHF. Over this same period, profit per share rose by 66%.

This significant increase in bottom line was brought about primarily by the Textile Systems division. The measures decided on in this division in past years are now becoming effective in increasing profitability. Rieter's automotive business continued on its course of stable growth in the first six months of 1997.

Highlights

		January– June 1997	January– June 1996 ¹	Change in %
Orders received	CHF m	1219	1010	21
– Textile Systems	CHF m	528	421	25
– Automotive Systems	CHF m	673	576	17
Sales	CHF m	1223	1053	16
– Textile Systems	CHF m	531	462	15
– Automotive Systems	CHF m	673	576	17
Number of employees (on June 30)		11 924	12 380	– 4
– Longstanding units		10 053	10 859	– 7
– India, Czech Republic, China		1871	1521	23
Corporate output	CHF m	1191.0	1053.7	13
Profitability indicators				
Operating result before interest and taxes	CHF m	72.8	48.0	52
– as a % of corporate output		6.1	4.6	
Net profit	CHF m	57.4	34.3	67
– as a % of corporate output		4.8	3.3	
Cash flow	CHF m	105.7	81.0	30
– as a % of corporate output		8.9	7.7	
Market capitalization on June 30	CHF m	1236	762	62
Number of registered shares issued		2 167 889	2 253 124	
Data per registered share				
Net profit after deduction of minority interests (group)	CHF	23.89	14.42	66
Cash flow after deduction of minority interests (group)	CHF	46.17	35.51	30
Price of a single registered share (high/low)	CHF	595/369	380/333	

¹ Acquisition of Fimit S.p.A. consolidated as of January 1, 1996.

The Rieter Group managed to achieve this growth with a slightly reduced headcount. The number of employees was reduced from 12 380 to 11 924. This reduction affected primarily the Swiss and German plants. More employees were taken on in countries with lower wages.

Thanks to the positive trend in cash flow, including a good financial result, and the pro-active management of our net operating assets, liquid funds rose from 388 million CHF at the end of 1996 to 445 million CHF which was achieved despite making capital repayments.

The strategy Rieter has been pursuing of improving the profitability of its textile-machinery activity and of strengthening its automotive-supply operation has turned out to be a successful one. Investors have also been convinced, and this has been reflected in the stock-exchange performance of the Rieter registered share. From mid 1996 to the end of June 1997, Rieter Holding Ltd.'s market capitalization has swelled by 62% to 1236 million CHF. Taking just the period since the end of 1996, stock-market capitalization has risen by 48%.

Rieter Textile Systems: Markedly Improved Results

In the first half of 1997, Rieter Textile Systems increased sales by 15% to 531 million CHF compared with 462 million CHF in the same period of the preceding year. There was even steeper growth in orders received. These went up from 421 million CHF to 528 million, representing 25% growth. Taking the exchange rates of the previous year, the increase would have been 20%.

The profit figures at Rieter Textile Systems have increased at an even greater rate than sales. Several different factors have contributed to this growth. First of all, Rieter Textile Systems is excellently positioned on the market, with its established products, its models recently launched and its range of services. Secondly, adjusting capacities to lower volumes has supported targeted price increases and led to lower costs. A continuing reduction in the degree of vertical integration and the shift of production to countries with lower wages have enabled further cost savings. All these measures have had the effect of significantly improving margins.

The world market demand for textile machines has picked up again following the slack period last year. In this market environment, the currency position of

Exchange rates of the most important currencies against the Swiss Franc

	Average rates			Rates at end of period		
	1st half 1997	1st half 1996	Change in %	30.6.1997	30.6.1996	Change in %
1 USD	1.44	1.22	18	1.47	1.25	18
1 CAD	1.05	0.89	18	1.06	0.92	15
1 GBP	2.35	1.86	26	2.44	1.95	25
100 DEM	85.43	81.39	5	83.91	82.10	2
100 FRF	25.33	23.88	6	24.89	24.28	3
100 ITL	0.0866	0.0778	11	0.0860	0.0818	5

machines manufactured in Germany and Switzerland has helped create a further competitive advantage versus products sold in Lira and Yen.

At the start of the year, Rieter Textile Systems sold the first machines based on the ComforSpin technology. There has been a pleasing growth in demand for them ever since then. This new technology for the final spinning process produces a yarn that is vastly superior to any types of yarn produced to date. Further innovations were presented at the American textile-machinery trade fair, ATME, in April, and there was a very positive customer reaction to them.

Textile Systems is working on the assumption that sales and orders received in the second half of the year will reach the values for the first half. The measures introduced in 1996 to increase profitability are beginning to have an even stronger effect. It seems very likely that Rieter Textile Systems will turn in much higher profits this year than last.

Rieter Automotive Systems: Well positioned worldwide

In the course of the first half of 1997, automobile production increased by 2.3% in both the major markets of Europe and North America compared with the first half of 1996. Over this same period, Rieter Automotive Systems achieved a rate of growth faster than this. Its sales rose from 576 million CHF to 673 million, corresponding to an increase of 17%. This includes an effect due to the parity movements of the Swiss Franc compared with the majority of other main currencies. Adjusting for this exchange factor, growth would have been 5%. The acquisitions made in the USA and Italy in 1995 and 1996 have turned out to be strategically correct in this context too.

Sales increased in both of the two principal regions, whereby the European units, generally speaking, reported somewhat higher growth than did the North-American ones. The main explanation for this is to be sought in the numerous model changes implemented by European customers during the previous year, which brought key figures down at the time.

Rieter Automotive Systems is continuing to pursue its strategic objective of strengthening its presence on its traditional markets of Europe and North America whilst accompanying automotive manufacturers as they tackle the process of globalization. Rieter completed an important strategic step with the acquisition of the Brazilian car part supplier, Ello, based in Sao Bernardo do Campo (Sao Paulo state), that was made public in July. Brazil is one of the automobile industry's biggest growth markets in the whole world. Rieter is now in an excellent starting position to play its part to the full as this market develops.

Rieter's expectation for the second half of the year is that there will only be a slight increase in automobile production in the main markets. It is also a fact that the sector has reported lower average second half production volumes over a period of many years, as a result of the summer and Christmas holidays. As of July 1, Ello and the joint-venture with the American car carpet manufacturer, Magee, are to be consolidated. With the inclusion of these two companies, Rieter Automotive Systems is expecting higher sales in the second half of the year than in the first half. The profit figures for 1997 will exceed those of the previous year.

Consolidated income statement ¹

		January–June 1997	January–June 1996 ²
Sales	CHF m	1223.1	1053.2
Sales deductions/ Changes in inventory	CHF m	- 32.1	0.5
Corporate output	CHF m	1191.0	1053.7
Material costs	CHF m	- 523.3	- 434.9
Operating costs	CHF m	- 594.9	- 570.8
Operating result before interest and taxes	CHF m	72.8	48.0
Other expenses/income	CHF m	15.3	6.1
Taxes	CHF m	- 30.7	- 19.8
Net profit	CHF m	57.4	34.3
Minority shareholders' interest in net profit	CHF m	- 5.6	- 1.8
Net profit after deduction of minority interests	CHF m	51.8	32.5

Consolidated balance sheet ¹

		June 30 1997	June 30 1996 ²
Fixed assets	CHF m	710.9	621.1
Current assets	CHF m	1348.1	1200.4
Total assets	CHF m	2059.0	1821.5
Shareholders' equity	CHF m	712.2	627.1
Long-term liabilities	CHF m	489.9	364.0
Current liabilities	CHF m	856.9	830.4
Total equity and liabilities	CHF m	2059.0	1821.5
Shareholders' equity ratio	in %	34.6	34.4

¹ The consolidated income statement and the consolidated balance sheet have been drawn up following the same accounting principles as the annual financial statement, in accordance with International Accounting Standards (IAS). The scope of consolidation has remained unchanged compared with the previous year. Rieter pays a dividend per business year. No dividend is due for the half-year.

² The acquired Fimit company has been consolidated as of January 1st, 1996.

Shareholders


During the first half of 1997, 87 612 Rieter registered shares were acquired on the basis of the options issued in 1996. As part of a public share-repurchase invitation, Rieter Holding AG bought back 178 741 shares. The net effect of these two operations was the paying out of 50 million CHF. In May 1997, the General Meeting of Shareholders in Rieter Holding Ltd. authorized the reduction in share capital by the amount of the repurchased securities. As a combined effect of the positive operational development of the Group and the reduction in share capital, the profit per share has been increased from 14.42 to 23.89 CHF.

Prospects for the 1997 business year

Taking the 1997 business year as a whole, Rieter expects its group-wide sales to be on a higher level than in 1996. Its operating result before interest and taxes, its net profit and its cash flow will be markedly higher than in the previous year.

Yours faithfully,

Rieter Holding AG



Dr. Heinrich Steinmann
Chairman of the
Board of Directors



Kurt Feller
President