Semi-Annual Report 2018

KEY FIGURES

CHF million	January – June 2018[1]	January – June 2017	Change	January – December 2017[2]
Rieter				
Order intake	511.8	495.2	3%	1 051.5
Sales	515.3	415.2	24%	965.6
Operating result before interest, taxes, depreciation and amortization (EBITDA)	35.4	34.8	2%	64.7 [3]
• in % of sales	6.9%	8.4%		6.7%
EBIT before restructuring charges	13.3	16.0	– 17%	51.8
• in % of sales	2.6%	3.9%		5.4%
Operating result before interest and taxes (EBIT)	14.1	16.0	– 12%	15.8
• in % of sales	2.7%	3.9%		1.6%
Net profit	10.9	10.9	0%	13.3
• in % of sales	2.1%	2.6%		1.4%
Basic earnings per share (CHF)	2.39	2.39	0%	2.92
Purchase of tangible fixed assets and intangible assets	8.6	7.7	12%	29.4
Net liquidity at the end of the reporting period	47.2	101.3	– 53%	130.5
Equity in % of total assets at the end of the reporting period	43.1%	43.8%		43.6%
Number of employees (excluding temporaries) at the end of the reporting period	5 251	5 232 [1]	0%	5 246
Business Group Machines & Systems				
Order intake	297.7	325.2	– 8%	668.2
Sales	303.9	255.1	19%	589.5
EBIT before restructuring charges	– 14.8	– 3.8	– 289%	0.8
• in % of sales	– 4.9%	– 1.5%		0.1%
Operating result before interest and taxes (EBIT)	– 14.8	– 3.8	– 289%	– 12.8
• in % of sales	– 4.9%	– 1.5%		– 2.2%
Business Group After Sales				
Order intake	75.0	77.7	– 3%	154.8
Sales	74.1	70.1	6%	146.3
EBIT before restructuring charges	10.3	12.8	– 20%	27.9
• in % of sales	13.9%	18.3%		19.0%
Operating result before interest and taxes (EBIT)	11.2	12.8	– 13%	20.5
• in % of sales	15.1%	18.3%		14.0%
Business Group Components				
Order intake	139.1	92.3	51%	228.5
Sales	137.3	90.0	53%	229.8
Total segment sales	182.2	128.8	41%	308.0
Operating result before interest and taxes (EBIT)	19.2	12.6	52%	30.8
• in % of segment sales	10.5%	9.8%		10.0%

1. Including SSM Textile Machinery.
2. Including SSM Textile Machinery (period from July 1 to December 31, 2017; see note 3).
3. EBITDA before restructuring charges in the 2017 financial year: CHF 94.6 million.

Semi-Annual Report 2018

Bernhard Jucker
Chairman of the Board of Directors

Dr. Norbert Klapper
Chief Executive Officer

SALES INCREASE IN THE FIRST HALF OF 2018

- **Sales increases by 24% compared to the previous year period; all business groups contribute**
- **Order intake in the first half of 2018 grows by 3% compared to the first half of 2017**
- **EBIT of CHF 14.1 million and net profit of CHF 10.9 million**
- **Ring spinning system will be strengthened through the acquisition of a 25% stake in Electro-Jet S.L.**
- **Details on strategy implementation**
- **Changes in the Group Executive Committee**

DEAR SHAREHOLDER

Rieter's sales increased to CHF 515.3 million in the first half of 2018, an increase of 24% compared to the previous year period (first half year 2017: CHF 415.2 million). This increase resulted from the organic growth of the Business Groups Machines & Systems and After Sales and the acquisitive growth of the Business Group Components.

Order intake at Rieter in the first half of 2018 amounted to CHF 511.8 million. This represents an increase of 3% compared to the previous year period. At the end of the first half of 2018, Rieter had an order backlog of around CHF 540 million – similar to that at the 2017 year end.

EBIT MARGIN, NET PROFIT AND FREE CASH FLOW

As already announced in March 2018, despite higher sales in the first half of 2018, Rieter achieved a lower EBIT margin. While earnings in the Business Group Components developed positively, the Business Group Machines & Systems posted a decline in profitability.

The EBIT margin was 2.7% with EBIT of CHF 14.1 million (first half year 2017: 3.9% with EBIT of CHF 16.0 million).

As expected, net profit of CHF 10.9 million (2.1% of sales) matched that of the first half of 2017 (CHF 10.9 million or 2.6% of sales). Free cash flow amounted

CHF million	January – June 2018	January – June 2017	Change	Change in local currency	Change without acquisition
Sales	**515.3**	**415.2**	**24%**	**23%**	**12%**
Asian countries[1]	200.1	111.2	80%	79%	68%
China	82.6	83.8	-1%	-5%	-13%
India	60.2	94.7	-36%	-37%	-42%
Turkey	58.3	49.1	19%	18%	7%
North and South America	59.6	42.7	39%	40%	24%
Europe	26.5	17.9	48%	41%	1%
Africa	28.0	15.8	77%	76%	72%

1 not including China, India, Turkey

to CHF -59.7 million due to the seasonal increase in net working capital. The net liquidity amounted to CHF 47.2 million as of June 30, 2018. The equity ratio as of June 30, 2018, was 43.1% (prior year balance sheet date: 43.8%).

REGIONS

Rieter achieved a strong increase in sales of 80% to CHF 200.1 million in the Asian countries (not including China, India and Turkey). In particular, Uzbekistan, Bangladesh, Vietnam and Indonesia developed positively. At CHF 82.6 million, a good level of sales was achieved in China, despite a slight decline of 1%. With the phasing out of the subsidy program in the western province of Xinjiang, the demand for machinery declined. In India, sales fell by 36% to CHF 60.2 million – while demand for machinery improved significantly. In the first half of 2018, sales in Turkey increased by 19% to CHF 58.3 million. However, the positive momentum in order intake weakened again towards the end of the reporting period. Orders in the USA and Brazil led to sales of CHF 59.6 million in the North and South America region, an increase of 39%.

BUSINESS GROUPS

The Business Group Machines & Systems achieved sales growth of 19% to CHF 303.9 million in the first half of the year (first half year 2017: CHF 255.1 million). The EBIT of the Business Group Machines & Systems of CHF -14.8 million was lower than in the previous year period, despite higher sales (first half year 2017: CHF -3.8 million), predominantly because of the unfavorable product mix. The order intake of CHF 297.7 million was 8% below the previous year's level (first half year 2017: CHF 325.2 million).

The Business Group Components, including the acquisition of SSM Textile Machinery, increased sales to CHF 137.3 million (first half year 2017: CHF 90.0 mil-

CHF million	January – June 2018	January – June 2017	Change	Change in local currency	Change without acquisition
Order intake	**511.8**	**495.2**	**3%**	**3%**	**-7%**
Machines & Systems	297.7	325.2	-8%	-8%	-8%
After Sales	75.0	77.7	-3%	-5%	-5%
Components	139.1	92.3	51%	46%	-3%
Sales	**515.3**	**415.2**	**24%**	**23%**	**12%**
Machines & Systems	303.9	255.1	19%	19%	19%
After Sales	74.1	70.1	6%	4%	4%
Components	137.3	90.0	53%	48%	-1%

lion). This represents an increase of 53% (excluding SSM: 4%). At CHF 19.2 million (first half year 2017: CHF 12.6 million), the EBIT of the Business Group was around 52% (excluding SSM: 37%) higher than the previous year period. The Business Group benefited from better plant utilization and cost reduction measures. Order intake of CHF 139.1 million (first half year 2017: CHF 92.3 million) was around 51% above the previous year period (excluding SSM: +1%).

The Business Group After Sales increased sales by 6% to CHF 74.1 million (first half year 2017: CHF 70.1 million). One-time project costs for the centralization of European logistics led to a decline in EBIT to CHF 11.2 million (first half year 2017: CHF 12.8 million). The centralization of logistics will lead to a significant reduction in delivery times for critical spare parts. Order intake amounted to CHF 75.0 million (first half year 2017: CHF 77.7 million). After Sales began marketing “UPtime” in the reporting period. UPtime digitizes the maintenance of the spinning mill. The offer met with a good customer response and the first orders were received.

RIETER STRENGTHENS RING SPINNING SYSTEM

On July 18, 2018, Rieter signed a contract to acquire 25 percent of Electro-Jet S.L., thus strengthening the ring spinning system. The company, based in Gurb (Spain), generated annual sales of around EUR 25 million in 2017 and employs around 135 people. Through this investment, Rieter secures a long-term competitive solution in the field of flyers (roving frames). The joint development of innovative products is also planned as part of the strategic partnership. The transaction is subject to the approval of the antitrust authorities.

DETAILS ON STRATEGY IMPLEMENTATION

Rieter continues to aim for an EBIT margin of 10%, with sales of around CHF 1.3 billion and a Return On Net Assets (RONA) of 14%.

To achieve this goal, Rieter concretizes the implementation of the strategy as follows:

- Improve the market position in the machinery and systems business by accelerating the ongoing innovation program.
- Substantially lower the break-even point of the Business Group Machines & Systems. To this end, in addition to the planned shift of production from Ingolstadt (Germany) to Ústí nad Orlicí (Czech Republic), further measures are underway.
- Increase the profitability of the components business by accelerating the current innovation program and optimizing the cost base.
- Further organic growth in the after sales business above sales of CHF 166 million, by increasing market share on the installed base of Rieter machines and implementing innovative digitization solutions.

Rieter increased spending on research and development in the first half of 2018 to CHF 26.6 million (first half year 2017: CHF 22.8 million).

REALIGNMENT OF LOCATIONS

Rieter is working in a future-oriented way to optimize its locations and properties. The project to redesign the Winterthur location is proceeding according to plan. The detailed concept for the new building at the Winterthur location will be finalized in the second half of 2018 and submitted to the Board of Directors for decision. In China, thanks to the optimization of production space, a property was sold in the reporting period.

CHANGES IN THE GROUP EXECUTIVE COMMITTEE

Joris Gröflin, CFO at the Rieter Group since 2011, is to leave the Group Executive Committee in March 2019 to pursue a career opportunity outside the Rieter Group. The Board of Directors wishes to express its gratitude to Joris Gröflin in advance for his many years of valuable service and his major contribution to the further development of Rieter. Details about succession arrangements shall be provided in due course.

Jan Siebert, member of the Group Executive Committee since 2016 and responsible for the Business Group Machines & Systems, is to leave the Group Executive Committee with effect from the end of September 2018. The Board of Directors wishes to thank Jan Siebert for his work in connection with the transformation of the Business Group. Responsibility for the Business Group Machines & Systems is to be taken over until further notice by Norbert Klapper, CEO of the Rieter Group, with effect from October 1, 2018.

OUTLOOK

In some markets, Rieter customers are faced with rising interest rates, strong currency fluctuations, commodity price volatility and political uncertainties. Overall, this could lead to a slowdown in demand for new machinery in the coming months. In the components and after sales business, Rieter expects stable demand.

Thanks to the order backlog at the end of June 2018, Rieter anticipates a stronger second semester in both sales and operating profit (EBIT) compared to the first half of 2018. For 2018 as a whole, Rieter expects sales to be above the level of 2017, while EBIT (before restructuring charges) is expected to be below the previous year's level.

Winterthur, July 19, 2018

Bernhard Jucker	Dr. Norbert Klapper
Chairman	Chief Executive Officer
of the Board of Directors	

CONSOLIDATED INCOME STATEMENT

	Notes	January – June 2018[1] CHF million	%[3]	January – June 2017 CHF million	%[3]	January – December 2017[2] CHF million	%[3]
Sales	(2/6)	**515.3**	**100.0**	**415.2**	**100.0**	**965.6**	**100.0**
Changes in semi-finished and finished goods		17.5	3.4	8.9	2.2	– 5.3	– 0.5
Own work capitalized		0.1	0.0	0.2	0.0	0.7	0.1
Material costs		– 255.6	– 49.6	– 187.3	– 45.1	– 431.5	– 44.7
Personnel expenses		– 157.3	– 30.5	– 137.5	– 33.1	– 282.8	– 29.3
Other operating income		10.6	2.1	8.7	2.1	20.8	2.1
Other operating expenses		– 95.9	– 18.6	– 73.4	– 17.7	– 172.9	– 17.9
Depreciation and amortization		– 21.4	– 4.2	– 18.8	– 4.5	– 42.8	– 4.4
Operating result before restructuring charges, interest and taxes		**13.3**	**2.6**	**16.0**	**3.9**	**51.8**	**5.4**
Restructuring charges[4]	(4)	0.8		0.0		– 36.0	
Operating result before interest and taxes (EBIT)		**14.1**	**2.7**	**16.0**	**3.9**	**15.8**	**1.6**
Financial result		– 1.0		– 2.1		0.2	
Profit before taxes		**13.1**	**2.5**	**13.9**	**3.3**	**16.0**	**1.7**
Income taxes		– 2.2		– 3.0		– 2.7	
Net profit		**10.9**	**2.1**	**10.9**	**2.6**	**13.3**	**1.4**
Attributable to shareholders of Rieter Holding Ltd.		10.8		10.8		13.2	
Attributable to non-controlling interests		0.1		0.1		0.1	
Basic earnings per share (CHF)		**2.39**		**2.39**		**2.92**	
Diluted earnings per share (CHF)		**2.39**		**2.38**		**2.91**	

1. Including SSM Textile Machinery (see note 3).
2. Including SSM Textile Machinery (period from July 1 to December 31, 2017; see note 3).
3. In % of sales.
4. Including impairment losses related to restructurings.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CHF million	January – June 2018[1]	January – June 2017	January – December 2017[2]
Net profit	**10.9**	**10.9**	**13.3**
Remeasurement of defined benefit plans	– 9.2	– 4.2	2.0
Income taxes on remeasurement of defined benefit plans	1.8	0.9	– 0.7
Items that will not be reclassified to the income statement, net of taxes	**– 7.4**	**– 3.3**	**1.3**
Currency translation differences	– 6.8	– 6.2	4.8
Income taxes on currency translation differences	– 0.1	0.4	0.2
Cash flow hedges	0.0	1.3	– 1.2
Income taxes on cash flow hedges	0.0	– 0.3	0.3
Changes in fair values of financial assets	– 0.1	0.0	0.0
Items that may be reclassified to the income statement, net of taxes	**– 7.0**	**– 4.8**	**4.1**
Total other comprehensive income	**– 14.4**	**– 8.1**	**5.4**
Total comprehensive income	**– 3.5**	**2.8**	**18.7**
Attributable to shareholders of Rieter Holding Ltd.	– 3.5	2.8	18.6
Attributable to non-controlling interests	0.0	0.0	0.1

1. Including SSM Textile Machinery (see note 3).
2. Including SSM Textile Machinery (period from July 1 to December 31, 2017; see note 3).

CONSOLIDATED BALANCE SHEET

CHF million	June 30, 2018[1]	June 30, 2017[1]	December 31, 2017[1]
Assets			
Tangible fixed assets	212.7	229.3	232.6
Intangible assets and goodwill	102.4	116.2	107.8
Defined benefit plan assets	54.8	57.3	62.0
Other non-current assets, deferred income tax assets	49.6	40.1	47.6
Non-current assets	**419.5**	**442.9**	**450.0**
Inventories	225.0	201.9	192.4
Trade receivables	125.9	82.8	88.3
Other current receivables	65.0	62.6	62.1
Marketable securities and time deposits	1.0	1.4	1.1
Cash and cash equivalents	153.2	206.1	243.3
	570.1	**554.8**	**587.2**
Assets classified as held for sale	10.5	11.3	11.0
Current assets	**580.6**	**566.1**	**598.2**
Assets	**1 000.1**	**1 009.0**	**1 048.2**
Shareholders' equity and liabilities			
Equity attributable to shareholders of Rieter Holding Ltd.	430.7	441.7	456.8
Equity attributable to non-controlling interests	0.7	0.7	0.7
Total shareholders' equity	**431.4**	**442.4**	**457.5**
Non-current financial debt	106.6	106.1	106.6
Non-current provisions	69.9	71.6	86.9
Defined benefit plan liabilities	31.6	31.8	28.6
Other non-current liabilities, deferred income tax liabilities	43.3	45.0	45.4
Non-current liabilities	**251.4**	**254.5**	**267.5**
Trade payables	85.0	83.2	88.2
Advance payments from customers	68.7	94.6	77.9
Current financial debt	0.4	0.1	7.3
Current provisions	38.2	25.6	32.9
Other current liabilities, current income tax liabilities	125.0	108.6	116.9
Current liabilities	**317.3**	**312.1**	**323.2**
Liabilities	**568.7**	**566.6**	**590.7**
Shareholders' equity and liabilities	**1 000.1**	**1 009.0**	**1 048.2**

1. Including SSM Textile Machinery (see note 3).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

CHF million	January – June 2018[1]	January – June 2017	January – December 2017[2]
Total shareholders' equity at the beginning of the financial year	**457.5**	**460.7**	**460.7**
Impact of changes in accounting policies (IFRS 15 adoption)	– 0.5	0.0	0.0
Income taxes on impact of changes in accounting policies	0.1	0.0	0.0
Total comprehensive income	– 3.5	2.8	18.7
Distribution of dividend	– 22.6	– 22.6	– 22.6
Changes in non-controlling interests	0.0	– 1.1	– 1.2
Changes in treasury shares (incl. share-based compensation)	0.4	2.6	1.9
Total shareholders' equity at the end of the reporting period	**431.4**	**442.4**	**457.5**

1. Including SSM Textile Machinery (see note 3).
2. Including SSM Textile Machinery (period from July 1 to December 31, 2017; see note 3).

CONSOLIDATED STATEMENT OF CASH FLOWS

CHF million	Notes	January – June 2018[1]	January – June 2017	January – December 2017[2]
Net profit		**10.9**	**10.9**	**13.3**
Interest expenses/interest income		1.7	1.1	1.8
Income taxes		2.2	3.0	2.7
Depreciation of tangible fixed assets and amortization of intangible assets		21.4	18.8	48.9
Other non-cash expenses and income		1.6	3.4	– 3.6
Change in net working capital, other		– 92.3	– 55.1	– 30.6
Dividend received		0.3	0.0	0.0
Interest paid/received		– 0.6	0.1	– 1.0
Income taxes paid		– 7.0	– 5.4	– 10.9
Net cash from operating activities		**– 61.8**	**– 23.2**	**20.6**
Acquisition of subsidiaries	(3)	0.0	– 100.2	– 100.2
Purchase of tangible fixed assets and intangible assets		– 8.6	– 7.7	– 29.4
Proceeds from disposals of tangible fixed assets and intangible assets		10.5	0.5	2.0
Purchase of/proceeds from disposals of other non-current assets		0.0	– 1.0	– 1.5
Sale/purchase of marketable securities and time deposits		0.2	6.0	7.2
Net cash from investing activities		**2.1**	**– 102.4**	**– 121.9**
Dividend paid to shareholders of Rieter Holding Ltd.		– 22.6	– 22.6	– 22.6
Purchase/sale of treasury shares		– 1.0	0.9	0.2
Proceeds from other financial debt		0.3	0.0	7.0
Repayment of other financial debt		– 6.8	– 4.0	– 4.0
Net cash from financing activities		**– 30.1**	**– 25.7**	**– 19.4**
Currency effects on cash and cash equivalents		– 0.3	– 8.2	– 1.6
Change in cash and cash equivalents		**– 90.1**	**– 159.5**	**– 122.3**
Cash and cash equivalents at the beginning of the financial year		**243.3**	**365.6**	**365.6**
Cash and cash equivalents at the end of the reporting period		**153.2**	**206.1**	**243.3**

1. Including SSM Textile Machinery (see note 3).
2. Including SSM Textile Machinery (period from July 1 to December 31, 2017; see note 3).

NOTES TO THE CONSOLIDATED SEMI-ANNUAL FINANCIAL STATEMENTS

1 BASIS FOR PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The consolidated semi-annual financial statements of Rieter Holding Ltd. and its subsidiaries ("Rieter" or "Rieter Group") have been prepared in accordance with "IAS 34 Interim Financial Reporting". They are based on the financial statements of the individual group companies prepared in accordance with Rieter's uniform accounting policies as of June 30, 2018. The significant accounting policies summarized in the 2017 annual report have been amended in the 2018 financial year by the new and revised IFRS Standards and Interpretations. Basically, Rieter applied the new standard "IFRS 15 Revenue from Contracts with Customers" as well as the new "IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration" for the first time as of January 1, 2018 (see note 2). The implementation of the remaining changes had no material impact on the consolidated semi-annual financial statements.

The consolidated semi-annual financial statements have not been audited by the statutory auditor. The consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet, the consolidated statement of changes in equity and the consolidated statement of cash flows are presented in condensed form.

The following foreign exchange rates of importance for Rieter were used for the preparation of the consolidated semi-annual financial statements as well as for the financial statements of group companies:

		Average CHF rates			
Country/region	**Currency (unit)**	**January – June 2018**	**January – June 2017**	**Change**	**January – December 2017**
China	100 CNY	15.17	14.46	5%	14.57
Euro countries	1 EUR	1.17	1.08	8%	1.11
India	100 INR	1.47	1.51	– 3%	1.51
Czech Republic	100 CZK	4.59	4.02	14%	4.22
USA	1 USD	0.97	0.99	– 2%	0.98
Uzbekistan	1 000 UZS	0.12	0.28	– 57%	0.18

2 CHANGES IN ACCOUNTING POLICIES

Application of "IFRS 15 Revenue from Contracts with Customers"

Rieter applied the new standard "IFRS 15 Revenue from Contracts with Customers", which defines revenue recognition for customer contracts, for the first time as of January 1, 2018. The main impacts of this standard are in the treatment of contracts with several performance obligations as well as in extended disclosures.

Adjustments to the balance sheet at January 1, 2018 (date of initial application of IFRS 15)

In accordance with the transitional provisions of IFRS 15, Rieter elected the modified retrospective approach for the changeover. Under this approach, the comparative period (2017 financial year) on the consolidated financial statements of the transition period (2018 financial year) is not restated. Instead, the line items affected by the application of IFRS 15 in the 2018 consolidated financial statements are presented in addition as if the old provisions of IAS 18 had still been applied. Customer contracts that were not fully completed at December 31, 2017, were adjusted to the new provisions for revenue recognition. The result of these adjustments was recognized in retained earnings in the opening balance sheet at January 1, 2018.

The table below presents the recognition of the adjustments at January 1, 2018:

CHF million	2018
Retained earnings at December 31, 2017 (before application of IFRS 15)	538.4
Recognition of contract liabilities for extensions of product warranty periods	– 0.5
Tax impact on the recognition of contract liabilities for extensions of product warranty periods	0.1
Retained earnings at January 1, 2018 (after application of IFRS 15)	**538.0**

Extensions of product warranty periods sold to customers are now treated as a separate performance obligation and the respective revenue is recognized over its performance period. At January 1, 2018, the respective contract liabilities of CHF 0.5 million were recognized in other current liabilities against retained earnings. No specific guarantee and warranty provisions were included for the respective extensions of product warranty periods before January 1, 2018. The tax impact of CHF 0.1 million was recognized in deferred income tax liabilities.

Presentation of the 2018 consolidated semi-annual financial statements in accordance with the old provisions of IAS 18

Had the old provisions of IAS 18 still been applied in the reporting period, revenue from extensions of product warranty periods sold to customers would not have been accrued as a corresponding contract liability. Consolidated sales would thus have amounted to CHF 515.2 million in the period from January 1 to June 30, 2018. Income taxes of CHF 2.2 million would be unchanged.

Significant accounting policies as of January 1, 2018 – revenue recognition

Rieter sells textile machinery and systems on a global scale. The respective customer contracts may include further elements such as installation. Installation is treated as a separate performance obligation due to the nature of service rendered. Revenue from textile machinery and systems sales is recognized when control is transferred to the customer. In general, this happens at the point in time when products are handed over to the customer or its freight carrier based on contractually agreed terms (“International commercial terms” or “Incoterms”). Upon handover, the customer assumes physical control as well as significant risks and future rewards. Prior to delivery, Rieter ensures that machinery and systems comply with contractually agreed performance criteria. As a consequence, no unfulfilled obligations exist for Rieter upon handover with the exception of installation. Sales from installations are invoiced at the same time like the delivery of machinery and systems, although the service is being rendered at a later date. The respective revenue is therefore accrued as a contract liability in other current liabilities and is recognized in the period when the service is rendered. The progress of the performance is determined based on accumulated working hours or expenses compared to total expected working hours or expenses (over time). Estimates of total expected working hours or expenses are adjusted in the event of changes. The effects of such adjustments are posted in the respective period. The total selling price agreed in such contracts (including discounts granted) is allocated to individual performance obligations based on relative standalone selling prices. Rieter has implemented enhanced internal controls for customer contracts with high volumes ensuring a relative allocation of total selling prices to individual performance obligations.

The Rieter Group also distributes technology components and spare parts for textile machinery and systems. Revenue from these products is recognized when control is transferred to the customer. In general, this happens at the point in time when products are handed over to the customer or its freight carrier based on the relevant contractually agreed terms (“Incoterms”). Upon handover, the customer assumes physical control as well as significant risks and future rewards. There are no material unfulfilled obligations beyond this for Rieter.

In addition, Rieter offers a wide range of services and solutions over the entire life cycle of textile machinery and systems. This portfolio includes, for example, mill assessments and preventive maintenance as well as upgrade and conversion packages. Revenue from such services rendered at customers’ machinery and systems is usually fixed and is recognized in the period when the service is rendered. The progress of the performance is determined based on accumulated working hours or expenses compared to total expected working hours or expenses (over time). In the case of customers’ advance payments for such services, the respective contract liability is accrued in other current liabilities.

Usually, the payment of selling prices in customer contracts is secured by means of letters of credit, advance payments, credit insurance or other instruments. For receivables which are not covered by advance payments, the general payment term is usually between 30 and 60 days. Since payment terms of more than one year are not generally granted, customer contracts do not usually include any financing component.

Disaggregation of revenue
Rieter discloses revenue divided by the Machines & Systems, After Sales and Components segments (see note 5). In addition, a disaggregation of revenue by sales of products and by sales of services is presented (see note 6).

Application of "IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration"
Rieter applied "IFRIC Interpretation 22: Foreign Currency Transactions and Advance Consideration" prospectively for the first time as of January 1, 2018. The main impact of the new interpretation for Rieter is in the measurement of revenue from customer contracts with advance payments in foreign currencies. The respective revenues are recognized using foreign exchange rates applicable at the particular point in time of the individual payments. In addition, this clarification may also affect the recognition of tangible fixed assets and inventories with advance payments in foreign currencies. In accordance with IFRIC 22, the comparative period has not been adjusted.

3 ACQUISITIONS

Rieter did not make any acquisitions in the reporting period.

On June 30, 2017, Rieter acquired SSM Textile Machinery from Schweiter Technologies AG, Horgen (Switzerland). SSM comprises the following companies: SSM Schärer Schweiter Mettler AG, Horgen (Switzerland), SSM Vertriebs AG, Steinhausen (Switzerland), SSM Giudici Srl., Galbiate (Italy) and SSM (Zhongshan) Ltd., Zhongshan (China). Rieter acquired 100% of the shares of these companies.

SSM is the world's leading supplier of precision winding machines in the fields of dyeing, weaving and sewing-thread preparation and enjoys success in individual segments of filament yarn production. In the 2016 financial year, SSM generated net sales of CHF 85.9 million with 246 employees and achieved an EBITDA margin of 14.8% (EBITDA = operating result before interest, taxes, depreciation and amortization). In addition, SSM is represented worldwide with twelve of its own service stations and 80 agents in all major markets.

With this acquisition, Rieter invested in adjacent fields of the textile value chain. SSM has a strong brand and generates stable cash flows with an attractive EBITDA margin. SSM's expertise in the field of precision winding offers opportunities for Rieter in the business with short-staple spinning machines. SSM has been attached to the Business Group Components as an independent unit.

The purchase price for SSM was settled in cash and amounted to CHF 124.2 million. No contingent considerations were agreed. The transaction costs of CHF 2.1 million related directly to the acquisition, of which CHF 1.5 million was incurred in the 2017 financial year (first half of 2017: CHF 1.3 million) and CHF 0.6 million in the 2016 financial year, were recognized in the income statement as other operating expenses.

The balance sheet of SSM was incorporated in the consolidated balance sheet for the first time on June 30, 2017. Assets and liabilities were measured at fair value with the exceptions of defined benefit pension plan liabilities and deferred income tax assets and liabilities.

CHF million	June 30, 2017
Assets	
Tangible fixed assets	3.1
Intangible assets	62.1
Deferred income tax assets	0.7
Inventories	19.8
Trade receivables	8.9
Other current receivables	2.2
Cash and cash equivalents	24.0
Total assets	**120.8**
Liabilities	
Deferred income tax liabilities	12.7
Non-current provisions	1.4
Defined benefit plan liabilities	1.1
Trade payables	9.4
Advance payments from customers	5.8
Current income tax liabilities	1.1
Current provisions	1.3
Other current liabilities	7.3
Total liabilities	**40.1**
Purchase price	124.2
Net identifiable assets acquired	80.7
Goodwill	**43.5**

The balance sheet of SSM consolidated for the first time at June 30, 2017, was adjusted compared to the balance sheet presented in the 2017 semi-annual report in different areas as a result of the detailed purchase price allocation as of December 31, 2017 (see annual report 2017). The most significant adjustments arose from the higher value of intangible assets (CHF +3.4 million) and from the reduction in defined benefit plan liabilities (CHF –3.9 million), which resulted in a corresponding reduction of goodwill.

The intangible assets line item comprised mainly the fair values of customer relationships (CHF 37.3 million), technology (CHF 18.5 million) and the SSM brand (CHF 4.9 million).

Goodwill was attributable mainly to the future value of joint projects in the areas of technology and innovation as well as to the strong market position and the profitability of SSM. Any amortization of goodwill will not be effective for tax purposes.

The fair value of trade receivables amounted to CHF 8.9 million. The gross contractual amount of invoiced trade receivables amounted to CHF 9.1 million, while the allowance for doubtful receivables was CHF 0.2 million.

The future aggregate minimum lease payments under operating leases amounted to CHF 6.2 million at June 30, 2017. These leasing contracts mainly related to the rental of business premises.

Cash flows resulting from the acquisition of SSM are summarized in the table below:

CHF million	June 30, 2017
Purchase price settled in cash	124.2
Less cash and cash equivalents acquired	– 24.0
Net cash outflow – net cash from investing activities	**100.2**

The impact of SSM on the consolidated income statement of the 2017 financial year was limited to the period from July 1 until December 31, 2017. During that period, SSM contributed sales of CHF 49.1 million, EBITDA of CHF 8.3 million and a net profit of CHF 6.9 million (before one-off and recurring effects resulting from the acquisition). One-off and recurring effects resulting from the acquisition consisted of CHF 3.1 million of additional material costs, CHF 4.0 million of amortization and a tax impact of CHF –1.3 million. Had the acquisition taken place on January 1, 2017, sales, EBITDA and net profit contributed by SSM to the 2017 consolidated income statement would have amounted to CHF 98.9 million, CHF 17.1 million and CHF 14.0 million respectively (before one-off and recurring effects resulting from the acquisition).

4 RESTRUCTURING CHARGES

Rieter intends to focus on the development of machines and the provision of technical support for the after-sales business at the Ingolstadt location. Production will be transferred to the Ústí nad Orlicí site in the Czech Republic. In September 2017, Rieter agreed with the Works Council at the Ingolstadt location on a package of measures for employees affected by the planned reduction in the workforce.

The reassessment of the restructuring provisions based on the project progress at June 30, 2018, resulted in a net income of CHF 0.8 million in the reporting period.

Restructuring charges incurred in the 2017 financial year included predominantly the recognition for provisions for the expected costs in connection with the affected employees. In addition, non-recurring impairment losses related to tangible fixed assets, additional write-offs on inventory balances as well as current costs directly attributable to restructurings were recognized.

The table below presents the allocation of the restructuring charges by segments as described in note 5:

CHF million	January – June 2018	January – June 2017	January – December 2017
Restructuring costs, Machines & Systems	0.0	0.0	– 11.1
Impairment losses on tangible fixed assets, Machines & Systems	0.0	0.0	– 2.5
Restructuring costs, After Sales	0.9	0.0	– 7.3
Impairment losses on tangible fixed assets, After Sales	0.0	0.0	– 0.1
Restructuring costs, corporate functions and infrastructure	– 0.1	0.0	– 11.5
Impairment losses on tangible fixed assets, corporate functions and infrastructure	0.0	0.0	– 3.5
Total restructuring charges	**0.8**	**0.0**	**– 36.0**

5 SEGMENT INFORMATION

Segment information is based on the Group's organization and management structure and internal financial reporting to the Chief Operating Decision Maker up to the level of EBIT. The Chief Operating Decision Maker at Rieter is the Chief Executive Officer. Segment reporting is based on the same accounting policies as those used for the preparation of the consolidated financial statements. The Group consists of three reportable segments: Machines & Systems, After Sales and Components. There is no aggregation of operating segments. Rieter Machines & Systems develops and manufactures machinery and systems for processing natural and man-made fibers and their blends into yarns. Rieter After Sales serves Rieter customers with spare parts, value-adding after sales services and solutions over the entire product life cycle. Rieter Components supplies technology components to spinning mills and to textile machinery manufacturers as well as precision winding machines.

Segment information January – June 2018[1]

CHF million	Machines & Systems	After Sales	Components	Total reportable segments
Total segment sales	303.9	74.1	182.2	560.2
Inter-segment sales[2]	0.0	0.0	44.9	44.9
Sales to third parties[3]	303.9	74.1	137.3	515.3
Operating result before restructuring charges, interest and taxes	– 14.8	10.3	19.2	14.7
Operating result before interest and taxes (EBIT)	– 14.8	11.2	19.2	15.6
Purchase of tangible fixed assets and intangible assets	1.7	0.1	4.0	5.8
Depreciation of tangible fixed assets and amortization of intangible assets	6.1	0.6	8.6	15.3

Segment information January – June 2017

CHF million	Machines & Systems	After Sales	Components	Total reportable segments
Total segment sales	255.1	70.1	128.8	454.0
Inter-segment sales[2]	0.0	0.0	38.8	38.8
Sales to third parties[3]	255.1	70.1	90.0	415.2
Operating result before interest and taxes (EBIT)	– 3.8	12.8	12.6	21.6
Purchase of tangible fixed assets and intangible assets	2.7	0.4	3.5	6.6
Depreciation of tangible fixed assets and amortization of intangible assets	7.1	0.5	5.2	12.8

1. Including SSM Textile Machinery (see note 3).
2. Inter-segment sales conducted at arms' length.
3. Equal to sales in the consolidated income statement.

Segment information January – December 2017[1]

CHF million	Machines & Systems	After Sales	Components	Total reportable segments
Total segment sales	589.5	146.3	308.0	1 043.8
Inter-segment sales[2]	0.0	0.0	78.2	78.2
Sales to third parties[3]	589.5	146.3	229.8	965.6
Operating result before restructuring charges, interest and taxes	0.8	27.9	30.8	59.5
Operating result before interest and taxes (EBIT)	– 12.8	20.5	30.8	38.5
Purchase of tangible fixed assets and intangible assets	11.8	1.5	11.7	25.0
Depreciation of tangible fixed assets and amortization of intangible assets	13.9	0.9	14.9	29.7
Impairment losses on tangible fixed assets and intangible assets	2.5	0.1	0.0	2.6

1. Including SSM Textile Machinery (period from July 1 to December 31, 2017; see note 3).
2. Inter-segment sales conducted at arms' length.
3. Equal to sales in the consolidated income statement.

Reconciliation of segment results

CHF million	January – June 2018	January – June 2017	January – December 2017
Operating result before interest and taxes (EBIT) of reportable segments	15.6	21.6	38.5
Result which cannot be allocated to reportable segments	– 1.5	– 5.6	– 22.7
Operating result before interest and taxes (EBIT), Group	**14.1**	**16.0**	**15.8**
Financial result	– 1.0	– 2.1	0.2
Profit before taxes	**13.1**	**13.9**	**16.0**

The result which cannot be allocated to reportable segments includes all those elements of income and expenses which cannot be allocated on a reasonable basis to the segments, such as certain costs of central functions and infrastructure as well as the elimination of unrealized profits on inter-segment deliveries.

In the first half of 2018, the result which cannot be allocated to the reportable segments contains a gain from the sale of fixed assets in China amounting to CHF 0.5 million. These assets were disposed for an amount of CHF 10.4 million as a result of the continuous optimization of production operations on a global scale. In addition, due to a court ruling in favor of Rieter in connection with VAT claims, provisions amounting to CHF 2.5 million were released in the first half of 2018. In the first half of 2017, transaction costs arising from the acquisition of SSM amounting to CHF 1.3 million were included in the respective result (see note 3). In the 2017 financial year, restructuring charges amounting to CHF 15.0 million (see note 4) and transaction costs of CHF 1.5 million directly attributable to the acquisition of SSM (see note 3) were recognized.

6 SALES

CHF million	January – June 2018	January – June 2017	January – December 2017
Changes in sales due to volume and price, Machines & Systems	48.1	– 0.8	– 11.4
Currency translation differences, Machines & Systems	0.7	– 1.0	– 2.5
Changes in sales due to volume and price, After Sales	3.0	– 0.5	4.1
Currency translation differences, After Sales	1.0	– 0.1	0.6
Changes in sales due to volume and price, Components	– 0.7	– 18.8	– 21.5
Currency translation differences, Components	3.9	– 0.5	2.2
Acquisitions, Components[1]	44.1	0.0	49.1
Total	**100.1**	**– 21.7**	**20.6**

1. Acquisition of SSM Textile Machinery at June 30, 2017 (see note 3).

Sales are divided into the following categories:

CHF million	January – June 2018[1]
Sales of products	492.0
Sales of services	23.3
Total sales	**515.3**

1. Due to the initial application of IFRS 15 no comparative periods.

Revenue from sales of services is mainly incurred at Rieter After Sales.

In the first half of 2018, Rieter invoiced 33% of sales in Swiss francs (first half year 2017: 32%), 37% in euros (first half year 2017: 29%), 16% in US dollars (first half year 2017: 6%) and 14% in other currencies (first half year 2017: 33%).

The portion of costs incurred in Swiss francs was about 24% of sales (first half year 2017: 29%).

7 FINANCIAL INSTRUMENTS

The following table shows all financial instruments which are measured at fair value, grouped according to the categories defined in the accounting policies:

CHF million		June 30, 2018	June 30, 2017	December 31, 2017
Marketable securities	Assets, level 1	0.5	0.0	0.6
Other financial assets	Assets, level 2	1.1	3.0	1.6
Derivative financial instruments (positive fair values)	Assets, level 2	1.8	3.8	2.4
Derivative financial instruments (negative fair values)	Liabilities, level 2	3.6	1.8	3.9

There were no transfers among the categories and the valuation techniques have been applied consistently.

On June 30, 2018, financial debt measured at amortized cost include a fixed-rate bond with a carrying amount of CHF 99.8 million (June 30, 2017: CHF 99.7 million; December 31, 2017: CHF 99.7 million) and a fair value of CHF 102.6 million (June 30, 2017: CHF 103.5 million; December 31, 2017: CHF 103.0 million). The bond is listed on the SIX Swiss Exchange.

The carrying amounts of the remaining financial instruments measured at amortized cost approximate fair values due to their mainly short-term nature.

8 EVENTS AFTER BALANCE SHEET DATE AND FINANCIAL CALENDAR

On July 18, 2018, Rieter signed a contract to acquire 25 percent of Electro-Jet S.L., thus strengthening the ring spinning system. The company, based in Gurb (Spain), generated annual sales of around EUR 25 million in 2017 and employs around 135 people. Through this investment, Rieter secures a long-term competitive solution in the field of flyers (roving frames). The joint development of innovative products is also planned as part of the strategic partnership. The transaction is subject to the approval of the antitrust authorities.

The 2018 semi-annual report was approved for publication by the Board of Directors on July 18, 2018. No events have occurred up to July 18, 2018, which would necessitate adjustments to the carrying amounts of the Group's assets or liabilities.

Trading update	October 31, 2018
Publication of sales 2018	January 30, 2019
Deadline for proposals regarding the agenda of the Annual General Meeting	February 22, 2019
Results press conference 2019	March 13, 2019
Annual General Meeting 2019	April 4, 2019

Rieter Holding AG
CH-8406 Winterthur
T +41 52 208 71 71
F +41 52 208 70 60

Group Communication
T +41 52 208 70 45
F +41 52 208 70 60
media@rieter.com

Investor Relations
T +41 52 208 70 15
F +41 52 208 70 60
investor@rieter.com

www.rieter.com