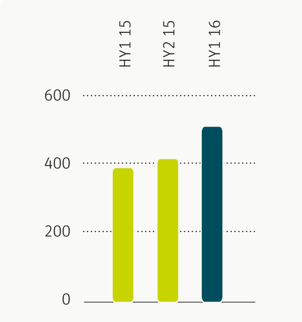
RIETER

Semi-Annual Report 2016

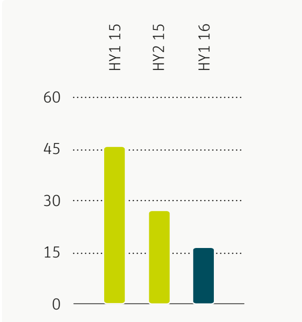
Rieter at a glance

Orders received
in CHF million

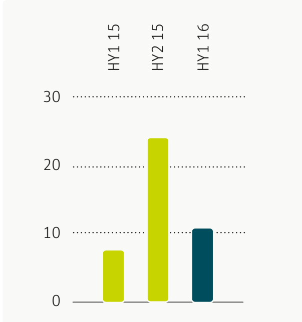


Sales
in CHF million

EBIT
in CHF million



Capital expenditures
in CHF million



CHF million	January - June 2016	July - December 2015	January - June 2015	Change[1]	Change in local currencies[1]	Change without divestments[1]
Rieter						
Orders received	510.7	413.3	388.3	32%	32%	38%
Sales	436.9	482.9	553.9	– 21%	– 21%	– 19%
Operating result before interest, taxes, depreciation and amortization (EBITDA)	34.4	49.9	66.0			
· in % of sales	7.9%	10.3%	11.9%			
Operating result before interest and taxes (EBIT)	15.7	27.0	46.1			
· in % of sales	3.6%	5.6%	8.3%			
Net profit	11.0	20.7	29.1			
· in % of sales	2.5%	4.3%	5.3%			
Basic earnings per share (CHF)	2.42	4.56	6.36			
Capital expenditures on tangible and intangible assets	10.7	24.3	7.3	47%		
Number of employees at the end of the period (excluding temporary personnel)	5 067	5 077	5 150	– 2%		
Business Group Machines & Systems						
Orders received	343.4	232.1	225.6	52%	54%	66%
Sales	256.9	309.6	392.7	– 35%	– 34%	– 31%
Operating result before interest and taxes (EBIT)	– 12.1	– 2.4	17.2			
· in % of sales	– 4.7%	– 0.8%	4.4%			
Business Group After Sales						
Orders received	71.2	61.2	65.1	9%	8%	8%
Sales	70.7	70.2	69.6	2%	0%	0%
Operating result before interest and taxes (EBIT)	13.2	12.9	13.6			
· in % of sales	18.7%	18.4%	19.5%			
Business Group Components						
Orders received	96.1	120.1	97.6	– 2%	– 3%	– 3%
Sales	109.3	103.1	91.6	19%	17%	17%
Total segment sales	141.3	133.2	125.4	13%	10%	10%
Operating result before interest and taxes (EBIT)	18.4	17.7	16.0			
· in % of segment sales	13.0%	13.3%	12.8%			

1. Change January - June 2016 vs. January - June 2015.

Positive trend in order intake

Increase in order intake of 52% for machinery business – significant contribution to result by After Sales and Components business groups – STEP UP improvement program on track

Rieter's order intake increased by 32% to CHF 510.7 million in the first half of 2016 (CHF 388.3 million in the first half of 2015), thanks in particular to stronger demand in the machinery business. As expected, order intake was thus significantly higher than sales of CHF 436.9 million (CHF 553.9 million in the first half of 2015). Rieter achieved EBITDA of CHF 34.4 million or 7.9% of sales (CHF 66.0 million or 11.9% of sales in the first half of 2015) due to good results of the Components and After Sales business groups. EBIT amounted to CHF 15.7 million while the EBIT margin was 3.6% (CHF 46.1 million and 8.3% respectively in the first half of 2015). Rieter posted a net profit of CHF 11.0 million or 2.5% of sales (CHF 29.1 million or 5.3% in the first half of 2015).

Dear shareholder

Rieter was able to acquire large orders for spinning systems since the end of 2015, and accordingly orders received by the Machines & Systems Business Group increased significantly by 52% compared to the prior year.

After Sales also posted higher order intake with an increase of 9%. Components likewise benefited from large orders for technology components and again recorded a healthy level of order intake.

Overall, Rieter received orders to the value of CHF 510.7 million in the period under review (CHF 388.3 million in the first half of 2015).

The order backlog increased to approx. CHF 550 million on June 30, 2016 (approx. CHF 470 million on December 31, 2015) and is thus at the level of the prior year (approx. CHF 540 million).

Rieter's sales in the first half of 2016 totaled CHF 436.9 million, with the positive developments at the Components and After Sales business groups being offset by the decline in machinery business. The Components Business Group increased sales to third parties by 19%, thanks in part to the high volume of orders in the second half of 2015. Segment sales by Components, where both sales to third parties and internal deliveries to the Machines & Systems Business Group are taken into account, rose by 13% to CHF 141.3 million (CHF 125.4 million in the first half of 2015). The After Sales Business Group continued to expand the spare parts business and managed to increase sales slightly to CHF 70.7 million over a period in which installation services were reduced. Sales revenues at the Machines & Systems Business Group totaled CHF 256.9 million and were down in comparison to the first half of 2015, due to the smaller order backlog at the beginning of 2016 and the sale of the Schaltag group.

On June 30, 2016, Rieter had a workforce of 5 067 (5 150 on June 30, 2015). The number of temporary employees totaled 574, or 10.2% of the entire workforce (871 temporary employees or 14.5% of the entire workforce on June 30, 2015).

CHF million	January - June 2016	January - June 2015	Change	Change in local currencies	Change without divestments
Orders received	**510.7**	**388.3**	**32%**	**32%**	**38%**
Machines & Systems	343.4	225.6	52%	54%	66%
After Sales	71.2	65.1	9%	8%	8%
Components	96.1	97.6	-2%	-3%	-3%
Sales	**436.9**	**553.9**	**-21%**	**-21%**	**-19%**
Machines & Systems	256.9	392.7	-35%	-34%	-31%
After Sales	70.7	69.6	2%	0%	0%
Components	109.3	91.6	19%	17%	17%

CHF million	January - June 2016	January - June 2015	Change	Change in local currencies	Change without divestments
Sales	**436.9**	**553.9**	**-21%**	**-21%**	**-19%**
Asian countries[1]	152.3	176.5	-14%	-14%	-14%
China	105.1	62.0	69%	70%	70%
India	81.5	72.2	13%	13%	13%
Americas	45.4	109.3	-58%	-59%	-59%
Turkey	31.7	82.1	-61%	-62%	-62%
Europe	15.5	40.5	-62%	-63%	-34%
Africa	5.4	11.3	-52%	-52%	-52%

1. without China, India, Turkey

Sales trend by market

In the period under review, Rieter achieved the most significant sales results in Asian countries (not including China, India and Turkey) with revenues totaling CHF 152.3 million. Order intake was slightly above the level of sales. The most important national markets in the region for Rieter were Bangladesh, Vietnam, Uzbekistan, Pakistan and Indonesia.

Rieter's sales to China amounted to CHF 105.1 million, 69% higher than in the first half of 2015, while order intake there was below the level of sales. More than half of sales revenues were generated in the province of Xinjiang, where a large-scale government investment program supports the expansion of the textile industry and is expected to provide further stimulation for the industry in the future.

In India, sales of CHF 81.5 million were 13% higher compared to the previous year. Despite the slight drop in demand for Indian yarns from China, customers showed a growing interest in Rieter products, especially the new K 42 compacting system. With this Rieter system, a 10% reduction in energy consumption and less waste yield important competitive advantages. Order intake in India was slightly below the level of sales.

Order intake and sales in North America and South America were lower than in the prior-year period, as expected, reflecting the effect of major investment projects of previous years. Rieter recorded slightly higher sales than order intake, although revenues of CHF 45.4 million were significantly down on the first half of the prior year.

Rieter booked the largest volume of orders for the first half of the year in Turkey – the corresponding figure was several times higher than the sales of CHF 31.7 million recorded in this market over the same period. The volume of completed orders will be reflected in sales revenues from the second half of the year onwards. At the ITM textile machinery trade fair in Istanbul in June 2016, Rieter products aroused considerable interest among customers from Turkey and the surrounding countries.

Sales in Africa of CHF 5.4 million were below the prior-year period. On the other hand, orders received in the first half of 2016 significantly exceeded the corresponding figure in 2015, thanks to larger orders with deliveries to northern Africa. There was a decline in order intake and sales in Europe, chiefly due to the sale of the Schaltag group.

Operating result and net profit

High profitability of the After Sales and Components business groups and, for volume-related reasons, a more modest result for the machinery business characterized the first half of 2016 for Rieter. EBITDA of CHF 34.4 million or 7.9% of sales was realized by Rieter in the first half of 2016 (CHF 66.0 million or 11.9% of sales in the first half of 2015). The operating result before interest and taxes (EBIT) was CHF 15.7 million or 3.6% of sales (CHF 46.1 million or 8.3% of sales in the first half of 2015). Depreciation amounted to CHF 18.8 million (CHF 19.9 million in the first half of 2015). In contrast to this year, the corresponding result of the previous year was boosted by the sale of a property totaling CHF 5.0 million.

A healthy profitability trend was sustained at Components during the period under review. The business group posted EBIT of CHF 18.4 million or 13.0% of segment sales (CHF 16.0 million or 12.8% of segment sales in the first half of 2015). After Sales also contributed to the positive performance trend with EBIT of 13.2 million CHF or 18.7% of sales (CHF 13.6 million or 19.5% of sales in the first half of 2015). The decline in comparison to the previous year is mainly attributable to the costs involved in the expansion of the business. EBIT at Machines & Systems was lower and amounted to CHF -12.1 million or -4.7% of sales (CHF 17.2 million or 4.4% in the first half of 2015). The reduction in EBIT is due to the smaller volume.

Rieter invested CHF 10.7 million in the period under review (CHF 7.3 million in the first half of 2015). Here account has been taken of additional group-wide capital expenditure for the production realignment measures at the Winterthur site which were announced in October 2015.

Rieter recorded a net profit of CHF 11.0 million or 2.5% of sales (CHF 29.1 million or 5.3% of sales in the first half of 2015). There was an improvement in the net financial result to CHF -1.8 million (CHF -4.7 million in the first half of 2015), while income taxes amounted to CHF 2.9 million (CHF 12.3 million in the first half of 2015).

Sound and long-term financing of Rieter

Rieter recorded free cash flow amounting to CHF 4.5 million in the reporting period (CHF -5.1 million in the first half of 2015). As well as the comparatively modest result, the decrease in net working capital as compared to June 30, 2015, and higher capital investments compared to the previous year were decisive factors with regard to this development.

After payment of a dividend of CHF 20.3 million (CHF 4.50 per share) out of the reserve from capital contributions in April 2016 (which was in accordance with the dividend distribution objective of at least 40% of net profit), cash and cash equivalents, marketable securities and time deposits amounted to CHF 305.4 million and net liquidity to CHF 193.8 million on June 30, 2016. Rieter had an equity ratio of 43.8% on balance sheet date (42.7% on June 30, 2015).

Strategic focus

In the first half of 2016 Rieter continued its systematic pursuit of the objectives of the strategic STEP UP improvement program. Rieter has been focusing on the following three strategic priorities of this program which was started in 2014: boosting innovative capability, expanding the after-sales business and increasing profitability (EBIT margin) to 10% of sales.

Boosting innovative capability: Rieter invested CHF 24.4 million (amounting to 5.6% of sales) in research and development in the period under review (CHF 22.9 million in first half of 2015). Digitization is thus becoming increasingly important for Rieter. Again in 2016, a number of important trade fairs will be held, including the ITMA Asia + CITME 2016 textile machinery trade fair in Shanghai, China. Here Rieter will be focusing on the performance capacity of its range of products for the processing of man-made fibers. With the introduction of the K 42 spinning machine with 1 824 spindles, plus blowroom system and card, entire compact spinning systems are now available on the Indian market. As with the EliTe® system, there is a strong demand for this spinning system. With such products, higher-quality yarn production can be realized.

Expanding the after-sales business: The After Sales Business Group is aiming to grow by 30% overall by 2018, based on sales amounting to CHF 127.5 million in the 2014 financial year. Rieter continued to work according to plan toward these objectives in the reporting period. In April, Rieter put a new site into operation in Urumqi, the capital of the Chinese province of Xinjiang, thereby expanding its presence with sales, service and customer-training facilities. In addition, After Sales is well positioned to take advantage of the positive trend at the Machines & Systems Business Group.

Increasing profitability: The measures designed to improve profitability which Rieter launched in 2014 and which were afforded a higher priority following the abandonment of the minimum exchange rate for the euro by the Swiss National Bank, continued to be pursued consistently. The planned further measures concerning the changes to production at the Winterthur site were implemented in the first half of 2016. The implementation of these structural measures should yield cost savings of CHF 15-20 million from 2017 onwards.

Outlook

The first six months of 2016 have been characterized by improved demand for spinning machinery and healthy demand at the Components and After Sales business groups.

Higher order intake for spinning machinery in the first half of 2016 has led to an increase in order backlog (as at June 30, 2016).

On the basis of the higher order backlog at Machines & Systems and the continued stable business development of After Sales and Components, Rieter is expecting a stronger second half of the year with regard to sales and profitability in comparison to the first half. The company also expects sales and profit for the whole of 2016 to be lower than in 2015.

Rieter currently foresees a stable market environment with limited visibility and is continuing to work consistently on the programs geared toward boosting innovative capability, expanding the after-sales business and increasing profitability.

Winterthur, July 20, 2016

Erwin Stoller	Dr. Norbert Klapper
Chairman of the Board of Directors	Chief Executive Officer

Consolidated income statement

		January - June 2016		January - June 2015		January - December 2015	
	Notes	CHF million	% *	CHF million	% *	CHF million	% *
Sales	(6)	**436.9**	**100.0**	**553.9**	**100.0**	**1 036.8**	**100.0**
Change in semi-finished and finished goods		1.0	0.2	– 10.2	– 1.9	– 15.6	– 1.5
Own work capitalized		0.2	0.1	0.3	0.1	2.4	0.2
Material costs		– 189.1	– 43.3	– 260.3	– 47.0	– 470.1	– 45.3
Employee costs		– 143.2	– 32.8	– 149.6	– 27.0	– 288.9	– 27.9
Other operating expenses		– 81.3	– 18.6	– 87.7	– 15.8	– 177.3	– 17.1
Other operating income		10.0	2.3	19.6	3.5	28.6	2.7
Depreciation and amortization		– 18.8	– 4.3	– 19.9	– 3.6	– 42.8	– 4.1
Operating result before interest and taxes (EBIT)		**15.7**	**3.6**	**46.1**	**8.3**	**73.1**	**7.0**
Financial result		– 1.8		– 4.7		– 7.9	
Profit before taxes		**13.9**	**3.2**	**41.4**	**7.5**	**65.2**	**6.3**
Income taxes		– 2.9		– 12.3		– 15.4	
Net profit		**11.0**	**2.5**	**29.1**	**5.3**	**49.8**	**4.8**
Attributable to shareholders of Rieter Holding Ltd.		10.9		29.1		49.7	
Attributable to non-controlling interests		0.1		0.0		0.1	
Basic earnings per share (CHF)		**2.42**		**6.36**		**10.92**	
Diluted earnings per share (CHF)		**2.42**		**6.35**		**10.91**	

* In % of sales.

Consolidated statement of comprehensive income

CHF million	Notes	January - June 2016	January - June 2015	January - December 2015
Net profit		**11.0**	**29.1**	**49.8**
Remeasurement of defined benefit plans[1]		4.2	5.5	3.6
Income taxes on remeasurement of defined benefit plans		– 0.9	– 1.1	– 0.7
Items that will not be reclassified to income statement, net of taxes		**3.3**	**4.4**	**2.9**
Currency translation differences		– 6.2	– 32.9	– 24.2
Financial instruments available for sale:	(2)			
Changes in fair values			1.3	3.5
Income taxes on changes in fair values			– 0.1	– 0.3
Results reclassified to income statement			– 0.1	
Changes in fair values of hedging instruments	(2)	0.4		
Income taxes on changes in fair values of hedging instruments		– 0.1		
Items that may be reclassified to income statement, net of taxes		**– 5.9**	**– 31.8**	**– 21.0**
Total other comprehensive income		**– 2.6**	**– 27.4**	**– 18.1**
Total comprehensive income		**8.4**	**1.7**	**31.7**
Attributable to shareholders of Rieter Holding Ltd.		8.4	1.7	31.6
Attributable to non-controlling interests		0.0	0.0	0.1

1. Actuarial gains and losses as well as impact of IFRIC 14.

Consolidated balance sheet

CHF million	June 30, 2016	June 30, 2015	December 31, 2015
Assets			
Tangible fixed assets	246.9	249.6	257.2
Intangible assets	12.6	17.6	15.1
Other non-current assets, deferred tax assets	100.9	94.0	97.8
Non-current assets	**360.4**	**361.2**	**370.1**
Inventories	210.7	207.8	191.5
Trade receivables	54.1	101.9	63.7
Other receivables	56.5	55.5	42.1
Marketable securities and time deposits	7.1	7.6	7.5
Cash and cash equivalents	298.3	257.6	326.5
Current assets	**626.7**	**630.4**	**631.3**
Assets	**987.1**	**991.6**	**1 001.4**
Shareholders' equity and liabilities			
Equity attributable to shareholders of Rieter Holding Ltd.	431.8	423.1	442.9
Equity attributable to non-controlling interests	0.9	0.8	0.9
Total shareholders' equity	**432.7**	**423.9**	**443.8**
Long-term financial debt	100.7	106.6	107.5
Provisions, deferred income tax liability	142.3	138.4	143.9
Non-current liabilities	**243.0**	**245.0**	**251.4**
Trade payables	66.6	63.3	86.3
Advance payments from customers	79.1	90.1	71.5
Short-term financial debt	10.9	19.6	14.1
Provisions, other current liabilities	154.8	149.7	134.3
Current liabilities	**311.4**	**322.7**	**306.2**
Liabilities	**554.4**	**567.7**	**557.6**
Shareholders' equity and liabilities	**987.1**	**991.6**	**1 001.4**

Consolidated statement of changes in equity

CHF million	Notes	January - June 2016	January - June 2015	January - December 2015
Total shareholders' equity at end of previous period		**443.8**	**441.9**	**441.9**
Impact of changes in accounting policies (IFRS 9 adoption)	(2)	– 0.7		
Income taxes on impact of changes in accounting policies		0.2		
Total comprehensive income		8.4	1.7	31.7
Distribution of dividend from reserve from capital contributions		– 20.3	– 20.6	– 20.6
Changes in treasury shares (incl. share-based compensation)		1.3	0.9	– 9.2
Total shareholders' equity at end of reporting period		**432.7**	**423.9**	**443.8**

Consolidated statement of cash flows

CHF million	January - June 2016	January - June 2015	January - December 2015
Net profit	**11.0**	**29.1**	**49.8**
Interest income / interest expenses	1.1	4.1	5.9
Income taxes	2.9	12.3	15.4
Depreciation and amortization	18.8	19.9	42.8
Other non-cash income and expenses	1.0	– 5.2	– 3.3
Change in net working capital, other	– 17.8	– 46.2	5.4
Interest received / interest paid	0.3	– 7.1	– 8.8
Taxes paid	– 4.2	– 11.6	– 18.2
Net cash from operating activities	**13.1**	**– 4.7**	**89.0**
Capital expenditures on tangible and intangible assets	– 10.7	– 7.3	– 31.6
Proceeds from disposals of tangible and intangible assets	1.5	6.2	6.0
Proceeds from disposals of other non-current assets	0.4	0.0	0.6
Sale / purchase of marketable securities and time deposits	0.2	0.7	1.0
Divestment of business	0.0	0.0	17.0
Net cash from investing activities	**– 8.6**	**– 0.4**	**– 7.0**
Dividend paid to shareholders of Rieter Holding Ltd.	– 20.3	– 20.6	– 20.6
Sale / purchase of treasury shares	0.0	0.9	– 10.6
Proceeds from liquidation of short-term deposits	0.0	100.0	100.0
Repayment of fixed-rate bond 2010 - 2015	0.0	– 152.1	– 151.9
Repayments of / proceeds from other financial debt	– 10.7	4.6	– 1.7
Net cash from financing activities	**– 31.0**	**– 67.2**	**– 84.8**
Currency effects on cash and cash equivalents	– 1.7	– 7.0	– 7.6
Change in cash and cash equivalents	**– 28.2**	**– 79.3**	**– 10.4**
Cash and cash equivalents at beginning of year	**326.5**	**336.9**	**336.9**
Cash and cash equivalents at end of reporting period	**298.3**	**257.6**	**326.5**

Notes to the semi-annual financial statements

1 Basis for presentation and accounting policies

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 prepared in accordance with Rieter’s uniform accounting policies as of June 30, 2016. The accounting policies summarized in the 2015 annual report have been amended in 2016 by the new and revised IFRS Standards and Interpretations. Rieter has elected to early adopt “IFRS 9 Financial Instruments” and the related amendments to other standards dealing with financial instruments (including “IFRS 7 Financial Instruments: Disclosures”) as of January 1, 2016 (see note 2). Other changes to accounting standards and interpretations had no material impact on the consolidated financial statements.

The 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.

2 Changes in accounting policies

Adoption of "IFRS 9 Financial Instruments" and related amendments to other standards

Rieter has early adopted IFRS 9 with a date of initial application of January 1, 2016. The main areas of impact of the new standard were on the classification and measurement of financial assets, the impairment of financial assets and hedge accounting.

2.1 Classification and measurement of financial assets

As of January 1, 2016, Rieter has classified its financial assets in accordance with the new provisions of IFRS 9 as measured "at amortized cost" or "at fair value through profit or loss". The classification used previously ("loans and receivables", "available for sale financial assets" and "financial assets at fair value through profit or loss") has been discontinued from January 1, 2016. In accordance with the transitional provisions of IFRS 9, the Group has not restated prior periods. Instead, financial assets held at January 1, 2016, were classified on the basis of the business model for managing these assets, the contractual cash flow characteristics and facts and circumstances under which the assets were held at that date.

The following table summarizes the changes in classification and measurement of Rieter's financial assets and financial liabilities on initial application of IFRS 9 (January 1, 2016):

	Previous classification and carrying amount (IAS 39)					New classification and carrying amount (IFRS 9)	
CHF million	Loans and receivables	Financial liabilities at amortized cost	Available for sale financial assets	Fair value through profit or loss	Remeasurements upon application of IFRS 9 (January 1, 2016)[1]	At amortized cost	Fair value through profit or loss
Cash (excluding time deposits)	310.6					310.6	
Time deposits with original maturities of up to 3 months	15.9					15.9	
Time deposits with original maturities between 3 and 12 months	0.5					0.5	
Trade receivables[2]	63.7				– 0.7	63.0	
Other current receivables	27.7					27.7	
Long-term interest-bearing receivables	0.4					0.4	
Derivative financial instruments (positive fair values)				1.0			1.0
Securities			7.0			0.7	6.3
Other financial assets			6.0				6.0
Total financial assets	**418.8**	**0.0**	**13.0**	**1.0**	**– 0.7**	**418.8**	**13.3**
Trade payables		86.3				86.3	
Other current liabilities		84.7				84.7	
Short-term financial debt		14.1				14.1	
Long-term financial debt		107.5				107.5	
Derivative financial instruments (negative fair values)				1.4			1.4
Total financial liabilities	**0.0**	**292.6**	**0.0**	**1.4**	**0.0**	**292.6**	**1.4**

1. Remeasurements upon initial application of IFRS 9 were recorded in "reserves" at January 1, 2016.
2. Remeasurement of trade receivables as a result of the changes in IFRS 9 related to the impairment of financial assets (see note 2.2).

The position securities was previously classified as “available for sale financial assets” and amounted to CHF 7.0 million at December 31, 2015. Securities, which did not meet the criteria to be classified as either “at amortized cost” or “at fair value through other comprehensive income” in accordance with IFRS 9, were reclassified to “financial assets at fair value through profit or loss” (CHF 6.3 million at January 1, 2016). Investments in debt instruments were reclassified from “available for sale” to “at amortized cost” (CHF 0.7 million at January 1, 2016) since Rieter’s business model is to hold these assets for collection of contractual cash flows, and the cash flows represent solely payments of principal and interest on the principal amount.

Other financial assets did also not meet the criteria to be classified as either “at amortized cost” or “at fair value through other comprehensive income” and were consequently reclassified from “available for sale” to “financial assets at fair value through profit or loss” (CHF 6.0 million at January 1, 2016).

The respective “reserve for available for sale financial assets” amounting to CHF 4.5 million (net of tax impact of CHF – 0.4 million) was transferred to “reserves” at January 1, 2016.

2.2 Impairment of financial assets
Rieter has adjusted the impairment model used for financial assets at January 1, 2016, from an incurred loss basis in accordance with IAS 39 to the expected credit loss concept in accordance with IFRS 9. Until December 31, 2015, the Group estimated incurred losses assessing whether there was objective evidence for an impairment of a financial asset (e.g. in case of failure or inability of the counter-party to make payments when due). This affected mainly trade receivables which were assessed based on aging of the open balances and identifiable solvency risks.

In accordance with IFRS 9, the simplified approach is applied for trade receivables, which requires expected lifetime losses to be recognized from initial recognition of the receivables. The allowance for doubtful trade receivables is recorded based on expected credit losses which are calculated as the present value of expected cash shortfalls. Other financial assets at amortized cost are considered to be low risk, and thus the regular approach in accordance with IFRS 9 requires Rieter to determine the impairment provision as 12 months expected credit losses.

In accordance with the transitional provisions of IFRS 9, Rieter decided not to restate prior periods. Instead, the allowance for doubtful trade receivables at January 1, 2016, was reassessed in accordance with the new impairment model. As a result, the allowance increased by CHF 0.7 million on that date and the effect was recognized in “reserves” at January 1, 2016. There was no impact of the amended impairment model on the measurement of other financial assets.

The following table compares the closing balances of trade receivables and the allowance for doubtful receivables at December 31, 2015, with the respective opening balances at January 1, 2016 on initial application of IFRS 9:

CHF million	**December 31, 2015**	**January 1, 2016**
Trade receivables	70.7	70.7
Allowance for doubtful receivables in accordance with IAS 39	– 7.0	
Allowance for doubtful receivables in accordance with IFRS 9		– 7.7
Total	**63.7**	**63.0**

The increase in the allowance for doubtful receivables was related to open trade receivable balances which were not due or past due less than three months.

2.3 Hedge accounting

As of January 1, 2016, the Group started to use hedge accounting in relation to the hedging of highly probable forecast transactions in foreign currencies. IFRS 9 introduced the alignment of hedge accounting with the respective risk management activities. In line with Rieter's risk management objectives, foreign currency derivative financial instruments are used in order to protect the margin of some of the business conducted in non-functional currencies of the respective group companies against changes in foreign currency rates. These derivative financial instruments are designated as hedging instruments and as a result, their fair value is recognized in other comprehensive income until the hedged transactions have been accounted for in the financial statements. The initial hedging relationship may be adjusted if changes to hedged transactions occur (e.g. changes in volumes and / or in the timing of forecasted transactions). Any ineffective portion of the fair value of hedging instruments is recorded in profit or loss immediately.

Rieter has applied hedge accounting prospectively since January 1, 2016. The major effect of hedge accounting for Rieter is the recognition of the effective portion of the fair values of the hedging instruments as part of other comprehensive income directly in equity instead of in the income statement. At June 30, 2016, the respective fair values recognized in equity amounted to CHF 0.4 million.

3 Average exchange rates for foreign currency translation

		January - June 2016	January - June 2015	Change	January - December 2015
China	100 CNY	15.02	15.24	– 1%	15.31
Czech Republic	100 CZK	4.05	3.85	5%	3.91
Euro countries	1 EUR	1.10	1.06	4%	1.07
India	100 INR	1.46	1.51	– 3%	1.50
USA	1 USD	0.98	0.95	3%	0.96

4 Financial instruments measured at fair value

The following table summarizes the fair value hierarchy of IFRS 13 for all financial instruments which are measured at fair value.

CHF million		June 30, 2016	January 1, 2016
Securities	Assets level 1	6.0	6.3
Other financial assets	Assets level 2	4.3	6.0
Derivative financial instruments (positive fair values)[1]	Assets level 2	2.8	1.0
Derivative financial instruments (negative fair values)[2]	Liabilities level 2	1.6	1.4

1. Include hedging instruments recorded in other comprehensive income (CHF 1.0 million at June 30, 2016).
2. Include hedging instruments recorded in other comprehensive income (CHF 0.6 million at June 30, 2016).

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

On June 30, 2016, financial debt includes a fixed-rate bond with a carrying value of CHF 99.6 million (CHF 99.5 million at January 1, 2016) and a fair value of CHF 102.9 million (CHF 102.2 million at January 1, 2016). The bond is listed on the SIX Swiss Exchange.

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

5 Segment information

Segment information is based on the Group's organization and management structure and the internal financial reporting to the Chief Operating Decision Maker up to the level of EBIT. The Chief Operating Decision Maker of Rieter is the Chief Executive Officer. Segment accounting is based on the same accounting policies as used for the preparation of the consolidated financial statements. The Group consists of the 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 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 also to textile machinery manufacturers.

CHF million	Machines & Systems	After Sales	Components	Total reportable segments
January - June 2016				
Total segment sales	256.9	70.7	141.3	468.9
Inter-segment sales	0.0	0.0	32.0	32.0
Sales to third parties	256.9	70.7	109.3	436.9
Operating result before interest and taxes (EBIT)	– 12.1	13.2	18.4	19.5
Capital expenditures on tangible and intangible assets	2.8	0.5	5.4	8.7
Depreciation and amortization	7.2	0.6	4.6	12.4
January - June 2015				
Total segment sales	392.7	69.6	125.4	587.7
Inter-segment sales	0.0	0.0	33.8	33.8
Sales to third parties	392.7	69.6	91.6	553.9
Operating result before interest and taxes (EBIT)	17.2	13.6	16.0	46.8
Capital expenditures on tangible and intangible assets	2.5	0.1	3.8	6.4
Depreciation and amortization	7.9	0.5	4.6	13.0
January - December 2015				
Total segment sales	702.3	139.8	258.6	1 100.7
Inter-segment sales	0.0	0.0	63.9	63.9
Sales to third parties	702.3	139.8	194.7	1 036.8
Operating result before interest and taxes (EBIT)	14.8	26.5	33.7	75.0
Capital expenditures on tangible and intangible assets	11.4	0.8	16.2	28.4
Depreciation and amortization	18.6	1.1	9.6	29.3

Reconciliation of segment results

CHF million	January - June 2016	January - June 2015	January - December 2015
Operating result before interest and taxes (EBIT) of reportable segments	19.5	46.8	75.0
Result which cannot be allocated to reportable segments	– 3.8	– 0.7	– 1.9
Operating result before interest and taxes (EBIT) Group	**15.7**	**46.1**	**73.1**
Financial result	– 1.8	– 4.7	– 7.9
Profit before taxes	**13.9**	**41.4**	**65.2**

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 operating 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 2015, the result which cannot be allocated to the reportable segments included disposal gains on the sale of real estate of CHF 5.0 million, which were recognized as other operating income. No such effects occurred in 2016.

6 Changes in sales

CHF million	January - June 2016	January - June 2015	January - December 2015
Changes in sales due to volume and price, Machines & Systems	– 116.7	11.3	– 145.4
Currency translation differences Machines & Systems	– 1.6	5.3	5.9
Divestments Machines & Systems[1]	– 17.5	0.0	– 11.7
Changes in sales due to volume and price, After Sales	0.3	11.1	15.0
Currency translation differences After Sales	0.8	– 1.1	– 2.7
Changes in sales due to volume and price, Components	15.4	12.5	36.3
Currency translation differences Components	2.3	– 7.3	– 14.0
Total	**– 117.0**	**31.8**	**– 116.6**

1. Divestment of Schaltag group in 2015.

In the first half of 2016, Rieter invoiced 36% of sales in Swiss francs (50% in 2015), 36% in euros (32% in 2015), 6% in US dollars (4% in 2015) and 22% in other currencies (14% in 2015). The portion of costs incurred in Swiss francs was about 29% (30% in 2015).

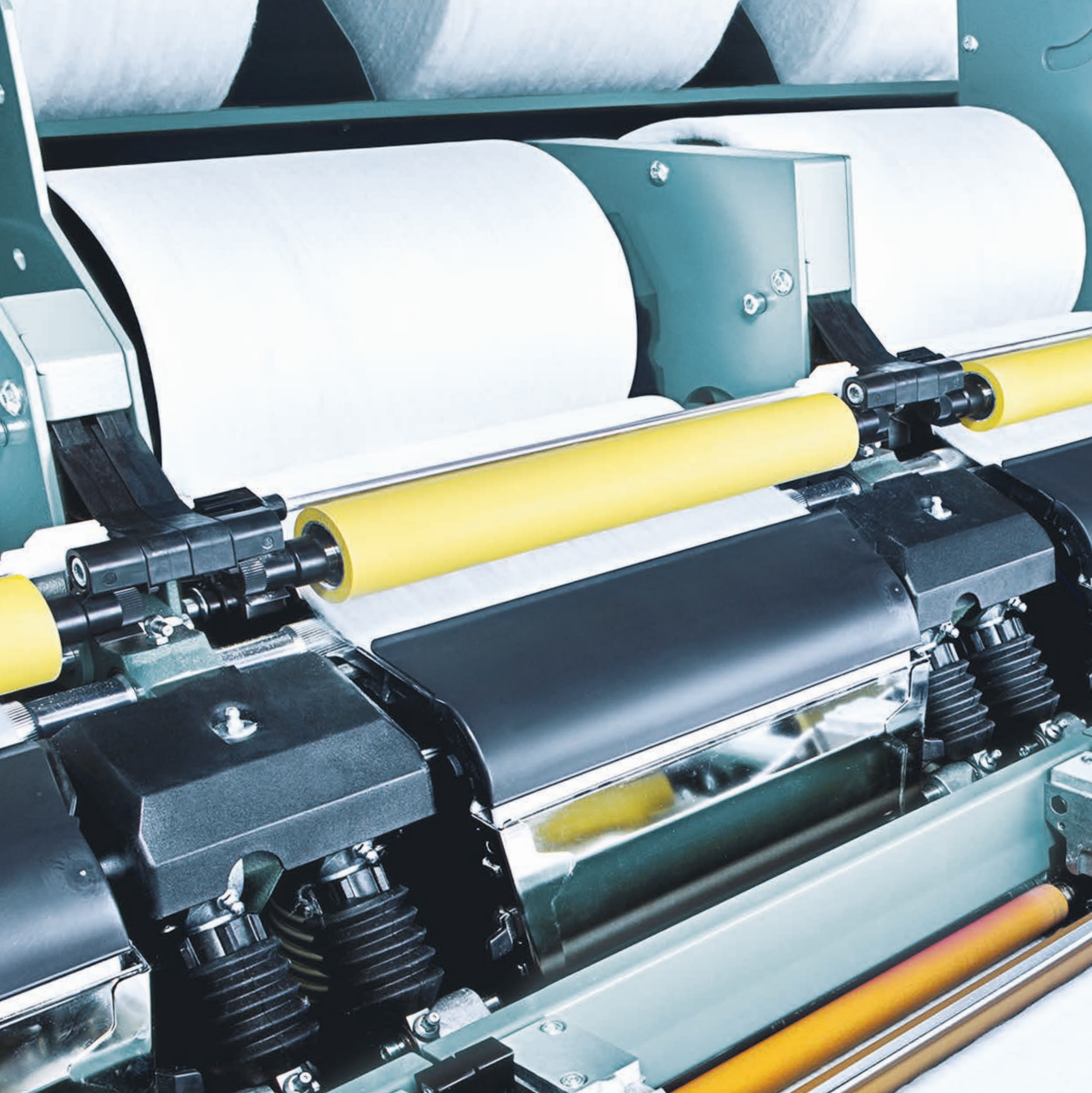
7 Events after balance sheet date; financial calendar

The semi-annual report for 2016 was approved for publication by the Board of Directors on July 20, 2016.
No events have occurred up to July 20, 2016, which would necessitate adjustments to the semi-annual report.

Publication of sales 2016	February 1, 2017
Results press conference 2017	March 14, 2017
Annual General Meeting 2017	April 5, 2017

All statements in this report which do not refer to historical facts are statements related to the future which offer no guarantee with regard to future performance; they are subject to risks and uncertainties including, but not confined to, future global economic conditions, exchange rates, legal provisions, market conditions, activities by competitors and other factors outside the company's control.

This is a translation of the original German text.



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