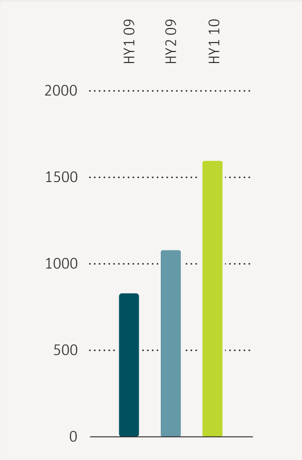
RIETER

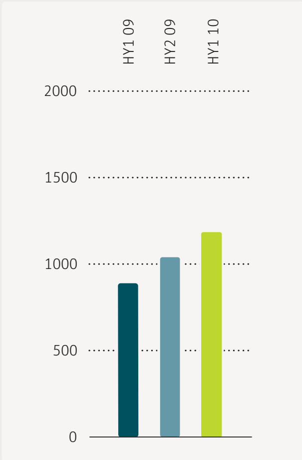
Semi-Annual Report 2010

Rieter at a glance

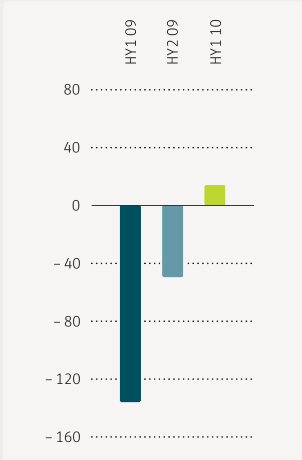
Orders received
in CHF million



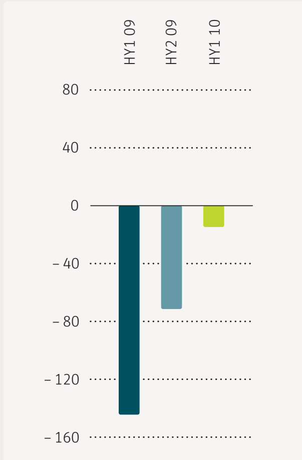
Sales
in CHF million



EBIT
in CHF million



Net result
in CHF million



CHF million		January – June 2010	January – June 2009	Change	Change in local currencies
Rieter Group					
Orders received		1 615.3	840.0	92%	94%
Sales		1 201.3	899.8	34%	35%
Corporate output		1 197.2	837.4	43%	
Operating result before interest and taxes (EBIT)		14.6	– 136.5		
• in % of corporate output		1.2	– 16.3		
Net result		– 15.3	– 145.5		
• in % of corporate output		– 1.3	– 17.4		
Earnings per share	CHF	– 4.94	– 34.93		
Capital expenditure on tangible and intangible assets		26.7	22.8	17%	
Number of employees at the end of the reporting period[1]		12 490	12 617	– 1%	
Divisions					
Orders received, Textile Systems		738.6	189.6	290%	292%
Sales, Textile Systems		324.6	249.5	30%	32%
Operating result before interest and taxes (EBIT), Textile Systems		2.0	– 58.2		
• in % of corporate output, Textile Systems		0.6	– 27.5		
Sales, Automotive Systems		876.7	650.3	35%	36%
Operating result before interest and taxes (EBIT), Automotive Systems		18.5	– 78.0		
• in % of corporate output, Automotive Systems		2.1	– 12.4		

1. Excluding apprentices and temporary personnel.

Rieter back to positive operating results and 92% increase in orders received

As a leading supplier to the textile machinery and automotive markets, Rieter successfully exploited the improved market environment in the first half of 2010 to generate organic growth. Compared with the same period of the previous year, Rieter's order intake increased by 92% to 1 615.3 million CHF (840.0 million CHF in 2009) and sales grew by 34% to 1 201.3 million CHF (899.8 million CHF in 2009). The Rieter Group and both divisions returned to profit at the operating level. The Rieter Group achieved an operating result before interest and taxes (EBIT) of 14.6 million CHF in the first six months. Rieter will reach the announced turnaround and expects to reaffirm the positive half-year operating result for the 2010 financial year as a whole. Furthermore, Rieter already aspires to a positive net result for the current year.

Dear shareholder

Rieter's markets revived significantly again in the first half of 2010, thus continuing the trend recorded in the second half of 2009. As a leading supplier to the textile and automotive industries, Rieter exploited this market recovery, which was especially pronounced in the textile machinery sector, to generate growth in all regions. The ongoing restructuring programs, which will for the most part be completed at the end of 2010, continued to be implemented in the first six months. They have made a significant contribution to the improvement in results. At the same time Rieter pressed on with important projects for the further expansion of capacity in both divisions in Asia and the development of market-specific products manufactured locally. In the context of restructuring measures and the strategy of focusing on the core business, the sale of the nonwovens activities announced in the fourth quarter of 2009 and the disposal of automotive design and engineering firm Idea Institute were completed on March 9 and June 30, 2010, respectively.

Orders received at the Rieter Group rose by 92% to 1 615.3 million CHF (840.0 million CHF in 2009). This was mainly attributable to striking growth at Textile Systems, where orders increased four-fold, and orders were also 35% higher at Automotive Systems. Adjusted for exchange rate fluctuations the increase for the group as a whole amounted to 94%. The recovery in the markets, which gained momentum in the course of the period under review, affected all regions.

Group sales rose by 34% to 1 201.3 million CHF (899.8 million CHF in 2009). Expressed in local currencies, the increase amounted to 35%. This growth was equally attributable to the improved trend of business at both Textile Systems and Automotive Systems.

The Rieter Group and both divisions returned to profit at the operating level. The operating result before interest and taxes (EBIT) amounted to 14.6 million CHF, an increase of 151.1 million CHF compared with the same period of the previous year. This striking improvement in the operating result is attributable to improved capacity utilization due to a 301.5 million CHF increase in sales and further progress in lowering the break-even point through rigorous implementation of the restructuring and cost-cutting programs. This resulted in a consolidated pre-tax result of – 2.7 million CHF (– 149.8 million CHF in 2009) and a net result of – 15.3 million CHF (– 145.5 million CHF in 2009) at June 30, 2010.

Even after two extremely difficult years in 2008 and 2009, Rieter still has a sound balance sheet. The equity ratio on June 30, 2010, was 33% (36% on December 31, 2009) and net liquidity amounted to – 18.0 million CHF (10.4 million CHF on December 31, 2009). Net cash from operating activities was marginally positive at 0.2 million CHF (– 13.5 million CHF in 2009), despite the volume-related increase in net working capital and restructuring expenditures. Capital expenditure in the first six months increased only slightly compared with the same period of the previous year to 26.7 million CHF (22.8 million CHF in 2009). However, Rieter is planning to double capital expenditure in the second half of 2010 compared with the same period of 2009, primarily due to the expansion of capacity in Asia and for new customer projects. The financial stability of the Rieter Group was further reinforced by the successful placement of a 250 million CHF bond issue on March 30, 2010, thus enabling Rieter to diversify its financial resources and their maturities.

Rieter's workforce totaled 12 490 at the end of the period under review (12 761 on December 31, 2009), which corresponds to a reduction of 271 jobs in the reporting period. While personnel numbers were reduced by some 700 in the first half of 2010 as a result of restructuring measures and divestments, this reduction was partially offset by the continued expansion of both divisions in China and India as planned, and the Automotive Systems capacity increase in North America in response to high demand. The overall proportion of personnel employed in high-cost countries continued to decline from 62% to 60%. The proportion employed in low-cost countries increased accordingly to 40% due to further expansion in Asia. More temporary personnel was hired at both divisions to manage the upswing.

Textile Systems: four-fold increase in orders received and marginally positive operating result

The investment climate in the textile industry improved significantly in the first half of 2010. Markets are reviving across the board. The main reason for this is the especially favorable margin situation for spinning mills, as demand for yarn has grown and yarn prices have risen. At the same time raw material prices – especially for cotton – have not increased to the same extent. Added to this is a backlog of demand for investment in plant replacements and updates.

Orders received by Rieter Textile Systems in the first six months of 2010 increased by 290% to 738.6 million CHF (189.6 million CHF in 2009). The upswing was most pronounced for staple fiber machinery, but demand for technology components was also strong. The largest volume of orders came from Turkey, India and China. Other Asian markets such as Indonesia, South Korea, Bangladesh and Pakistan also recorded very strong growth. More investments were also made by customers in the US and Brazil. After focusing mainly on plant replacements in the second half of 2009, demand for new installations increased substantially in the period under review.

The good order situation resulted in a better capacity utilization in the first half of 2010, and delivery lead times tended to lengthen. Short-time working was therefore discontinued as of the end of June in all departments and at all sites of Textile Systems. Sales in the first six months did not yet rise as steeply as order intake; they increased by 30% to 324.6 million CHF (249.5 million CHF in 2009), resulting in a healthy book-to-bill ratio of 2.28. The fastest growth was recorded in Asia, where sales increased by 65% compared with the same period of the previous year. Textile Systems posted a marginally positive operating result (EBIT) of 2.0 million CHF. This corresponds to an improvement by 60.2 million CHF compared with the same period of the previous year, on a 75.1 million CHF increase in sales. Rieter Textile Systems continued the systematic implementation of restructuring and cost-cutting programs in the first six months of the year, which made a significant contribution to this outcome.

In the context of focusing on the Textile Division's core businesses, Rieter signed a contract with international technology group Andritz in the fourth quarter of 2009 for the sale of Rieter's nonwovens activities in France. This sale was completed in the first quarter of 2010.

Rieter Textile Systems, the leading systems supplier in the field of spinning machinery and installations for short staple fibers as well as the relevant technology components and services, continued to expand capacity in India in the period under review. The division will progressively expand the range of products manufactured locally in China and India in order to secure a leading position on the major Asian markets in future as a supplier of integrated systems and technology components.

Automotive Systems: striking increase in sales and positive operating result

Automobile production in the first half of 2010 increased to 36.7 million vehicles compared with 26.1 million in the same period of the previous year. The highest growth rates were recorded in North America, which alongside Europe is one of Rieter's main markets. Output increased there by 73% to 6.0 million vehicles. North America was thus the most dynamic market in the first six months, ahead of China (+46%). However, these growth rates have to be viewed against the backdrop of the previous year's very low levels: the slump in vehicle production in North America in the second quarter of 2009 was exceptionally steep – also due to the insolvency of two automobile manufacturers. In Europe, Rieter's other main market, output continued to grow (+25%) even after scrappage premiums were phased out, but at a much slower pace than in the second half of 2009. The recovery in automobile production is being driven by strong growth in consumer demand. Production of commercial vehicles, which has been at a very low level in the past year, again increased worldwide, especially in the second quarter of 2010. China's share of global output of heavy commercial vehicles already amounts to some 40%.

Rieter Automotive successfully exploited its customers' positive production figures to drive its own growth. The division's sales increased by 35% to 876.7 million CHF in the first half (650.3 million CHF in 2009). Organic growth was achieved in all regions and was fueled by a broad-based portfolio of customers and products. Expressed in local currencies, sales growth amounted to 36%. The highest growth rates were recorded in North and South America and in Asia, where growth in China was 70%.

Rieter Automotive Systems posted a positive operating result of 18.5 million CHF (– 78.0 million CHF in 2009), an improvement of 96.5 million CHF compared with the same period of the previous year. Besides the volume effect (sales +226.4 million CHF), this was attributable to highly effective implementation of the restructuring and cost-cutting programs.

In the context of the ongoing restructuring programs, Rieter sold Italian design and engineering firm Idea Institute to Quantum Kapital AG of Switzerland in the first half of 2010. Rieter Automotive will thus focus even more closely on its core business and work on the long-term profitable development of the division. The new customer programs, with which Rieter Automotive was able to follow up its order acquisition successes in 2009 due to its reinforced position with innovative products, will also contribute to these efforts.

Rieter Automotive Systems commenced production in a new plant in southern India in the first half of the year. This is the second manufacturing facility in this emerging market, which has great growth potential. The same is true of China, where Rieter Automotive operates a development and acoustics center in addition to several manufacturing plants in order to serve both Chinese and foreign manufacturers even more effectively. As a leading global manufacturer of systems for acoustic comfort and thermal management as well as underbody modules, Rieter will continue the progressive expansion of its production capacity in these growth markets. However, the Automotive Division will also seize opportunities for further profitable growth in Europe and North America.

Outlook

Rieter has been participating successfully in the global recovery of the textile machinery and automotive markets since mid-2009. Demand developed especially dynamically in the first half of 2010. Positive consumer sentiment in Europe and North America together with sustained economic growth in the large Asian markets are the main prerequisites for the continuation of this favorable trend.

Rieter expects a substantial increase in sales in the 2010 financial year compared to 2009, with both divisions contributing to this trend. In the second half of 2010 the Textile Systems Division in particular will see a further strong increase in sales compared with the first six months due to the good order situation. Sales by the Automotive Systems Division are expected to be lower in the second half-year compared with the period under review due to normal seasonal factors as well as currency effects.

Overall, Rieter foresees an improvement in capacity utilization in the second six months driven by demand and due to the ongoing restructuring programs. Rieter expects both divisions to post another positive operating result (EBIT) in the second half and operating margins at group level to continue their improvement. Rieter will achieve the announced turnaround and expects to reaffirm the positive half-year operating result for 2010 as a whole. Furthermore, Rieter already aspires to a positive net result for the current year.

Winterthur, August 11, 2010

Erwin Stoller	This E. Schneider
Chairman of the Board of Directors	Vice-Chairman of the Board of Directors

Consolidated income statement

	January – June 2010		January – June 2009		January – December 2009	
	CHF million	% *	CHF million	% *	CHF million	% *
Sales	**1 201.3**		**899.8**		**1 956.3**	
Sales deductions	– 40.4		– 31.9		– 73.6	
Net sales	**1 160.9**		**867.9**		**1 882.7**	
Change in semi-finished and finished goods	36.0		– 35.0		– 41.1	
Own work capitalized	0.3		4.5		4.9	
Corporate output	**1 197.2**	**100.0**	**837.4**	**100.0**	**1 846.5**	**100.0**
Material costs	– 559.9	– 46.8	– 414.3	– 49.5	– 885.1	– 48.0
Employee costs	– 391.0	– 32.7	– 349.1	– 41.7	– 693.0	– 37.5
Other operating expenses	– 182.3	– 15.2	– 161.5	– 19.3	– 349.3	– 18.9
Other operating income	15.8	1.3	22.1	2.7	35.2	1.9
Depreciation and amortization	– 65.2	– 5.4	– 71.1	– 8.5	– 140.9	– 7.6
Operating result before interest and taxes (EBIT)	**14.6**	**1.2**	**– 136.5**	**– 16.3**	**– 186.6**	**– 10.1**
Financial result	– 17.3		– 13.3		– 24.9	
Result before taxes	**– 2.7**	**– 0.2**	**– 149.8**	**– 17.9**	**– 211.5**	**– 11.5**
Income taxes	– 12.6		4.3		– 6.0	
Net result	**– 15.3**	**– 1.3**	**– 145.5**	**– 17.4**	**– 217.5**	**– 11.8**
Attributable to shareholders of Rieter Holding Ltd.	– 22.9		– 145.9		– 223.9	
Attributable to non-controlling interests	7.6		0.4		6.4	
Earnings per share CHF	– 4.94		– 34.93		– 50.96	
Diluted earnings per share CHF	– 4.94		– 34.93		– 50.96	

* In % of corporate output

Consolidated statement of comprehensive income

CHF million	January – June 2010	January – June 2009	January – December 2009
Net result	**– 15.3**	**– 145.5**	**– 217.5**
Currency effects	– 6.8	23.0	5.9
Financial instruments available for sale:			
Change in fair value	11.1	– 1.2	54.1
Realized results through income statement	0.0	0.2	0.3
Income taxes	– 4.4	0.1	– 19.9
Total other comprehensive income	**– 0.1**	**22.1**	**40.4**
Total comprehensive income	**– 15.4**	**– 123.4**	**– 177.1**
Attributable to shareholders of Rieter Holding Ltd.	– 26.0	– 125.5	– 182.5
Attributable to non-controlling interests	10.6	2.1	5.4

Consolidated balance sheet

CHF million	June 30, 2010	June 30, 2009	December 31, 2009
Assets			
Tangible fixed assets	637.2	742.0	696.0
Intangible assets	18.9	26.5	23.0
Other non-current assets, deferred tax assets	177.2	127.4	167.5
Non-current assets	**833.3**	**895.9**	**886.5**
Inventories	308.8	287.3	266.0
Trade receivables	360.7	300.4	331.5
Other receivables	92.4	100.1	92.4
Assets of disposal groups	0.0	0.0	7.0
Marketable securities and time deposits	12.2	13.2	13.0
Cash and cash equivalents	331.2	241.9	217.7
Current assets	**1 105.3**	**942.9**	**927.6**
Assets	**1 938.6**	**1 838.8**	**1 814.1**
Shareholders' equity and liabilities			
Share capital	23.4	23.4	23.4
Share premium account (capital reserve)	27.5	27.5	27.5
Group reserves	509.3	617.3	536.3
Equity attributable to shareholders of Rieter Holding Ltd.	**560.2**	**668.2**	**587.2**
Equity attributable to non-controlling interests	72.4	69.6	68.6
Total shareholders' equity	**632.6**	**737.8**	**655.8**
Long-term financial debt	289.7	123.5	140.7
Provisions, other non-current liabilities	252.0	282.0	258.6
Non-current liabilities	**541.7**	**405.5**	**399.3**
Trade payables	241.0	201.3	226.8
Advance payments by customers	101.9	59.9	63.3
Short-term financial debt	71.7	75.0	81.7
Provisions, other current liabilities	349.7	359.3	373.8
Liabilities of disposal groups	0.0	0.0	13.4
Current liabilities	**764.3**	**695.5**	**759.0**
Liabilities	**1 306.0**	**1 101.0**	**1 158.3**
Shareholders' equity and liabilities	**1 938.6**	**1 838.8**	**1 814.1**

Changes in consolidated equity

CHF million	January – June 2010	January – June 2009	January – December 2009
Total shareholders' equity at end of previous period	**655.8**	**746.2**	**746.2**
Total comprehensive income	– 15.4	– 123.4	– 177.1
Shareholder option program	0.0	46.7	46.7
Dividends / capital increases non-controlling interests	– 6.8	11.1	– 16.0
Share-based compensation	0.7	1.8	1.8
Change in holding of own shares	– 1.7	55.4	54.2
Total shareholders' equity at end of reporting period	**632.6**	**737.8**	**655.8**

Consolidated statement of cash flows

CHF million	January – June 2010	January – June 2009	January – December 2009
Net result	**– 15.3**	**– 145.5**	**– 217.5**
Interest income / interest expenses	13.5	12.1	23.6
Income taxes	12.6	– 4.3	6.0
Depreciation, amortization and other non-cash income and expenses	63.8	65.7	135.2
Gain on divestments	– 4.5	– 4.5	– 4.5
Change in net working capital, other	– 57.2	80.2	91.4
Dividends received	0.0	0.0	0.8
Interest received / interest paid	– 8.2	– 9.4	– 19.2
Taxes paid	– 4.5	– 7.8	– 17.4
Net cash from operating activities	**0.2**	**– 13.5**	**– 1.6**
Capital expenditure / disposals tangible and intangible assets	– 21.4	– 9.7	– 45.4
Investments / disposals other non-current assets	1.6	– 1.9	– 4.3
Change in holdings of marketable securities and time deposits	0.9	– 5.8	– 5.6
Divestments of businesses	– 2.1	22.1	22.1
Net cash from investing activities	**– 21.0**	**4.7**	**– 33.2**
Shareholders' option program	0.0	46.7	46.7
Purchase / sale of own shares	– 1.0	57.2	56.0
Capital increases by non-controlling interests	0.0	16.2	16.2
Dividends to non-controlling interests	– 6.8	– 5.1	– 9.3
Repayments / proceeds of / from short-term financial debt	– 2.8	– 142.1	– 134.9
Proceeds from long-term financial debt	247.2	100.0	104.9
Repayments of long-term financial debt	– 103.6	– 102.2	– 107.4
Net cash from financing activities	**133.0**	**– 29.3**	**– 27.8**
Currency effects	1.3	– 2.6	– 2.3
Change in cash and cash equivalents	**113.5**	**– 40.7**	**– 64.9**
Cash and cash equivalents at beginning of year	**217.7**	**282.6**	**282.6**
Cash and cash equivalents at end of reporting period	**331.2**	**241.9**	**217.7**

Notes to the semi-annual financial statements

1 Principles of consolidation and accounting principles

The consolidated semi-annual financial statements have been prepared in accordance with IAS 34 “Interim Financial Reporting”. They are based on the financial statements of the individual group companies drawn up according to uniform accounting policies as of June 30, 2010. The principles of consolidation and accounting principles set forth in the 2009 annual report have been amended for 2010 by the new and revised IFRS standards and interpretations. The adoption of new or amended regulations had no material impact on the consolidated financial statements.

The semi-annual report is published in English and German and has not been audited by the statutory auditor. The consolidated income statement, balance sheet, statement of cash flows and changes in consolidated equity are presented in condensed form.

2 Segment information

Sales[1]

CHF million	**January – June 2010**	**January – June 2009**	**January – December 2009**
Textile Systems	324.6	249.5	532.0
Automotive Systems	876.7	650.3	1 424.3
Total	**1 201.3**	**899.8**	**1 956.3**

1. There were no material inter-segment sales.

Operating result before interest and taxes (EBIT)

CHF million	**January – June 2010**	**January – June 2009**	**January – December 2009**
Textile Systems	2.0	– 58.2	– 73.6
Automotive Systems	18.5	– 78.0	– 105.1
Other units, including group costs[1]	– 5.9	– 0.3	– 7.9
Total	**14.6**	**– 136.5**	**– 186.6**

1. Other units (Rieter Holding Ltd, Corporate Center).

Net assets

CHF million	**June 30, 2010**	**June 30, 2009**	**December 31, 2009**
Textile Systems[1]	205.8	219.3	213.3
Automotive Systems[1]	434.0	481.6	429.2
Other units and net assets not allocated to the divisions	– 7.2	36.9	13.3
Total	**632.6**	**737.8**	**655.8**

1. Segment assets excluding financial and income tax related items (= net operating assets).

Capital expenditure on tangible and intangible assets

CHF million	January – June 2010	January – June 2009	January – December 2009
Textile Systems	3.9	2.0	5.5
Automotive Systems	22.8	20.8	56.2
Other units	0.0	0.0	0.0
Total	**26.7**	**22.8**	**61.7**

Number of employees[1]

	June 30, 2010	June 30, 2009	December 31, 2009
Textile Systems	4 025	4 222	4 086
Automotive Systems	8 426	8 316	8 600
Other units	39	79	75
Total	**12 490**	**12 617**	**12 761**

1. Excluding apprentices and temporary employees.

Sales by geographic region

CHF million	January – June 2010	January – June 2009	January – December 2009
Europe	535.7	435.4	901.1
Asia[1]	264.0	163.0	405.3
North America	288.3	182.6	432.5
Latin America	101.4	93.5	181.7
Africa	11.9	25.3	35.7
Total	**1 201.3**	**899.8**	**1 956.3**

1. Including Turkey.

3 Change in sales

CHF million	January – June 2010	January – June 2009	January – December 2009
Change in sales due to volume and price, Textile Systems	80.9	– 395.0	– 560.9
Change in sales due to volume and price, Automotive Systems	237.3	– 458.3	– 525.3
Impact of divestments	– 2.2	– 17.0	– 18.3
Currency effects	– 14.5	– 36.5	– 81.7
Total change in sales	**301.5**	**– 906.8**	**– 1 186.2**

4 Changes in the scope of consolidation

On March 9, 2010 Rieter sold the nonwovens activities of Division Textile Systems. In accordance with IFRS 5 the concerned assets and liabilities were classified as a disposal group in the balance sheet as of December 31, 2009. The resulting disposal gain was recognized in other operating income. In 2010 the on-wovens activities generated sales of 5.0 million CHF prior to their sale.

On June 30, 2010 Rieter sold Idea Institute S.p.A., which was part of Division Automotive Systems. There was no significant disposal loss. In 2010 Idea Institute S.p.A., generated sales of 8.8 million CHF prior to its sale.

5 Long-term financial debt

On March 30, 2010 Rieter Holding AG issued a fixed-rate bond of 250 million CHF. The issue has a five-year maturity and a fixed coupon of 4.5%.

At the same time long-term bank debts of 100 million CHF were repaid.

Since March 20, 2009, the Group is subject to externally imposed minimum requirements regarding equity and free cash flow. These minimum requirements have been complied with and compliance is monitored permanently.

6 Average exchange rates for foreign currency translation

	January – June 2010	**January – June 2009**	**Change**	**January – December 2009**
1 EUR	1.44	1.51	– 5%	1.51
1 USD	1.08	1.13	– 4%	1.09
1 GBP	1.65	1.69	– 2%	1.70
100 INR	2.37	2.29	3%	2.24
100 CNY	15.87	16.53	– 4%	15.88

7 Events after balance sheet date; financial calendar

The semi-annual report for 2010 was approved for publication by the Board of Directors on August 6, 2010. No events have occurred up to August 11, 2010, which would necessitate adjustments to the semi-annual report.

Publication of sales figures for the 2010 financial year	February 4, 2011
Results press conference and presentation of the 2010 financial statements	March 22, 2011
Annual General Meeting	April 13, 2011

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