

Media release

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Rieter: good progress with strategic projects in a steady half year

***Winterthur* – Higher order intake than in the second half of 2011 – lower sales, as expected – profitability reduced by lower volumes and the investment program – investment program 2012/2013 on track**

Order intake amounted to 404.1 million CHF; this was 40% lower than the very strong figure for the first half of 2011. However, in the first half of 2012 Rieter received more orders than in the second half of 2011. Sales of 487.3 million CHF in the reporting period were 9% lower than in the same period of the previous year, as expected. The operating profit before interest and taxes declined from 70.6 million CHF to 32.0 million CHF due to reduced volumes and higher investment activity. This figure corresponds to 7.2% of corporate output (12.8% in the first half of 2011). Net profit was 21.9 million CHF, equivalent to 5.0% of corporate output (91.0 million CHF or 16.5% in the first half of 2011, when a non-recurring capital gain accounted for 42.3 million CHF of the total). In the period under review Rieter completed major steps in the investment program 2012/2013 announced in the spring. The company has achieved the interim targets it aimed for and is on track with this program.

The first half of 2012 was characterized by widely diverging trends in the geographical markets of relevance for Rieter. Global economic uncertainties affected the markets for short-staple fiber machinery and components in China and Turkey; in India, demand remained weak also due to industry-specific reasons. Yarn inventories, which were still very large last summer, continued to decline. The overall margin situation at spinning mills improved, although regional differences persist.

Compared with the extraordinarily strong period in the previous year, orders received by Rieter declined in the first six months of 2012 by 40% to 404.1 million CHF. Both of Rieter's business groups – Spun Yarn Systems (machinery, spare parts and service business) and Premium Textile Components (components business) – were affected by this downturn. However, order intake was higher than in the second half of 2011 and was broad-based in geographical terms. Rieter booked the most orders in China, Turkey and other Asian countries including Indonesia and Pakistan. Customers in the Near & Middle East and Africa placed further substantial orders for

staple-fiber machinery and technology components. In contrast, order intake in the important Indian market remained at a very low level. Orders in hand, some of which will be reflected in sales in 2013, totaled more than 515 million CHF at the end of the first six months (over 840 million CHF at the end of the first half of 2011).

The positive attributes of the product portfolios of both business groups enabled Rieter to further expand its strong market position worldwide, especially in China. Machinery and components from Rieter create competitive advantages for customers in the success factors of yarn quality, productivity, material utilization and energy efficiency.

Rieter's sales of 487.3 million CHF were 9% lower than a year earlier. Rieter booked the most sales in Turkey, followed by China and other Asian countries. Sales in China were 17% higher than in the previous year, but sales in India declined by more than half. Corporate output was 20% lower due to the decline in the order volume, and amounted to 441.1 million CHF.

Compared with the first half of 2011, the operating profit before interest and taxes (EBIT) declined from 70.6 million CHF to 32.0 million CHF, equivalent to 7.2% of corporate output (12.8% in the first half of 2011). The operating profit before interest and taxes includes expenditures incurred in the reporting period for the steps completed in the investment program 2012/2013. The expenditures amounted to 12.5 million CHF and reduced the EBIT margin by almost 3 percentage points. The operating profit before strategic projects, interest and taxes amounted to 44.5 million CHF or 10.1% of corporate output. Expenditure on research and development amounted to 20.9 million CHF in the first half of 2012 (19.3 million CHF in the first half of 2011). Lower profitability is also attributable to lower volumes, the weakness of the Indian market and increased pressure on prices for business invoiced in Swiss francs. Major efforts to cut costs and enhance productivity at all locations partly compensated for this.

Net profit declined compared with the previous year's outcome, amounting to 21.9 million CHF or 5.0% of corporate output (91.0 million CHF and 16.5% in the first half of 2011). This reduction was mainly due to the absence of the extraordinary capital gain of 42.3 million CHF arising from the sale of shares in Lakshmi Machine Works in India in the first half of 2011 and the lower operating profit.

Rieter employed a global workforce of 4 679 on June 30, 2012 (4 725 on June 30, 2011). In response to the decline in orders Rieter reduced the number of temporary employees to 800 (1 893 a year earlier).

The seasonal increase in net working capital and the outflow of funds due to the investment program 2012/2013, resulted in lower free cash flow (-15.5 million CHF) than in the strong equivalent period of the previous year. The payment of a dividend of 27.7 million CHF out of the reserves from capital contributions reduced net liquidity at mid-year to 107.4 million CHF. Rieter continues to have sound finances and an equity ratio of 35% after the dividend payment.

Spun Yarn Systems Business Group

Through its Spun Yarn Systems Business Group, Rieter is the world's only supplier offering machinery and systems covering spinning preparation processes and all four final spinning processes established on the market.

Orders received by Spun Yarn Systems totaled 330.0 million CHF in the reporting period. This figure was 40% lower than in the first half of 2011, but considerably higher than in the second half of 2011. Sales of 400.6 million CHF were 6% lower than in the comparative period of the previous year. The operating profit amounted to 27.9 million CHF or 7.6% of corporate output (49.6 million CHF or 11.0% in the first half of 2011). This includes the disposal gain of 6 million CHF arising from the sale of manufacturing capacity in the Czech Republic, which was announced last year and completed in the reporting period.

Spun Yarn Systems presented mill-proven and new products at two major textile machinery trade shows in Turkey and China in the reporting period. Rieter machinery and systems met with an especially positive response from customers at the ITM Istanbul in April. The exhibits met the needs of the market especially well in the areas of productivity enhancement and the reduction of energy consumption. At the ITMA Asia, held in Shanghai in June, Rieter launched the E 80 comber as a new model in a very successful product family.

Premium Textile Components Business Group

Through its Premium Textile Components Business Group, Rieter is one of the world's largest suppliers of components for short-staple spinning mills. Premium Textile Components supplies technology components both to spinning mills and also to various machinery manufacturers.

In the first half of 2012, the Premium Textile Components Business Group posted order intake of 74.1 million CHF. This was 38% lower than in the first half of 2011, but the trend was positive compared to the second half of 2011. Business with spinning mill customers was more dynamic than that with machinery manufacturers in the reporting period. Sales by Premium Textile Components were 23% lower at 86.7 million CHF. The operating profit before interest and taxes was 9.3 million CHF or 7.9% of corporate output (21.9 million CHF or 14.6% in the first half of 2011).

At the two major trade shows in China and Turkey, Premium Textile Components presented important new products by the Bräcker, Graf, Novibra and Suessen brands that attracted considerable interest from customers. These included, for example, innovations in the components offering that enable customers to achieve greater energy efficiency in their installations.

Progress in the investment program 2012/2013

The investment program announced in the Spring of 2012 (see text below) proceeded as planned in the reporting period. At the close of the first six months of 2012 Rieter has completed the following important steps:

Expansion in Asia: Rieter inaugurated the first stage of a further manufacturing facility at its Chinese site in Changzhou. The new premises is already fully opera-

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tional. Further completion of the main expansion stages is expected at the end of 2013.

Innovation: Important interim targets have been achieved in the establishment of the airjet spinning process. For the first time a customer has installed a large integrated system featuring J 20 airjet spinning machines, i.e. both spinning preparation and the final spinning process. The J 20 airjet spinning machine also attracted considerable interest at the ITMA Asia in Shanghai.

Process improvements: The project for global standardization of business processes is proceeding on schedule.

The projects in the investment program are operationally and financially on track.

Outlook

Rieter will continue intensified investment activity through the 2012 financial year to lay the foundations for further profitable growth (see text below).

Rieter business activities are broadly based worldwide. Heterogeneous market development is expected to continue in 2012. Due among other reasons to uncertain economic policies in major national markets, it is difficult to forecast textile machinery industry developments for the current year. Further trends depend on various factors including currency exchange rate development, consumer sentiment in Europe and North America, fiber consumption growth in Asia, and raw material prices.

Rieter currently reckons in the second semester with a weaker trend in sales compared to the first semester as part of the order backlog reaches into 2013. Rieter expects operating profitability (EBIT) in the second semester to follow volume development and the planned investment activity in growth projects and process improvements to further reduce operating margin (EBIT) by around three percentage points.

Investment program 2012/2013 for further growth

Rieter expects that global demand for short staple fibers (natural fibers / staple man-made fibers) will grow by an average of 2.3% annually until 2030. The additional spinning capacity this will require, the replacement demand and the trend toward greater automation, especially in the Chinese and Indian markets, will have a positive impact on demand for spinning machinery and components.

Against this background Rieter is aiming for overall annual average growth of 5%, half of which should be organic. Rieter's strategic targets are to retain its leadership in the premium segment and also to expand its position in the local markets in China and India.

In the implementation Rieter is focusing on

Expansion in Asia: Further build-up of capacity in China and India;

Innovation: Increased focus on air-jet spinning, improvement of yarn quality, productivity and energy efficiency of machinery and components;

Process improvements: Operational excellence, global standardization and IT support of business processes.

In order to achieve rapid expansion in Asia and drive product innovation, Rieter is planning investments totaling some 90 million CHF in 2012 and 2013, somewhat more than half of which will be completed in 2012. A total of some 50 million CHF is foreseen for the further improvement of global processes in 2012/2013, slightly more than half of which is budgeted for the 2012 financial year. These investments will be made in addition to regular maintenance expenditures.

Investments in the growth projects will reduce EBIT margin by about 1 percentage point in 2012 and 2013. Investments in process improvement projects will reduce EBIT margin by about a further 2 percentage points in these two years. Through this investment program, Rieter is seeking to achieve an EBIT margin of at least 9% over the demand cycle and greater than 12% in peak years.

Semi-annual report and telephone conference

You will find the full text of the semiannual report and the relevant presentation at www.rieter.com. You can also register at www.rieter.com to receive our media releases regularly by e-mail.

Future dates

- Publication of sales figures for the 2012 financial year: February 5, 2013
- Results media conference and presentation for financial analysts on the 2012 annual financial statements: March 21, 2013
- Annual General Meeting: April 18, 2013

For further details please refer to:

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About Rieter

Rieter, with registered offices in Winterthur, Switzerland, is a global market leader in spinning machinery and components, with the broadest offering worldwide. The company develops and manufactures machinery, components and systems for manufacturing yarns from natural and man-made fibers and combinations of the same. Rieter is the world's only supplier of products and know-how covering not only pre-spinning processes but also all four final spinning processes established on the market. The company has 19 production plants in 9 countries and employs some 4700 people worldwide, of whom about 28% in Switzerland. Rieter is listed on the SIX Swiss Exchange (ticker symbol RIEN).

www.rieter.com

Rieter at a glance

	January- June 2012	July- December 2011	January- June 2011	Change ¹	Change in local currencies ¹
CHF million					
Rieter					
Orders received	404.1	287.0	671.3	-40%	-40%
Sales	487.3	523.0	537.8	-9%	-9%
Corporate output	441.4	490.6	551.9	-20%	
Operating profit before strategic projects, interest and taxes	44.5	56.8	77.7		
- in % of corporate output	10.1%	11.6%	14.1%		
Operating profit before interest and taxes (EBIT)	32.0	42.0	70.6		
- in % of corporate output	7.2%	8.6%	12.8%		
Net profit ²	21.9	28.0	91.0		
- in % of corporate output	5.0%	5.7%	16.5%		
Earnings per share ²	CHF 5.17	6.22	19.64		
Capital expenditures on tangible and intangible assets	24.3	42.9	14.4	69%	
Number of employees at the end of the period (excluding temporary personnel)	4679	4695	4725	-1%	
Business Group Spun Yarn Systems					
Orders received	330.0	222.3	552.7	-40%	-41%
Sales	400.6	436.6	425.1	-6%	-6%
Corporate output	365.4	416.9	449.4	-19%	
Operating profit before interest and taxes (EBIT)	27.9	31.6	49.6		
- in % of corporate output	7.6%	7.6%	11.0%		
Business Group Premium Textile Components					
Orders received	74.1	64.7	118.6	-38%	-35%
Sales	86.7	86.4	112.7	-23%	-21%
Corporate output	118.2	122.4	150.2	-21%	
Operating profit before interest and taxes (EBIT)	9.3	13.2	21.9		
- in % of corporate output	7.9%	10.8%	14.6%		

1. Change January-June 2012 vs. January-June 2011

2. Continuing operations, incl. gain on sale of investments, which amounted to 42.3 million CHF in the first half of 2011.