

Media Release

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08/12/2009 - Restructuring program is taking effect

Rieter was severely affected by the market slump in the textile machinery and automotive industries in the first half of 2009, which resulted in a 50% setback in sales. Costs have been drastically reduced, but due to the speed of the slump they could not be adjusted fully to the lower level of income, so that a large operating loss was reported. Although the trend of business improved in the second quarter, Rieter does not believe that the volumes achieved in previous years will be equaled again soon. Restructuring and cost-cutting efforts are therefore being resolutely pursued and are contributing to the group's ability to exploit opportunities that will arise in the next upswing.

The global crisis in the textile and automotive industries continued in the first half of 2009 and resulted in a massive reduction in the volume of business at Rieter. In the period under review the economic output of the OECD countries suffered the most severe decline since statistics began more than 30 years ago.

Orders received by the group declined by more than 700 million CHF or 46% to 840.0 million CHF. The unprecedented downswing on the textile machinery market continued during the initial months of the reporting period. After automobile output had collapsed in 2008 primarily in North America, production levels in Europe and other regions also came under enormous pressure in the period under review and were 30 – 50% lower in the main manufacturing countries. Only in China was a slight increase in output recorded. Group sales of 899.8 million CHF were some 900 million CHF or 50% lower (– 48% lower in local currencies). The volume trend reached its low in the first quarter. Sales in the second quarter were almost 20% higher than in the first three months.

Rieter reacted at an early stage to the signs of approaching crisis with the restructuring program launched last summer. Further drastic saving measures were initiated and systematically implemented in all cost categories: Employee costs and other operating expenses were reduced by one-third compared with the corresponding period of the previous year. Results therefore improved continuously between January and June. However, this was not sufficient to offset the 50% collapse in volume, which resulted in a negative operating result of 136.5 million CHF.

At the end of the reporting period the Rieter Group employed a workforce of 12 617, reflecting a reduction of 2 700 permanent employees or some 18% compared with a year earlier. In the first six months some 3 000 employees in Europe were working on a short-time basis – on the average at about 40%. The number of temporary employees has also been reduced by more than 1 300 during the past 12 months. The cost of the group-wide restructuring program amounted to 18.1 million CHF in the first half and was charged in full to the restructuring provision set aside in 2008.

As of June 30, 2009, the remaining restructuring provision amounts to 166.3 million CHF.

After the net profit of 40.8 million CHF reported in the first half of 2008, a net loss of 145.5 million CHF was posted in the first half of 2009, due mainly to a massive reduction in sales.

In the first six months of the year, Rieter secured financing for current business and the restructuring program by various means: net working capital was reduced substantially compared with the previous year and capital spending was curtailed by some 70%. The equity base was reinforced by the sale of treasury shares and the issue of shareholders' options totaling more than 100 million CHF. As previously announced, confirmed credit lines for the medium- and longer-term financing of the group have also been available since March.

With an equity ratio of 40.1% on June 30, 2009 (46.0% on June 30, 2008) and net liquidity of 56.6 million CHF (25.8 million CHF on June 30, 2008), Rieter still has a sound financial base.

Rieter Textile Systems

The global textile machinery market was again substantially weaker in the first half of 2009 compared with the previous year and reached its low in the first quarter. Signs of recovery emerged in the second quarter, primarily in China, but it is still impossible to assess whether this improvement will be sustained.

Orders received by Rieter Textile Systems in the first six months declined by 227.7 million CHF or 55% to 189.6 million CHF. Compared to the second half of 2008, order intake improved clearly, primarily as a result of a significant revival in demand in the second quarter of 2009. The main markets were China, India, Turkey and Brazil. Machines in the mid-price segment were in most demand. The wearing and spare parts business began to recover in the second quarter.

The division's sales were therefore considerably lower in the period under review, declining by 415.2 million CHF or 62% to 249.5 million CHF. Staple fiber machinery and nonwovens systems were mainly affected by this steep downturn, while the setback in the components business was less pronounced.

The huge reduction in volume of more than 400 million CHF and the less favorable product mix resulted in a decline in the operating result before interest and taxes (EBIT) to – 58.2 million CHF (+ 55.4 million CHF in 2008).

The restructuring program already launched in summer 2008 continued to be implemented systematically in the first half of 2009. The number of permanent employees has been reduced by about 1 000 or 20% since June 30, 2008, and the number of temporary employees has declined by more than 500. As of June 30, 2009, almost 2 200 Textile Systems' employees were also working short-time, primarily in Switzerland and Germany.

Rieter Textile Systems is convinced that China and India will also be its main markets in future. Demand for machines in the mid-price segment will therefore increase. The expansion of capacity in India and China therefore continued, however, at a reduced pace. Rieter completed the expansion of its plant in India and booked initial sales successes with the ring spinning machine produced locally. Despite the economic crisis, innovation continues to be an essential element for securing the future at Rieter Textile Systems, with the focus on core projects such as the local production

of additional machines specifically designed for the markets in India and China or the further development of the airjet spinning machine. The Textile Systems Division is taking the globalization of its business into account with a new, leaner organization which facilitates faster decision-making.

Rieter Automotive Systems

Global automobile production (light passenger vehicles) plunged by 28% in the reporting period, a historically unparalleled setback. Production in the individual regions developed as follows: – 50% in North America, – 34% in Europe, – 33% in Japan, – 28% in South Korea, – 9% in South America. Only China recorded a slightly positive trend in production compared with the previous year, with a rise of 4%. The production of commercial vehicles declined even more steeply than that of passenger cars, with a reduction of some 70% in Europe. The automobile manufacturers were mainly engaged in selling off their inventories during the first quarter, so that production then reached its lowest point. The second quarter was positively influenced by government support programs such as vehicle scrapping incentives in some countries.

The crisis in the automotive industry has resulted in a liquidity squeeze throughout the value chain. Manufacturers and many component suppliers, including direct competitors of Rieter, have been forced into insolvency. Rieter had already massively reduced receivables before the temporary insolvency of GM and Chrysler and joined the US Supplier Insurance Program in order to minimize the financial risks.

Rieter Automotive's sales declined in line with the volume trend at its customers in the first half of the year by 491.6 million CHF or 43% to 650.3 million CHF. Sales were a further 26% lower than in the second half of 2008. The decline amounted to 40% in local currencies. However, Rieter recorded an increase in sales of almost 20% in the second quarter of 2009 compared with the first three months.

The operating result before interest and taxes (EBIT) fell to – 78.0 million CHF (+ 18.6 million CHF in the previous year). The decline in EBIT is mainly attributable to the 491.6 million CHF slump in sales, while currency translation had a negligible impact. On the other hand, the widely fluctuating and frequently unpredictable levels of capacity utilization had a negative impact at certain manufacturing sites.

In the first half of the year structures and capacity continued to be adjusted to the low volumes in the context of the restructuring program which has already been in progress since 2008. Additional personnel-related action was implemented or initiated both in Europe and in North America. The number of permanent employees has been reduced by some 1 600 or 16% since June 30, 2008. As of June 30, 2009, some 700 employees of Automotive Systems were also working shorttime. A further significant reduction is also being made in the number of plants in North America and Europe. Discussions to this effect with employees' representatives have already been concluded or are at an advanced stage.

The automotive industry is undergoing a period of radical change, for both manufacturers and suppliers. Rieter will adapt proactively to the revised production strategies of the automobile manufacturers and continue to pursue its strategy of serving a wide range of customers and models globally in its core competencies of acoustic and thermal management. As a stable partner of the automotive industry over many years with considerable innovative expertise, Rieter is also taking advantage of every opening for new business opportunities during these difficult times. Customers have already awarded or promised major orders to Rieter which have been produced to date by competitors, both in Europe and in North America.

Some of these orders will already have an impact on sales in 2009, others not until 2010.

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Organizational and personnel changes

As already announced in the press release dated August 4, 2009, the Board of Directors of Rieter Holding Ltd. has elected its Chairman Erwin Stoller as Executive Chairman with immediate effect. The heads of both divisions of Rieter, Textile Systems and Automotive Systems, and the head of the Corporate Center report directly to Erwin Stoller. In order to safeguard the principles of good corporate governance, This E. Schneider, Vice-Chairman of the Board, has been elected Lead Director. CEO Hartmut Reuter has left the company. With this move, Rieter's Board of Directors is assuming greater responsibility at the operating level in a very difficult business environment and thus shortening decision-making chains. The Board conveys its thanks to Hartmut Reuter for his good work and wishes him all the best for the future.

Outlook and further action

Rieter assumes that the markets for textile machinery manufacturers and automotive suppliers will not recover significantly in the second half of the year, but that volumes will be higher than the low level registered in the first quarter of 2009. Due to seasonal factors, sales in the second half are therefore likely to be at approximately the same level as in the first six months. Rieter believes, that losses will be reduced in the second half due to the restructuring and cost-cutting action taken.

Rieter does not expect market volumes to return rapidly to the levels reached in 2006 – 2008. Structural adjustments will therefore be continued. Plans foresee a further reduction of 1 500 or 12% in the group's worldwide workforce by the end of 2010. Negotiations with local employees' representatives have already commenced in order to agree on socially acceptable solutions for the specific sites concerned. Together with its strong market position and global presence, this will enable Rieter to exploit the opportunities arising in the upswing and consolidation phase in future. Rieter is confident of achieving a turnaround in 2010 and reporting positive operating results in 2011.

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