starrag

Annual Report
2021

2021
Setting course for a sustainable successful future.

The premise for 2021 was to sustainably increase the operational excellence of the Group and to permanently optimise the earnings situation. This was achieved not least through the targeted strengthening of application expertise and a streamlining of structures. These and other measures have led to a permanent reduction in operating costs and personnel costs of more than CHF 30 million in 2020 and 2021, an almost doubling of incoming orders and a near-maintenance of sales.

Read more about this in our management report on page 28.

Helping others to help themselves: In Advanced Maintenance Training, Starrag shows how a spindle change can be carried out without the otherwise necessary complete disassembly of a C-axis.

Content

High-precision machine tools for greater productivity

Starrag Group is a global technology leader in manufacturing high-precision machine tools for milling, turning, boring and grinding workpieces of metallic, composite and ceramic materials. Principle customers are internationally active companies in the Aerospace, Energy, Transportations and Industrial. In addition to its portfolio of machine tools, Starrag Group provides integrated technology and maintenance services that significantly enhance customer quality and productivity.

The umbrella brand Starrag unites the product ranges Berthiez, Bumotec, Dörries, Droop+Rein, Ecospeed, Heckert, Scharmann, SIP, Starrag, TTL and WMW. Headquartered in Rorschach/Switzerland, Starrag Group operates manufacturing plants in Switzerland, Germany, France, the UK and India and has established a network of sales and services subsidiaries in the most important customer countries.

The shares of Starrag Group Holding AG are listed on the SIX Swiss Exchange.

Dear shareholders

The Starrag Group looks back on a financial year that despite significant external and internal challenges was concluded successfully and shaped not least by the major progress made in strengthening the Group internally. The results are fully in line with the expectations expressed in the Half-Year Report.

In 2021, the relevant indicators showed a significant improvement compared with the previous year. The order intake shot up by 97% to CHF 379 million (96% at constant exchange rates) – almost twice that of the previous year – with the result that it was back within the parameters of the preceding years. Despite the low level of new orders in 2020, sales remained nearly unchanged at a total of CHF 293 million (-2%, and also -2% at constant exchange rates). At 1.29, the book-to-bill ratio (incoming orders to sales) was well above the level of 1 again (0.65 in the previous year).

Operating earnings before interest and taxes (EBIT) before restructuring came to CHF 4.8 million or 1.6 % of sales, which marks clear progress compared with the previous year (CHF 1.5 million or 0.5%). EBIT amounted to CHF -8.5 million after restructuring expenses as a result of the restructuring costs at the Mönchengladbach site and was within the expected scope of CHF 13.3 million (settlements, value adjustments and restructuring-related provisions). Negotiations with the works council at the Bielefeld site are currently ongoing. Ultimately, a net loss of CHF -5.4 million (CHF -1.61 per share) was posted.

The consistently solid equity ratio was within the parameters of the preceding years at 56%. Net liquidity increased by CHF 11.1 million to CHF 17.6 million in the reporting period (previous year: CHF 6.6 million). At CHF 11 million, free cash flow clearly surpassed the 2020 level (CHF 6.2 million) thanks to higher order volume.

Restructuring programme to internally strengthen the Group largely implemented

With the considerable improvement in operational excellence, the changes in the management team, greater application expertise and the streamlining of the structures, the "Starrag 2021" programme, which ultimately aims to optimise earnings in the long term, has largely been implemented. This is not only reflected already in the 2021 results, but will also have a tangible effect in the medium term. In the years 2020 and 2021, Starrag Group permanently reduced both its operating costs and staff costs by over CHF 30 million.

High marks for value reporting and corporate governance

In the yearly ranking of annual reports conducted by HarbourClub in conjunction with the Swiss business magazine "Bilanz", our 2021 Annual Report ranked 59th out of a total of 238 listed companies in the Value Reporting (Print) category. In the 2021 zRating of Inrate, which uses numerous criteria to assess the corporate governance of 171 listed companies, Starrag Group also achieved a positive 43rd place.

Confident outlook

Provided that operating activities in 2022 are not adversely affected by the pandemic or any geopolitical turbulence, we are optimistic for the current year. This generally positive sentiment is also shared by the German Machine Tool Builders' Association, which expects two-digit growth in new orders for this year.

The considerable progress that has been achieved with the "Starrag 2021" programme over the past two years, laid a strong foundation for the medium term. The substantial optimisation of our structures allows us to pursue the business goals with a permanently lower cost basis. All the more reason why we remain committed to the current midterm targets for sales growth of 5% and an operating margin of 8%. This positive view is supported by our technological application expertise, which we are concentrating on the market segments and regions that offer the best growth and earnings potential to substantially increase the profitability of customers in their applications.

Order intake in 2022 is likely to see a more modest increase after the strong recovery of the past year. With regard to sales, a considerable increase is expected. The operating result and corresponding margin should clearly exceed the previous year's figures. The Starrag Group has thus proven in the dual challenge of the pandemic and internal restructuring that it is crisis resistant and better equipped than ever before to profit from the recovery on the markets.

Dividend

Based on the positive course set for 2022, the Board of Directors will propose a dividend of CHF 1.00 at the Annual General Meeting on 23 April 2022, to be paid out in the form of a distribution of capital contribution reserves free of withholding tax (CHF 0.50) and from retained earnings (CHF 0.50). Due to the newly applicable tax law, no more than 50% of the dividend may be distributed from tax advantageous capital contribution reserves. This corresponds to a dividend yield on a par with the year-end price for 2021 of 2.1%.

Thanks

We sincerely thank all our staff, who have gone the extra mile to ensure business continuity this year under extraordinary external circumstances. We would also like to thank our customers and suppliers, as well as our valued shareholders.

Michael Hauser
Chairman of the Board Directors

Dr. Christian Walti
CEO

At a glance

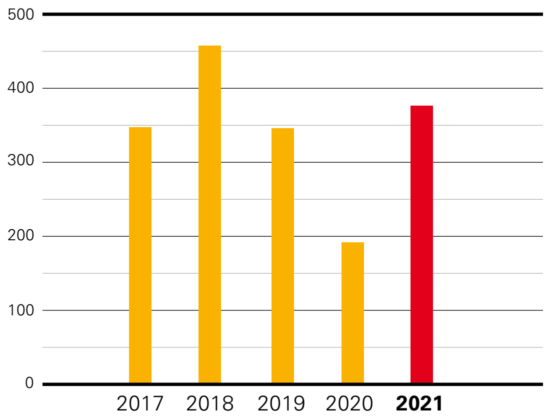
Strong recovery in order intake, sales almost at previous year's level, strong improvement in EBITR, EBIT burdened by restructuring measures

- Order intake plus 97% to CHF 379 million, currency adjusted plus 96%
- Sales down 2% to CHF 293 million, currency adjusted also down 2%
- Order backlog increased by 47% to CHF 256 million
- Operating result EBIT at CHF -8.5 million vs. CHF 1.3 million in 2020, due to restructuring cost of CHF 1.3.3 million
- Net result CHF -5.4 million versus CHF -0.6 million in 2020
- Solid balance sheet with 56% equity ratio
- Consistent cost management and first effects of restructuring could significantly improve EBITR (EBIT before restructuring) from CHF 1.5 million in 2020 to CHF 4.8 million in 2021

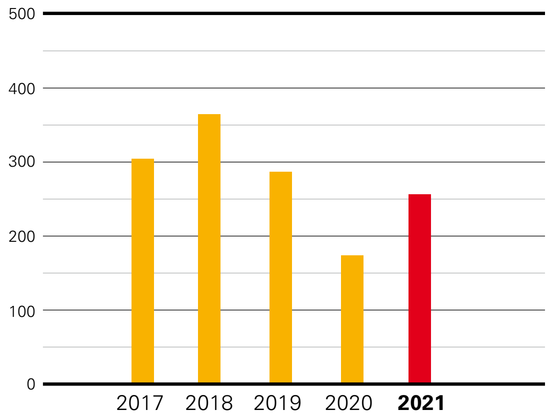
CHF m	**2021**	2020	Change
Order intake	378.7	192.5	96.7%
Order backlog end of the year	255.8	173.7	47.3%
Sales revenue	292.6	297.1	-1.5%
Operating result EBIT	-8.5	1.3	-773.6%
Net result	-5.4	-0.6	789.4%
EBIT as percentage of sales revenue	-2.9%	0.4%	n/a
Cash flow from operating activities	16.4	11.0	49.0%
Capital expenditure in non-current assets	6.2	5.2	18.9%
Free cash flow	11.0	6.2	77.4%
Employees (full-time positions at the end of period)	1'316	1'356	-2.9%
Total assets	300.4	317.5	-5.4%
Net cash	17.6	6.6	168.8%
Shareholders' equity	168.3	175.5	-4.1%
Equity ratio	56.0%	55.3%	n/a
Return on equity ROE	-3.1%	-0.3%	n/a
Earnings per share (in CHF)	-1.61	-0.19	n/a
Profit distribution per share (in CHF) [1]	1.00 [2]	0.00	n/a

[1] Whereby be paid out 0.50 CHF tax-free from reserves from capital contributions and CHF 0.50 from retained earnings.
[2] Proposal of the Board of Directors to the Annual General Meeting on 23.04.2022.

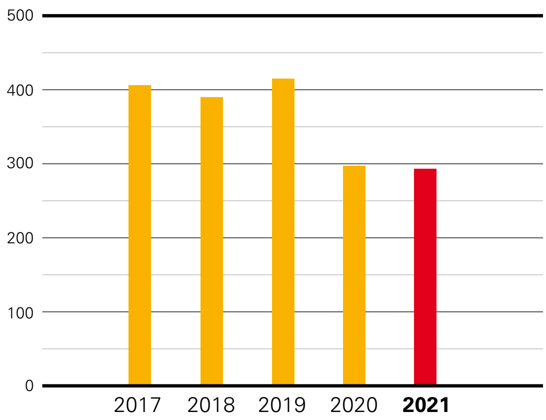
Order intake
CHF m



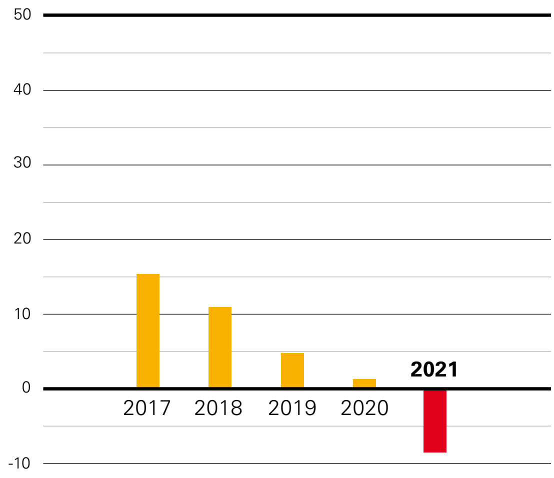
Order backlog
CHF m



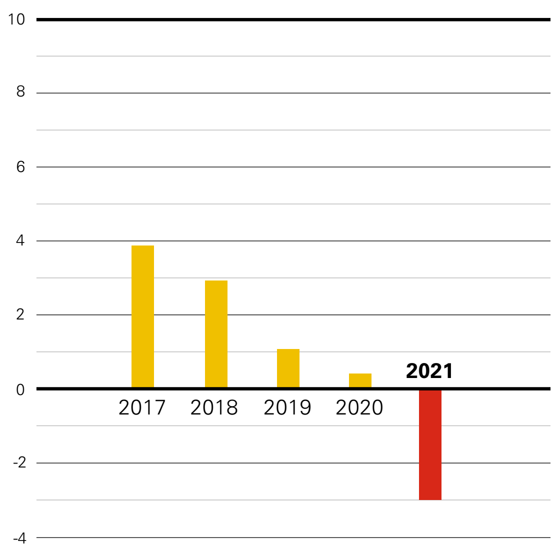
Sales revenue
CHF m



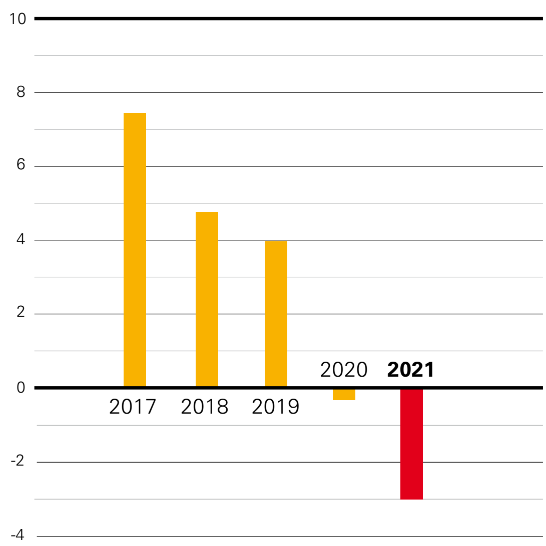
Operating result EBIT
CHF m



EBIT as percentage of sales revenue
%

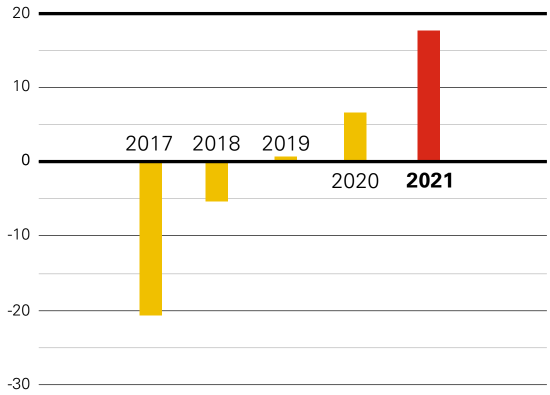


Return on equity
%

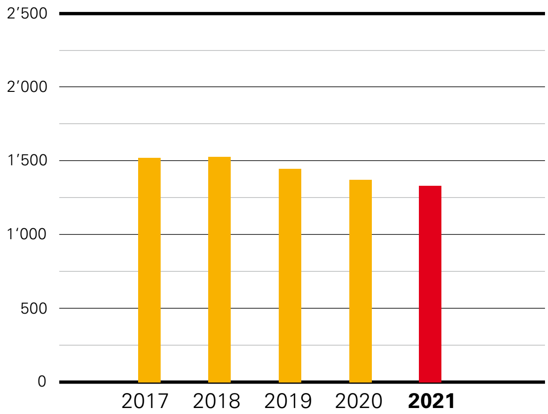


Since 2017, the financial statements of Starrag Group have been prepared in accordance with the Swiss GAAP FER accounting standards.

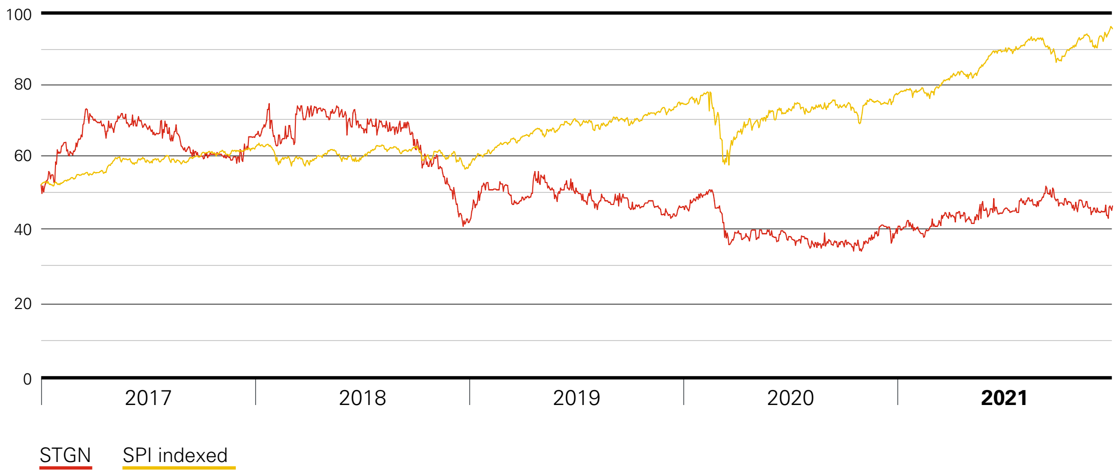
Net cash
CHF m



Employees
Full-time positions at the end of period



Share price
CHF



Since 2017, the financial statements of Starrag Group have been prepared in accordance with the Swiss GAAP FER accounting standards.

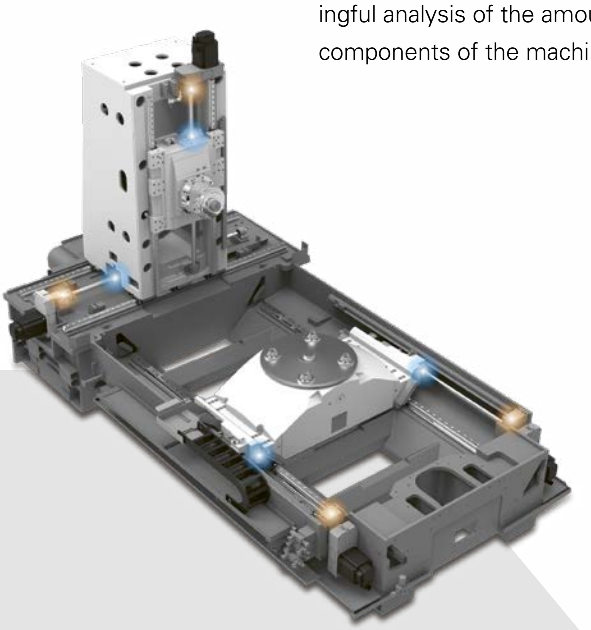
Highlights

Faster health check for machining centres

With the new online version of the Fingerprint, Starrag offers fast and qualified machine analyses. In just one hour, service technicians can record important machine conditions via remote access. By the next working day at the latest, the customer receives a detailed overview of the amount of wear on the mechanical assemblies.

Anyone who cares about the "health" of their production machines – i.e. their availability and productivity – should have them checked regularly. Since the middle of 2021, Starrag has offered an online version of its highly efficient Fingerprint service specifically for this purpose. This digital tool perfectly complements Starrag's range of services, being fast, cost-effective and, most importantly, informative. The customer only has to take the machine out of production for one hour.

The advantages are considerable: Without any need for extensive disassembly and assembly work, the customer receives a quick and meaningful analysis of the amount of wear on the main components of the machine. The bottom line is that it assists with increasing machine availability and productivity, extending machine lifetime and lowering workpiece costs.



The online version of Fingerprint has been available since mid-2021 for all Heckert machines built in 2017 or later that use Siemens Operate control. It is gradually being rolled out to other Starrag brands as well. Fingerprint "on-site," where a service technician performs the described measurements and analyses at the customer's premises, continues to be offered as normal.

At a glance:
The advantages of Fingerprint online

- Save on maintenance and resource costs
- Planned repairs according to the extent of wear
- Timetable personnel around repair times
- Prevent unplanned machine downtimes due to wear and tear
- Increase machine availability
- Reduce workpiece costs

Virtual World Premiere from Chemnitz: Starrag presented the new 4-axis horizontal machining centre Heckert H65 online

In February 2021, things went virtual: The Starrag team presented the new Heckert H65 machining centre during a webinar. This new leading model from Chemnitz rounds off a very successful, compact series of Heckert 4-axis horizontal machining centres and can process workpieces weighing up to 1.5 tons, all in a space-saving design.

Low costs per part due to maximised productivity
Starrag already had an excellent basis to start from, as Chemnitz has been a hub for building machine tools for around 120 years. The company has always placed great importance on stability, process reliability and long-term precision, and all of its core assemblies are developed in-house. Alexander Attenberger (CSO): "The strategy of dynamic machining and minimising space requirements and downtimes has led to maximum productivity across all series. This allows us to ensure low costs per part for our customers."

To maintain this status and improve it even further, Starrag investigated what customers want from a compact machining centre suitable for heavy-duty cutting. During detailed discussions, Starrag identified the characteristics that matters most to its customers, ranging from optimal dynamics to maximum efficiency and productivity. One of the most important factors is a space-saving design, because hall space is costly.

In a space of just 24 m²: A highly dynamic solution for heavy-duty cutting up to 1.5 tons
The aim was to develop a machining centre that would fulfill all requirements using the smallest possible installation space – while also increasing accessibility and improving serviceability. The result is clear to see: The new Heckert H65 fits in a small single apartment and works significantly faster.

Alexander Attenberger (CSO): "The strategy of minimising space requirements and nonproductive times – and dynamic machining – led to very low costs per part across all series."

Virtually highly dynamic: Starrag presented the Heckert H65 via video stream, a rounding off of the successful Heckert 4-axis horizontal machining centres upwards. With its compact design, this new addition can process workpieces weighing up to 1.5 tons.

Martin Brückner, Director of Sales T&I (left) and Dr. Markus Richter, Director of Development (right) at Starrag in Chemnitz

Virtual showroom Starrag Vuadens

Digitalisation and simulation have become keywords in modern communication. This development started some time ago, but it has accelerated rapidly in the past two years in the wake of the worldwide Coronavirus pandemic.

Face-to-face contact, business appointments and product presentations have turned into online meetings via screens. Trade fairs and other events that usually take place throughout the year have been repeatedly postponed or cancelled altogether.

Most companies have a website, a YouTube channel and an account on LinkedIn, Facebook, Instagram and other social networks. But we wanted to go one step further: We wanted to offer our trade-fair visitors, followers and those interested in the world of machining centres a very special experience, igniting the spirit of discovery and making them want to learn more. This gives them the opportunity to find solutions tailored to their needs, while receiving a comprehensive overview of our product range and our options for machining complex parts in the context of their industry. The Starrag virtual showroom Vuadens is the result of this.

As soon as visitors arrive, they are welcomed by Angela, who is well informed about the site and each of the machines presented in the showroom. The showroom reflects the characteristic architecture of our production site in Vuadens. Visitors can access a wide variety of information and demo applications for each of the machines (there are currently 31 machines available). Depending on the chosen area of expertise, Angela will lead visitors directly to the machining solutions on offer for industries such as medical technology, watchmaking, jewelry production and micromechanics.

From there, it takes just a simple click to contact the experts in the real world to find the optimal solution for maximum productivity and precision, taking into account any individual requirements.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Company profile

Vision and strategy

Starrag Group is a leading manufacturer of highly productive and sustainable comprehensive solutions for precision milling machine tools. Its preferred partners are internationally active companies in the Aerospace, Energy, Transportation and Industrial (Industrial Components, Luxury Goods, Med Tech) sectors. It offers a comprehensive range of high-end precision machine tools, which includes the most up-to-date technology and services and generates significant and lasting quality and productivity gains for the customer. Starrag Group is pursuing the following strategic objectives to make this vision a reality:

- Concentration on clearly defined market segments
- Consistent focus on customers and their individual needs
- Concentration on the top-quality segment through technological and service-orientated leadership
- Qualified and motivated employees
- High internal flexibility
- Solid financial basis
- Innovative management

We focus on the most promising market segments and regions – i.e. those with the best growth and earnings potential, namely the priority markets that are Europe, the US and China – paying particular attention to the aspect of services.

"Programme 2021"

The Group's inherent growth and earnings potential has hitherto not been exploited consistently enough. This challenge has been recognised and is reflected in the "Programme 2021" with a clear ambition to achieve the medium-term growth and earnings targets as quickly as possible and sustainably. An even stronger focus on the needs of the customer, an increase in competitiveness and a comprehensive optimisation of the entire value chain are at the heart of this so as to bring about a sustainable improvement in operational excellence throughout the Group and ultimately a clear and long-term improvement in profitability. Specifically, "Programme 2021" focusses on optimising the product portfolio, taking full advantage of potential synergies, strengthening corporate governance and improving project management.

In order to achieve these objectives, a new group structure came into effect in mid-2019 that is even more heavily geared towards the requirements of the target markets than before. Accordingly, the management structure is composed of four operating business units that are geared towards products and applications, as well as three group-wide areas. The business units have been restructured according to product areas (clusters) with a view to exploiting synergies:

- High performance systems: Product areas Starrag, Ecospeed, TTL
- Horizontal machining systems: Product areas Heckert, Scharmann/Ecoforce, WMW
- Large parts machining systems: Dörries, Berthiez, Droop+Rein
- Ultra precision machining centres: Bumotec, SIP

These four business units concentrate on development, project engineering, order fulfillment, design, operational purchasing, final assembly, delivery and customer acceptance in terms of the services offered.

The three areas under group-wide management are Customer Service, Group Operations (synergy exploitation in supply chain management, strategic purchasing, manufacturing and assembly of components) and Sales with three teams for the Aerospace, Energy, Transportation and Industrial sectors. The regional sales organisations are also allocated to the central sales area.

As part of the “Programme 2021”, a restructuring was also decided with regard to the Mönchengladbach and Bielefeld sites. Among other things, the concept provides for the closure of production in Mönchengladbach. At the same time, the Ecospeed competence centre (market leader for flexible manufacturing systems in the aerospace target market) is to be relocated to the Rorschacherberg site to make greater use of Group synergies. The aim is to create a world-leading centre of excellence for the development of high-precision machines and solutions for the manufacture of complex aircraft components.

Market positioning

The strategic focus determines Starrag Group’s market positioning, which can be summarised in the following claim:

“Engineering precisely what you value”. On the one hand, this claim expresses one of Starrag Group’s most important core competencies: Engineering – the outstanding capabilities of our employees enable us to manufacture machine tools for the upper quality segment which stand out for the top performance that they provide and, in particular, their precision. We also offer all associated services for this segment.

Precisely – stands on the one hand for precisely this precision and on the other hand for our consistent customer focus. Our customers receive individual solutions that provide them with added value and for which they are also willing to pay: What you value!

No more, but also no less. We work consistently to focus our work on bringing profitability, growth and security to our customers and their needs, in the sense of a partnership that is reliable in every respect.

Brand strategy

The umbrella brand Starrag unites the product ranges Berthiez, Bumotec, Dörries, Droop+Rein, Ecospeed, Heckert, Scharmann, SIP, Starrag, TTL and WMW. The common brand stands for the four core values that apply throughout the Group and are lived by: competent, focussed, dynamically and successful in partnership. It expresses a shared understanding of our objectives, values and services. With regard to the market, this means individual customer solutions based on common values.

Customer sectors

Starrag Group’s products and services are concentrated on the four customer sectors, i.e. Aerospace, Energy, Transportation and Industrial. These sectors are sub-divided into 11 market segments according to the applications specifically requested.

Aerospace

Aerospace comprises the market segments Aero Engines, Aero Structures and Avionics.

The Aero Engines market segment

Aircraft engines are constantly being redeveloped to meet the demand for higher efficiency, lower kerosene consumption and fewer noise emissions. As a long-term partner to the jet engine industry, the Starrag Group offers state-of-the-art production solutions and technologies for machining engine blades, blisks and casings made from the most sophisticated materials. These solutions cover not only machinery but the entire process, including fixtures, tools and CAM solutions.

The Aero Structures market segment
The trend towards increasingly complex and larger structural parts and components, which have to be manufactured within narrow tolerances and very short cycle times, is heightening the need for innovative manufacturing technologies. The services offered by the Starrag Group range from five-axis machining of high-tensile titanium alloys to high-performance cutting of aluminium through to precision machining of transmission housings.

The Avionics market segment
Avionics refers to all the electrical and electronic equipment on board of aeroplanes and satellites. This primarily includes control, management, communication and navigation systems. The workpieces for applications like these are highly complex, which means that the utmost accuracy is required. The Starrag Group boasts extensive expertise in injection systems, combustion chambers, gyroscopes and control components.

Energy

Energy comprises the market segments Oil & Gas, Power Turbines and Renewables.

The Oil & Gas market segment
In the field of oil and gas exploration, large ball valves for gas and oil pipelines, boring heads and other safety components are manufactured on our machines. Furthermore, the Starrag Group offers specific technical solutions such as attachment heads or interchangeable milling heads. This segment covers the entire value chain from extraction and conveying to transport and storage, through to further processing and refinement.

The Power Turbines market segment
In the area of turbine engineering, the Starrag Group has decades of experience in the machining of high-precision turbine blades and in creating complex housings for steam and gas turbines. The components to be manufactured are becoming more and more complex and are increasingly manufactured from materials that are difficult to machine. As a result, the combination of multiple machining technologies in one machine is also becoming increasingly important.

Renewables market segment
Thanks to having a clear focus on applications such as gearbox housing, planetary carriers, torque arms, large bearings or Pelton turbines, Starrag is focusing more on creating measurable added value in the field of renewable energies.

Transportation

Transportation comprises the market segments Agriculture, Passengers Cars & Motorcycles, Trucks & Buses and Railway & Marine.

The Agriculture market segment
The Starrag Group's machining centres are designed for highly productive machining of drive components such as transmission parts, engine parts, axes and other prismatic chassis parts. To reduce manufacturing times and increase workpiece quality, complete machining is becoming increasingly important. We have responded to this trend with our special quills and continuous swivel heads. Our extensive expertise in the relevant applications leads to innovative technologies, culminating in automation solutions.

The Passengers Cars & Motorcycles/ Trucks & Buses market segment
The Starrag Group offers highly efficient solutions for the automated series production of high-precision vehicle components for cars, trucks, buses and motorcycles. The focus here is on reducing the unit costs of precision components such as cylinder blocks and heads, transmission housings, crankshafts and other drive train components made from aluminium, steel or cast iron alloys.

The Railway & Marine market segment
The Starrag Group's machining centres are designed for highly productive machining of drive

components such as transmission parts, engine parts, axes and other prismatic chassis parts to reduce manufacturing times and increase workpiece quality.

Industrial

The Starrag Group's machining centres are designed for highly productive machining of drive components such as transmission parts, engine parts, axes and other prismatic chassis parts to reduce manufacturing times and increase workpiece quality.

The Construction & Mining, Hydraulics & Pneumatics, Industrial Drives, Job Shops, Machine Parts, Micromechanics market segment

The trend towards more complex workpieces is evident in these market segments too. Optimised components require innovative new production concepts that ensure maximum precision and quality while simplifying the production process, increasing cost-effectiveness and being extremely flexible in how they are used. The Starrag Group meets these requirements with machining centres where different machining technologies are combined on a single machine.

The Luxury Goods market segment

Materials such as hard ceramic, precious metals and stainless steel are used in the manufacture of watches and jewellery components. Frequent changes in the product being manufactured and smaller batch sizes require maximum flexibility in production. The Starrag Group offers solutions for most watch and jewellery components, allowing high-precision production to take place in a single clamping operation.

The Med Tech market segment

Cost pressure is high in the medical technology sector. Starrag Group helps to relieve this pressure by using fully automated, highly efficient machines to manufacture implants, medical instruments and dental components. Our machining solutions enable the simplification of machining steps and shortening of the production chain while also guaranteeing that demanding technical safety and regulatory standards are met.

Product ranges

As a result of organic growth and various mid and larger-sized acquisitions since the turn of the century, we have built a solid portfolio of business activities covering a comprehensive range of technologies and competencies. Throughout our various stages of expansion, we have always followed the logic that new developments must effectively complement the old and thereby reinforce the competitiveness of the Group as a whole. This has made Starrag Group what it is today – a combination of 11 precision machining product ranges under one roof, boasting a wide range of competencies that few rivals can match.

The product ranges operate under the name of Starrag, together with the figurative mark in red denoting high-precision machining capabilities. Both are registered and protected nationally and internationally. The product ranges are used in all corporate and marketing communications, especially at leading fairs with a high international standing, at specialised trade fairs with a strong regional attraction and in our new customer magazine “Starrag Star”. The best trademark ambassadors can be found in our installed base at customer sites around the world, where every day our machine tools substantiate our claim of engineering precisely what the customer values. We assess perception of our appearance in the marketplace during our regular contact with customers.

Berthiez

Maximum precision in vertical turning and cylindrical grinding: Outstanding solutions for the aircraft engine and roller bearing industry based on specialised vertical lathes and grinding machines.

Bumotec
Multifunctional machine tools: High-precision complete machining of small workpieces in sectors such as watches and jewellery, medical technology and micromechanics.

Dörries
Synonym for vertical lathes ranging from single column machines with a turning diameter of 1.6 metres or more to large gantry machines with a 12-metre turning diameter, 10-metre turning height and workpieces weighing up to 450 tonnes.

Droop+Rein
Maximum precision for large workpieces: Machine tools for machining large to ultra large workpieces (up to 250 t in weight) such as large format and bodywork machine tools, diesel engines, power plant components and large aircraft landing gear components.

Ecospeed
The most productive solution for high performance machining of aluminium structural components on the market: The patented parallel kinematic machining head Sprint Z3, the heart of the Ecospeed series, surpasses the performance of all conventional bent axis and fork milling heads and enables performance increases of up to 87%.

Heckert
The perfect balance between long-lasting precision and productivity: Scaled range of high-precision and highly productive horizontal machining centres for milling, turning and boring medium and high quantities of workpieces.

Scharmann/Ecoforce
Complete machining solutions with the shortest possible cycle times: Specialist solutions for heavy-duty cutting and the complete machining of extremely large workpieces based on high performance, automatically interchangeable head attachments.

SIP
Uncompromising commitment to precision: Jig boring machines and machining centres to meet the most stringent demands for accuracy of research institutes, aerospace companies, the aircraft industry and leading precision engineering firms.

Starrag
Maximum precision flow components: Five-axis, robust and high tensile-strength machines with high metal removal rates for maximum precision manufacturing of turbines, compressor blades, impellers, blisks and complex structural components.

TTL
The home of adaptive machining: Internationally renowned, software-supported manufacturing solutions for the machining and repair of components for gas turbines and aircraft engines.

WMW
Machining centres for emerging markets: Horizontal machining centres for rapidly developing emerging nations.

Flexible production at eight locations

Starrag Group manufactures its machines and production systems at eight production plants in Switzerland, Germany, France, Great Britain and India. All production facilities are part of our production network, which enables us to balance capacity and risk. Our development and technology centres are also situated in these locations. We use our exemplary technological expertise across all segments throughout the Group.

Keys to success

Sustainable commercial success, as Starrag Group has distinguished it for many years, is based on a number of strategic success factors that we continue to nurture consistently: individual customer focus, global presence, continuous innovation, consistent efficiency enhancement and profitable, long-term orientated management.

Individual customer focus

Starrag Group largely operates discrete manufacturing according to the individual, and therefore very different, needs of its customers. In addition to stand-alone machines, there is a growing focus on system solutions in which individual Starrag machines are integrated into customer-specific, flexible manufacturing systems. As a result, almost all the machines delivered are distinct items.

Global presence

Starrag Group is represented in the most important industrial centres (Europe, Asia and North America). Our international customers value short and direct communication channels. Experienced local sales, application and service specialists are therefore familiar with local cultures and customs, and are in a position to respond rapidly. They ensure a close and lasting customer relationship based on trust. The global service team receives constant training and development and is being expanded. The global logistics system with its optimised transport routes and decentralised spare parts warehouses ensures fast and efficient parts supply. The intensive customer contact up to the delivery and commissioning of the machines, as well as the operating phase, enable a continuous and comprehensive survey of customer satisfaction. This is all the more so as Starrag Group tends to serve specialised larger customers. Customer care is supported by a global CRM system.

Continuous innovation

Measured as a percentage of sales, our investments in the development of new products, components and processes is usually higher than average for our industry as we aim to maintain and extend our technology leadership. We view market-orientated innovation as the central driving force of our business. We operate research and development centres in Switzerland, Germany, France, Great Britain and India, and protect our technological developments with a broad patent portfolio. Development work carried out by the Group is supported by close cooperation with our customers as well as leading technical universities and research institutes. Professors Reimund Neugebauer (President of the Fraunhofer Society) and Christian Brecher (RWTH Aachen University), two university luminaries in machine tool engineering, are members of the Supervisory Board of one of our German subsidiaries.

Systematic increase in efficiency

As the overarching link, the Group ensures Starrag's high quality expectations and opens up synergies along the added value chain – from product development and purchasing to sales and service. This includes, for example, the development of joint modules that can be used and processed in various companies throughout the Group. Internally, this requires continuous improvement in procedures and processes to increase productivity. This is the task of our Business Process Management, which simplifies and standardises processes wherever it makes sense. Defined key processes are regularly checked and improved. The best possible distribution of risk in terms of markets and regions, as well as a solid financing structure, should ensure growth and innovation over the long term.

Attractive for shareholders

Five key components make shares in Starrag Group attractive for long-term, value-orientated investors.

Positioned in sustainable megatrends

We serve markets that are characterised by sustainable growth potential due to global trends and challenges: increased mobility (aviation and land transport with their demands on safety and fuel efficiency), investment needs in the global infrastructure (lorries and construction machinery), nutrition for a globally growing population (efficiency in agriculture), increasing need for energy with improved energy efficiency at the same time. In addition, increasing demands on the production efficiency require higher precision in production, both with larger workpieces such as structural parts for aircraft or ship propellers and with increasingly small and complex workpieces such as precision mechanics, watches and medical technology. This is exactly in line with the core competencies of Starrag Group. Experts estimate that we have access to a market potential of around CHF 4.5 billion worldwide in our four customer sectors, which is more than ten times the current sales revenue. This means that substantial growth opportunities still open up for Starrag in these long-term growing markets.

Innovation leadership as a key differentiating element to the competition

Starrag Group focusses its innovation activities systematically on customers and their individual needs, with a focus on the high-quality segment and the Group's own expectation of technological and service-orientated leadership. Every year, we invest a disproportionate share of, on average, around 7% of our sales in research and development and, in addition, maintain close contact with the science sector. Our customers and other market experts confirm this technology leadership of the globally recognised brand Starrag – but also of our individual product ranges. We are also well on the way to "Industry 4.0", for example by networking with our customers' production systems. We systematically modularise our machines in order to expand the application possibilities of existing machine series to other market segments served by Starrag Group while reducing complexity. Thanks to the core competency of Starrag Group in optimising the overall system of machine – software – application – system integration – customer service, we not only create added value for our shareholders, but also for our customers.

Focussed strategy – reduced to the max, but this from A to Z

As part of its clear brand strategy, Starrag Group focusses on the most promising market segments and regions – i.e. those with the strongest growth and those that are the most profitable – committed to providing our customers with our solutions for profitability, growth and security, in the spirit of a partnership that is reliable in every respect. We support our customers through professional customer service organisation, which makes a significant contribution to the profitability and stability of Starrag Group with its innovative service products. Operational excellence with clear processes and reduced complexity is a key element for us. In this way, we can differentiate ourselves from our competitors and provide our customers with tailor-made added value.

Forward-looking management with undisputed track record – major shareholder ensures continuity

The entrepreneurial members of our management team and Board of Directors have many years of professional and managerial experience in industry, in particular the machine tool industry, and are therefore very familiar with its specific challenges and cycles. This is not only an important basis for careful planning, but also for the corresponding reliable external communication, for example with our investors. The focus on four customer sectors means the Starrag leadership team already occupies a top ten position in all four sectors today: In Aerospace and Energy, we are even among the top three suppliers worldwide. With Walter Fust, Starrag Group has a majority shareholder with a long-term focus who, as an engineer, is very familiar with industry and its challenges and has successfully created a group of companies that specialises, among other things, in customer service. The corporate governance of Starrag Group is committed to the highest standards, which has also been honoured in various external ratings.

Solid financial basis and management with long-term orientation using modern, value-based instruments
Primarily, the financial management of Starrag Group is consistently focussed on growth and increasing profitability. We measure these by the following key performance indicators: growth in sales revenue and order intake, operating profitability (EBIT margin) and return on equity (ROE). Starrag Group's history of reliably distributing a dividend year after year with a planned payout ratio of 33% to 50% of net profit results in an attractive dividend yield . For many years, Starrag Group has been able to report sustainable positive results. Even during the 2008-09 financial crisis, we were able to continue to distribute dividends. Due to the effect of the Corona pandemic, no dividend was paid for the financial years 2019 and 2020.

Starrag Group's extremely sound financing and capital structure – with an equity ratio traditionally of around 50% – is not only the basis for reliable dividend payments. It is also a valuable foundation for the long-term capital goods business and the successful conclusion of suitable, complementary acquisitions.

Outlook: Creating long-term value

Starrag Group aims to achieve profitable growth in the interest of its sustainable, value-enhancing positioning, based on a strong financial base and a stable shareholder structure with a renowned anchor shareholder. We expect our activities to generate an EBIT margin of at least 8% on average over economic cycles and to earn the cost of capital. We intend to achieve this financial requirement in the future by means of clear strategic positioning, a further improvement in operational excellence and the use of economies of scale – operating leverage – with increasing sales and consistent cost management.

At present, Starrag Group cannot be satisfied with its earnings performance. Measures have therefore been taken to optimise the entire value chain. This involves increasing the transparency and controllability of project management, reviewing the profitability of the entire product portfolio and systematically continuing employee development. The aim is to achieve a significant and sustainable improvement in operational excellence at all levels and in all areas. As a result, the operating result has been successively improved since the second half of 2020 and creates a good starting point for the coming years.

Although recent growth has been driven primarily by acquisitions, organic growth will take precedence over the coming years, with potential synergies across the Group being exploited consistently. In the medium term, we aim for an annual increase in sales of 5%. We expect this growth as a result of the worldwide scalability of our expertise in areas of activity and markets in which we have not yet achieved the desired leading market position. In addition, we are focussing on further strengthening and expanding our service business.

The focus on organic growth does not rule out further complementary acquisitions in individual cases. The basic prerequisites for this continue to be the strategic "fit", an attractive and complementary market and product portfolio, cultural compatibility and, last but not least, an attractive valuation.

We remain committed to our sustained ambition to play a leading role in all four of our customer sectors.

Milestones in the company's history

1890 1910 1920 1950 1960 1970 1980 1990 2000

1897

The company is founded in Rorschacherberg, Switzerland under the name "Henri Levy Mechanische Werkstatt" and manufactures threading machines for the textile industry.

1921

The company is renamed Starrfräsmaschinen AG. Manufacturing of copy milling machines for automotive, aircraft and mould-manufacturing companies begins in the mid-1930s.

1952

Post-war period: The company establishes itself as a manufacturer of turbine milling machines.

1973

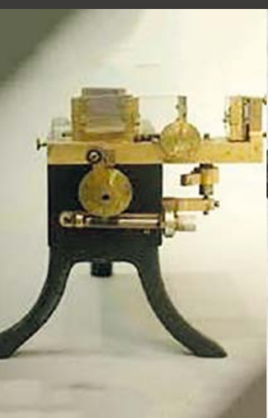
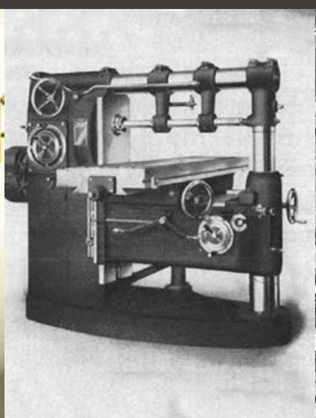
The world's first five-axis milling machine is introduced by the company.

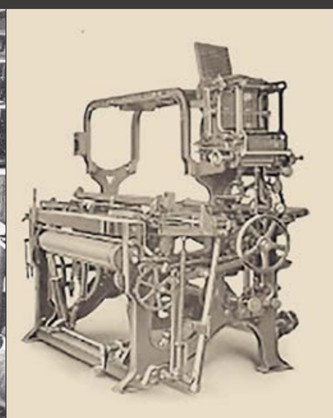
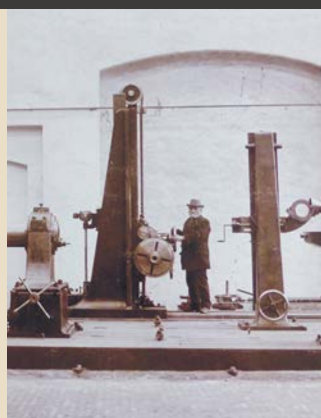
1998

Stock-market listing and acquisition of Heckert in Chemnitz, Germany.

2002

Acquisition of TTL in the UK and SIP in Geneva, a company whose roots go back to 1862.

2011 2012 2013 2014 2015 2016 2017 2018 2019 2020 2021

2012

Acquisition of Bumotec, Freiburg, Switzerland.

2015

Sales operations are reorganized with a focus on ten market segments within the four target industries of Aerospace, Energy, Transportation and Industrial.

2020/21

"Programme 2021" for the permanet increase in earnings.

2011

Acquisition of Dörries Scharmann Group, comprising Berthiez (Saint-Etienne, France), Dörries (Mönchengladbach, Germany), Droop+Rein (Bielefeld, Germany) and Scharmann (Mönchengladbach, Germany). Brand concept is updated and the company name is changed to Starrag Group.

2019

New group structure: composed of four operating business units that are geared towards products and applications, as well as three group-wide areas: Sales, Group Operations and Customer Service.





Management Report

In its annual financial statements for 2021, Starrag Group confirms the expectations expressed last July, namely a clear increase in order intake, sales on a prior-year level and a further improvement in operating earnings.

Major progress in the internal strengthening of the Group

With the considerable improvement in operational excellence, the changes in the management team, greater application expertise and the streamlining of the structures, the "Starrag 2021" programme, which ultimately aims to optimise earnings in the long term, has largely been implemented. This is not only reflected already in the 2021 results, but will also have a tangible effect in the medium term. In the years 2020 and 2021, Starrag Group permanently reduced both its operating costs and staff costs by over CHF 30 million.

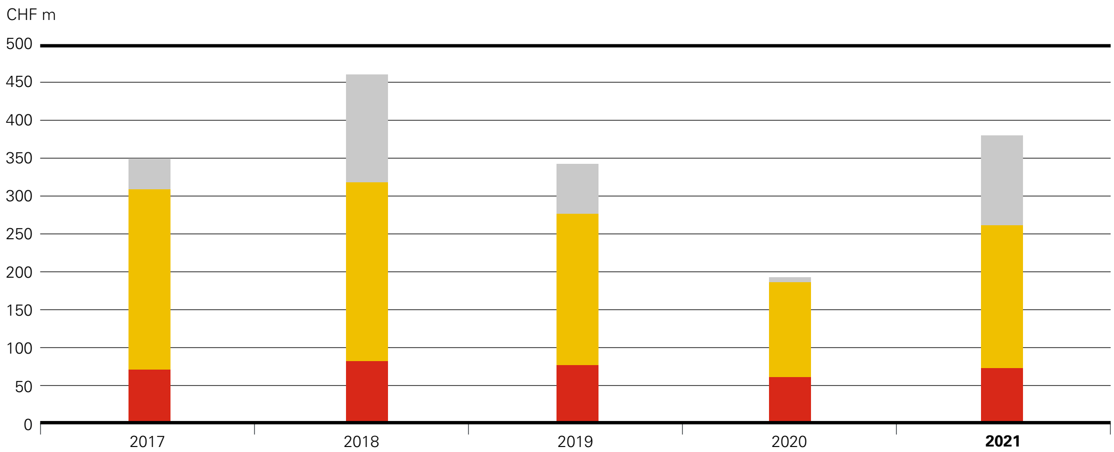
Order intake nearly doubled

The order intake was nearly doubled at 97% to CHF 379 million (+96% at constant exchange rates), with the second half of the year clearly surpassing the first six months. New orders returned to the parameters of the preceding years. All consumer industries and market regions profited in varying measure from this positive development.

Further boost to Aerospace in particular

The sharp rise in order intake spanned all four sectors. This applies in particular to Aerospace, for which new orders more than doubled to CHF 126 million – following the collapse of the aviation sector, which is of major significance for Starrag Group – thanks to the positive development of the aerospace industry. Starrag has used the past two years to be as flexible as possible in focusing on the wishes of

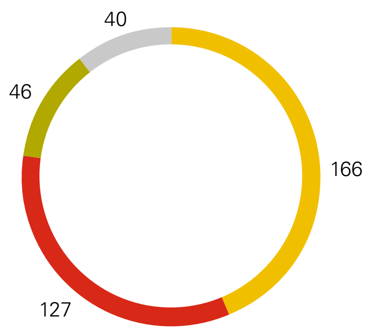
Order intake by order size



CHF m	2017	2018	2019	2020	**2021**
Large orders (> CHF 5 million)	41	143	67	6	119
Small/medium orders	239	237	199	125	189
Recurring service	69	80	77	60	71

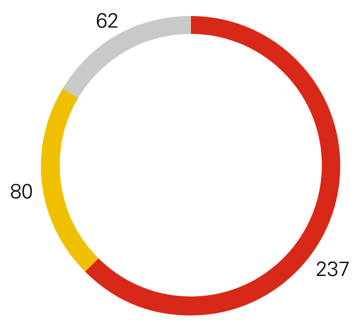
customers and strengthening competitive advantages. New orders showed a clear upward trend from customers in Industrial, followed by Transportation and Energy. The new Heckert compact series with a broad range of applications is generating considerable sales. Aerospace and Industrial – which are still the two dominant sectors – together accounted reporting year for 77% of the order intake across the Group.

Order intake by sector



CHF m	**2021**		2020	
Industrial	166	44%	112	58%
Aerospace	127	33%	50	26%
Transportation	46	12%	13	7%
Energy	40	11%	17	9%

Order intake by region



CHF m	**2021**		2020	
Europe	237	63%	126	66%
Asia	80	21%	40	21%
Americas	62	16%	26	14%

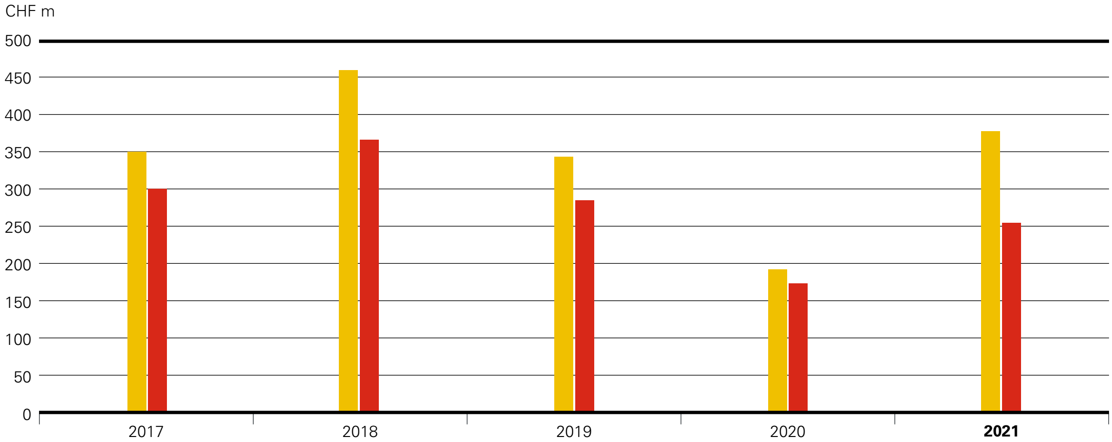
Regional development

A comparable image results when looking at the major market regions. The greatest advance was made in Europe, which continues to be the most important sales market at 63%. New orders from Asia, the region with the highest growth potential in the longer term, nearly doubled and once again represented around one-fifth of order intake across the Group. North America also saw a sharp year-on-year rise.

Significant increase in the order backlog

Thanks to the encouraging performance of the order intake, the order backlog stood at 256 million at the end of 2021, up by 47% on the end of the previous year (and up by 36% on the middle of 2021). The high demand for highly efficient systems for processing major, high-precision parts for aerospace, aviation as well as energy production, accounted for a significant share of this. This solid order backlog ensures capacity utilisation for the current year and beyond. It is also important to note that new equipment business always generates recurring demand for services. There was likewise strong growth in the service business as a result of the high quality of service and short intervention times.

How order intake and order backlog have performed over recent years



CHF m	2017	2018	2019	2020	**2021**
Order intake	349	461	343	192	379
Order backlog	302	366	284	174	256

Sales virtually unchanged

As already announced in the Half-Year Report, the sales revenue expected for the second half of the year exceeded that of the first half. The total amounted to CHF 293 million, almost equalling the figure for the previous year (-2%, the same at constant exchange rates), despite the lower level of new orders in 2020. At 1.29, the book-to-bill ratio (incoming orders to sales) was well above the level of 1 again (0.65 in the previous year).

Significant operational progress – restructuring expenses in 2021

Operating earnings before interest and taxes (EBIT) before restructuring came to CHF 4.8 million or 1.6 % of sales, which marks clear progress compared with the previous year (CHF 1.3 million or 0.4%). EBIT was CHF -8.5 million after restructuring expenses as a result of the restructuring costs at the Mönchengladbach site within the expected scope of CHF 13.3 million (settlements, value adjustments and restructuring-related provisions). Negotiations with the works council at the Bielefeld site are currently ongoing. Ultimately, a net loss of CHF -4.8 million (CHF -0.6 per share) was posted.

Consistently solid balance sheet

The already solid equity ratio of 54.6% was slightly under the previous year's level (55.3%), meaning that it hovered around the average level of the past few years. At CHF 10.6 million, free cash flow clearly surpassed the 2020 level (CHF 6.2 million) thanks to higher order volume. Net liquidity increased by CHF 11.0 million to CHF 17.6 million in the reporting period (previous year: CHF 6.6 million). The investment in fixed assets of CHF 6.2 million exceed the prior-year figure by CHF 1 million, the majority of which went to expanding and modernising machinery and production equipment, developing new technologies and products, and upgrading IT systems.

Starrag Group's average headcount in 2021 stood at 1'316 employees, which was 40 fewer than in the previous year. The number of apprentices and students averaged 118 in 2021, compared with 135 in the previous year.

No trade fairs or customer events due to the coronavirus pandemic

As in 2020, most of the relevant trade fairs where Starrag Group would normally present its latest innovations and which are an important forum for contact with existing and future customers were cancelled in 2021. Starrag Group also withdrew its participation in the EMO due to the pandemic. The "Technology Days" customer event that we have hosted at our headquarters in Rorschach and that has been well received by customers and the rest of the trade also had to be called off for the same reason.

Risk management

For information about our holistic risk management process, please refer to page 45.

Limited currency effects

We are less affected than average by currency fluctuations compared to other Swiss industrial companies. 63% of sales currently come from sites abroad. Most of Starrag Group's products are manufactured, and costs are incurred, in the euro area. This natural hedge stabilises the currency fluctuations experienced by the Group. To further reduce its economic currency risks and thereby maintain the competitiveness of the company's plants in Switzerland, Starrag Group is continually seeking ways to improve productivity and cut costs in Switzerland in order to counteract the pressure from the Swiss Franc, which remains strong.

Confident outlook for 2022

Provided that operating activities in 2022 are not adversely affected by the pandemic or any geopolitical turbulence, we are optimistic for the current year. This generally positive sentiment is also shared by the German Machine Tool Builders' Association (VDW), which expects two-digit growth in new orders for this year.

It is not an unlikely assumption that the pandemic will successively subside in the course of 2022, and this should reinforce the recovery of the aviation industry and thus further brighten the outlook of our Aerospace sector. A similar scenario is likely to occur for Transportation. With regard to Industrial, positive signs were already observed since 2020 in the luxury goods segment in particular. In Energy as well, we are cautiously optimistic after order intake significantly increased in 2021.

For various reasons, Asia is and will remain in geographic terms the sales region with the most attractive growth outlook in the medium term. In North America, the forecasts indicate some potential, although the economic development will depend on the monetary policy line of the Federal Reserve. After a year marked by the pandemic, a continued recovery can be expected in Europe in 2022.

With the implementation of the "Starrag 2021" programme, the Starrag Group has achieved major progress in the past two years, creating a strong foundation for the company in the medium term. The substantial optimisation of our structures allows us to pursue the business goals with a permanently lower cost basis. All the more reason why we remain committed to the current midterm targets for sales growth of 5% and an operating margin of 8%. This positive view is supported by our technological application expertise, which we are concentrating on the market segments and regions that offer the best growth and earnings potential to substantially increase the profitability of customers in their applications.

Order intake in 2022 is likely to be lower after the strong recovery of the past year. For this same reason, a considerable increase in sales is expected. The operating result and corresponding margin should clearly exceed the previous year's figures. The Starrag Group has thus proven in the dual challenge of the pandemic and internal restructuring that it is crisis resistant and better equipped than ever before to profit from the recovery on the markets.

Sustainability

The industrial and social commitment of Starrag Group is set up for the long term. We maintain an open dialogue with all stakeholders and consider their needs in a balanced way. Measures to enhance sustainability are based on the economic, social and ecological environment.

Results-orientated corporate culture

Economic sustainability is based on a resultsorientated corporate culture and is intended to increase the value of the company in the longterm to the benefit of all stakeholders. We refer here to the measures illustrated at various places in this annual report comprising all divisions of the company.

Employee-orientated HR policy

Starrag Group's success is essentially based on committed employees who are motivated by working in an open and modern environment and want to deliver the highest levels of performance. The central elements of our leadership culture are therefore mutual trust, respect, regular sharing of information, participation, appreciation, and promotion of personal development.

Starrag Group is valued as an attractive employer. Whatever their area of expertise, all our employees come into direct contact with our products at various stages in the value chain and can derive the benefit for the customer as a result. This creates a natural identification with their own work. Our employees are proud to play an active part in delivering high-tech solutions to the customer, from design to worldwide maintenance, as a result of their vast expertise.

Periodic employee surveys conducted by Great place to work, an external consultancy that specializes in workplace culture assessment and employee surveys, suggest that we are on the right track. These surveys convey valuable signals on ways to enhance and optimise working conditions in and around the workplace, management performance, information and communication, and training requirements. The most recent survey, conducted in 2017, was supplemented by additional questions regarding health. It again made useful suggestions as to what could potentially be improved. We are making improvements in this respect on an ongoing basis. These include measures such as workshops to improve the workload situation in the workplace, process improvements in the entire process chain, improvements in climatic and acoustic conditions in various work areas, expansion of the group-wide Starrag training catalogue and intensification of targeted information and communication. The next staff survey at group level, originally planned for 2020, was postponed due to Covid-19.

Starrag Group undertakes a variety of efforts to increase employee commitment to achieving the company's objectives. Employees and employee representatives are kept regularly informed at all sites about the current state of business, as well as current topics and projects. The information is conveyed by their managers, the site managers and, at least once a year, by the CEO personally at staff meetings. Furthermore, the customer magazine "Star", which is distributed worldwide twice a year to all employees, provides further information from the various locations and markets. Active communication is also supported by means of regular newsletters for the various operating sites that provide information on the current order situation, important development projects, personnel issues and topics of cultural interest. The high level of employee satisfaction is reflected in, among other things, a staff turnover rate that has been low for years.

We place special emphasis on maintaining our employees' expertise. As part of the formal annual employee appraisal, further training needs are also assessed. The courses provided by our Starrag Training Centre are particularly valuable in supporting managers in the planning and realisation of professional development measures for their staff. In recent years, numerous training courses at different production sites have been combined and made available in the form of a training catalogue. Besides technical training such as control technology and maintenance courses for our machining centres, courses offered include language and software training. In addition, we invest substantially in the training of sales staff and focused on strengthening the training of skilled workers. Among other things, we focussed on actively shaping the succession of departing skilled workers to their future careers and further improving practical in-house training.

Further training on the job is likewise crucial, since the necessary skills and knowledge can only be acquired during day-to-day business, in which questions keep coming up concerning issues that cannot be taught in the classroom. Our own vocational training programme plays a key role in acquiring qualified specialists. In 2021, we trained 123 apprentices and students in more than ten professions (compared with 135 in the previous year). All of our production locations feature modern vocational training centres in which our apprentices receive an educational foundation. These training centres were further expanded in the reporting year with targeted investments in training machines and innovative course content. In order to improve the quality of the apprentices and promote interest in the apprenticeships at schools, numerous events were again held at the training centres for secondary school pupils, students and potential candidates in 2021. Apprentices who complete their apprenticeship with good scores are retained if possible. In the previous year, the Chemnitz site was again honoured by the employers' association SACHSENMETALL as one of the top training companies in the industryand the Monchengladbach site was again honoured by the local Chamber of Industry and Commerce as one of the top training companies in the region.

In the framework of systematic health management, safety in the workplace and the health of our employees have the utmost priority. This was especially ture in the reporting year, which was strongly influenced by Covid-19. Our objective is to continuously improve the working environment, beyond what is required by occupational safety and health legislation. At the production locations, we compile relevant health and safety indicator statistics on a monthly basis and derive location-specific measures based on analyses of the data. Accident figures and absences through illness again remained at low levels in 2021; no serious incidents involving employees were recorded. The numerous measures implemented in previous years in the areas of safety in the workplace, health management and working atmosphere were systematically continued in the reporting year, which was marked by the various challenges posed by Covid-19. Thanks to group-wide coordination of protective measures, transparent communication and clear procedures at the individual sites, the protection of all employees was guaranteed at all times. A number of nutrition, healthcare and physical activity measures are designed to enhance employee well-being. Our company sporting events such as the skiing day, bike-to-work event and company fun run, as well as family events and Christmas partieshad to be partly reduced or postponed for obvious reasons.

In order to ensure the sustainability of the measures and the continuous optimisation of Human Resources processes at group level, an additional position of Head of Group HR has been created.

Product energy efficiency as a central starting point

The main starting point for a greener approach in our corporate group is the energy consumption of the machines we deliver to customers, where they will be in operation for decades. In the past, and especially in regions with low energy prices, not enough attention was paid to energy consumption. We expect energy consumption to play a greater role in terms of overall production costs in the future. The energy efficiency of machine tools could become one of the most important factors in the calculation of economic efficiency over the life cycle of a machine system. Starrag Group therefore took an early decision to participate in the "Blue Competence" campaign of the European association of machine tool builders (CECIMO) and the national industry associations the German Machine Tool Builders' Association (VDW), the Mechanical Engineering Industry Association (VDMA) and the Swiss Association of Machinery Manufacturers (Swissmem) for higher energy efficiency and sustainability in manufacturing technology, and to incorporate the relevant recommendations into the development of new products. The main driver for energy efficiency in the machining of workpieces is, however, the cycle time. Since Starrag Group's entire machine portfolio is characterised by a higher cutting performance and, as a result, shorter production times than its competitors, investment in our machines is particularly worthwhile from the point of view of energy savings.

Under our own eeMC (energy efficient machining centre) label, the entire range of machine systems were made more energy-efficient. The measures range from energy-efficient engines and minimizing base load losses through to using frequencycontrolled pumps, regenerating braking energy and lightweight construction plans. In principle, the machine illumination is still based on energyefficient LED lights. Starrag machines are specifically designed to maintain their high precision over a wide range of temperatures, reducing the energy consumption of our customers considerably by lessening the need to keep the temperature stable in the production hall.

Participating in research projects in various countries to increase the energy efficiency of machine tools means that we can quickly introduce new discoveries and technologies into product developments. The focus is on cost savings in the energy consumption of machine tools, in particular making progress in terms of drive systems, cooling lubricants, mechanical drives and stand-by and warmup settings to reduce the required preheating time. This opens up significant potential by reducing the amount of air conditioning in the production halls without compromising quality and functionality thanks to more precise and more intelligent production technology. The energysaving potential over time to be attained across the entire production process and infrastructure is clearly in the double digit percent range.

Continuous improvement of environmental performance

Starrag Group is continuously implementing measures to improve its environmental performance at all business and plant locations. This includes ensuring that our own production processes are always energy efficient and minimising effects on the environment. For all projects involving investments, as well as maintenance, upgrade and renovation of buildings, environmental aspects are always observed alongside cost/benefit considerations. At 18'000 MWh, group-wide energy consumption in 2021 was below the level of the previous year (18'300 MWh) and again correspond to a long-term low. In addition, Starrag Group has launched initiatives to shape the Group's ecological footprint in a long-term and sustainable manner.

The ISO 50001-based certified energy management system applied at the Bielefeld, Chemnitz and Mönchengladbach production sites is expected to boost Starrag Group's energy efficiency by tapping into unused energy efficiency potential, lowering energy costs and reducing greenhouse gas emissions (including carbon emissions) and other environmental impacts. These efforts were continued in the year under review, for example with the replacement of existing lighting with energy-efficient LED light sources both in the production halls and in the outdoor areas and office buildings. In addition, air-conditioned measuring rooms and measuring equipment rooms were fitted with insulation in order to prevent the input of heat and thus reduce the energy requirements for air-conditioning.

The photovoltaic plant which has a surface of 8'250 m^2 and was commissioned at the new production site in Vuadens in 2016 produced 1'317 MWh of electricity in 2021 and fed it into the grid (compared with 1'494 MWh in 2020). The factory is equipped with a state-of-the-art lighting management system, with solely LED lights being used.

The approximately 100 MWh of electricity produced annually by the photovoltaic plant at the Rorschacherberg site is consumed by the company itself. We also want to contribute to electromobility. For example, employees currently have three charging stations for electric vehicles at their disposal. In addition, we are optimising the infrastructure of the buildings to promote cycling and providing staff with attractive shower and changing facilities. At our German sites of Bielefeld, Chemnitz and Mönchengladbach, we help employees to lease bicycles so that they can travel to and from work in a way that is environmentally-friendly and healthy.

The company's own paint shops use environmentally-friendly water-soluble paints rather than solvent-based paints wherever possible. Recyclable materials and waste such as oil, grease and chips are reused as part of a systematic recycling process. In addition, splitting systems for cooling lubricants ensure that these materials are disposed of properly or returned to the system for re-use.

Corporate Governance

Corporate structure and shareholders

Management organisation

Board of Directors
Michael Hauser, Chairman
Walter Fust, Vice-Chairman
Prof. em. Dr. Christian Belz
Dr. Erich Bohli
Adrian Stürm

CEO
Dr. Christian Walti

Sales
Alexander Attenberger
Aerospace and Turbines / Industrial and Transportation / Luxury Goods and Med Tech / Regional Sales

High Performance Systems	Horizontal Machining Systems	Large Parts Machining Systems	Ultra Precision Machining Centers
Dr. Bernhard Bringmann	Dr. Stefan Breu	Dr. Christian Walti (a.i.)	Jean-Daniel Isoz
Product ranges:	**Product ranges:**	**Product ranges:**	**Product ranges:**
Ecospeed	Heckert	Berthiez	Bumotec
Starrag	Scharmann/Ecoforce	Dörries	SIP
TTL	WMW	Droop+Rein	

Customer Service
Günther Eller

Operations
Dr. Stefan Breu
Supply Chain Management / Strategic procurement / Manufacturing / Subassemblies

CFO/Corporate Center
Thomas Erne

Participation structure

- **Starrag Group Holding AG** Rorschacherberg / CH
  - **Starrag AG** Rorschacherberg / CH
  - **Starrag Group Holding GmbH** Chemnitz / DE
    - **Starrag GmbH** Chemnitz / DE
    - **Starrag Technology GmbH** Mönchengladbach / DE
      - **Starrag S.A.S.** Saint-Etienne / FR
      - **Starrag Service Center GmbH & Co. KG** Ichtershausen / DE
      - **FIRMUS Grundstücks-Vermietungsgesellschaft GmbH & Co. KG** Mönchengladbach / DE
      - **Scharmann GmbH** Mönchengladbach / DE
  - **Starrag India Private Limited** Bangalore / IN
  - **Starrag Vuadens SA** Vuadens / CH
  - **Starrag USA Inc.** Hebron / USA
  - **Starrag Group Holdings Ltd.** Birmingham / UK
    - **Starrag UK Ltd.** Birmingham / UK
    - **Toolroom Technology Ltd.** Haddenham / UK
  - **Starrag (Shanghai) Co. Ltd.** Shanghai / PRC
  - **Starrag Makina Ticaret ve Servis Ltd.** Ankara / TR
  - **Starrag RU Ltd.** Moskau / RU
  - **Starrag Italia Srl** Rivoli / IT
  - **Starrag Mexico, S. de R.L. de C.V.** San Pedro Garcia / MX

Details of share capital and the equity interest held are given in the consolidated financial statements on page XXX of this annual report.

The registered shares of Starrag Group Holding AG (hereafter referred to as the “company”) are traded at the SIX Swiss Exchange (securities number 236106, ISIN CH0002361068, ticker STGN). The market capitalisation on 31 December 2021 was CHF 156.6 million.

Shareholders

There were 874 shareholders registered in the company's share register on 31 December 2021, who held the following numbers of shares:

More than 100'000 shares	‣ 3 shareholders
10'001 to 100'000 shares	‣ 13 shareholders
1'001 to 10'000 shares	‣ 84 shareholders
1 to 1'000 shares	‣ 774 shareholders

209’464 shares or 6.2% were not registered in the share register on 31 December 2021 (cleared shares).

Significant shareholders with more than 3 percent of voting rights are known to the company as follows:

- Walter Fust, Freienbach, Switzerland 1'810'147 shares, 53.87%
- Eduard Stürm AG, Goldach, Switzerland 311'079 shares, 9.26%
- Max Rössler, Hergiswil / Parmino Holding AG, Goldach, Switzerland, 269'202 shares, 8.01%

No disclosure notifications were made during the 2021 financial year in accordance with Art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading.

In earlier financial years, the following current disclosure notifications were made in accordance with Art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading:

- 29/09/2011: Max Rössler, Hergiswil / Parmino Holding AG, Goldach, Switzerland, 5.25%
- 04/05/2011: Eduard Stürm AG, Goldach, Switzerland, 9.73%
- 04/05/2011: Walter Fust, Freienbach, Switzerland, 54.88%

Further information about the respective disclosure notifications is published on the website of the Disclosure Office of the SIX Swiss Exchange https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html

The company is not aware of any agreements between shareholders.

Cross-shareholdings

There are no cross-shareholdings.

Capital Structure

Ordinary share capital

The company's issued share capital amounts to CHF 28'560,000 and is split into 3'360'000 fully paid-in registered shares with a nominal value of CHF 8.50 each.

Authorised share capital

There is no authorised capital.

Conditional share capital

The company has no outstanding conditional share capital.

Changes in capital

In the last three years under report, the share capital of Starrag Group Holding AG has not changed.

Shares

Shareholder rights of membership are stipulated in the Swiss Code of Obligations as well as in the company's Articles of Association. Each registered share with a nominal value of CHF 8.50 has one vote at the Annual General Meeting. The right to vote can only be exercised if the shareholder is registered in the company's share register as a shareholder with voting rights. Distribution of profit can be decided upon within the framework of the law by the General Meeting and can be carried out in proportion to the equity investment. The company's Articles of Association are published on www.starrag.com (click on Articles of Association under Investors) and can be obtained from the company at any time.

Participation and profit sharing certificates

The company has not issued any participation or profit sharing certificates.

Limitations on transferability and nominee registration

In general, there are no limitations to the transfer of shares. The registration of shareholders with voting rights or beneficiaries in the share register can be denied due to the following reasons:

- if the purchaser does not, at the company's request, explicitly confirm that they have acquired and are holding the shares on their own behalf, in their own interests and for their own account;
- if and as long as the recognition of the purchaser may, based on the available information, prevent the company from complying with Swiss law requiring proof of Swiss control of the company.

Nominees who are subject to recognised banking and financial market supervision are entered in the share register with voting rights for shares they acquire on behalf of third parties without limitation. If a nominee acquires more than 3% of the outstanding share capital, they must disclose the names, addresses, nationality and shareholdings of all persons for whose account they hold 0.5 % or more of the outstanding share capital prior to registration.

Convertible bonds and options

There are no outstanding convertible bonds or issued option rights.

Board of Directors

Michael Hauser (1961, Swiss and German) has been a member of the Board of Directors of Starrag Group Holding AG since 2018 and Chairman since April 2020.

Since 2011 he has been CEO of Tornos SA, based in Moutier, Switzerland and since 2017 he is also a member of the Board of Directors of Schlatter Industries AG, based in Schlieren, Switzerland. From 2008 to 2010, he was a member of the Executive Board of Georg Fischer AG and headed its division GF Agie Charmilles. From 2000 to 2008, he was a member of the Executive Board of the Agie Charmilles Group where he was responsible for the Milling Division. From 1996 to 2000 he was Chairman of the Milling Division of the Mikron Technology Group based in Biel, Switzerland. He also serves at the European Association of the Machine Tool Industries CECIMO as Delegate (2005 – today), as Board Member (2012–2017) and Chairman (2009–2010). He is a member of the Board of Directors of the Swiss Association of Mechanical, Metal and Electrical Engineering Industries SWISSMEM, where he has headed the Machine Tools division since 2005. Michael Hauser holds a degree in business administration from the University of Mannheim. He has never held an executive management position with the Starrag Group and he does not have any significant business relationships with the Group.

Prof. em. Dr. Christian Belz (1953, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since 2008.

From left to right: Prof. em. Dr. Christian Belz, Adrian Stürm, Michael Hauser, Walter Fust, Dr. Erich Bohli

He was a tenured professor of economics at the University of St.Gallen from 1989 to 2018 with a special focus on marketing and has headed the Institute of Marketing at the University of St.Gallen since 1992. He has written more than 40 books about Marketing and Sales. For years he was member of the Board of Fust, Nielsen Switzerland, Unilever Switzerland, Walter Reist Holding, Kinderdorf Pestalozzi, Schulthess Group, Interbrand/Zintzmeyer & Lux, Jelmoli Holding and Création Baumann He has never held an executive position in the Starrag Group and he does not have any significant business relationships with the Group.

Dr. Erich Bohli (1950, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since 2017.

After completing his degree in business management (1977) and his doctorate (1980) at the University of Zurich, Erich Bohli held various positions at Unilever (Switzerland), including Internal Auditor, General Secretary, PR Manager and Marketing Manager for several international brands. He then worked as an independent turnaround manager, a profession he pursued for the next 15 years. During this time, he managed some international companies in a variety of fields of computer training/direct sales, branded consumer goods, OTC pharmaceuticals, multimedia and e-commerce development. From 1999 to 2010, he served as CEO of Dipl. Ing. Fust AG and also served on the Boards of Directors of AEG (Switzerland) AG, Swiss Dairy Food AG and Service 7000 AG. Since then, he has been working in the area of business development and as an Internet entrepreneur. From 2010 to 2014, Erich Bohli completed a third degree in cultural and literary studies at the University of Zurich, which he completed in 2014 with a Master of Arts in Social Science. He launched subsequently the Internet-Autobiography-Platform meet-my-life.net and initiated the Swiss Autobiography-Award.

Walter Fust (1941, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since 1988 and its Vice-Chairman since April 2020 (Chairman from 1992 until 2015 and from 2019 until April 2020).

From 1997 to 2009 he was a member of the Board of Directors of Jelmoli Holding AG (Chairman until 2007), in which he held a majority shareholding from 1996 to 2003. He had previously sold the company Dipl. Ing. Fust AG listed on the stock exchange in 1987 to Jelmoli Holding AG in 1994. Dipl. Ing. Fust AG was sold in 2007 by Jelmoli Holding AG to the Coop Group. Walter Fust has been a member of the Board of Directors of Tornos Holding AG in Moutier, Switzerland since 2014. Mr. Walter Fust holds a degree in engineering from the Swiss Federal Institute of Technology in Zurich (ETHZ). He has never held an executive position in the Starrag Group and he does not have any significant business relationships with the Group.

Adrian Stürm (1970, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since 2008.

He has worked in the areas of Operational Risk Control and Wealth Management Controlling at UBS AG since 2001 and in Risk Managment at UBS Wealth Management Switzerland AG since 2008. Prior to that, he was an auditor with KPMG Zurich and London from 1997 to 2000. He is Chairman of the Board of Directors of the family-owned company Eduard Stürm AG (Holding) and its subsidiaries Holz Stürm AG and Eduard Stürm Immobilien AG, which are all based in Goldach, Switzerland. Furthermore member of the Board of Directors of Holz Michel AG, Hasle, Switzerland. Mr. Adrian Stürm holds a degree in Economics from the University of St. Gallen (lic. oec. HSG). He has never held an executive management position with the Starrag Group and he does not have any significant business relationships with the Group.

Maximum number of permissible mandates

The members of the Board of Directors may not hold more than ten mandates in other companies. Of these, a maximum of five mandates may be held in companies listed on the stock exchange. The following mandates are not subject to the aforementioned limitations:

1. Mandates in companies that are controlled by the company;
2. Mandates held at the request of the company or companies controlled by it; no member of the Board of Directors or the Executive Board shall hold more than ten such mandates; and
3. Mandates in associations, charitable foundations, staff welfare foundations and associations; no member of the Board of Directors or the Executive Board may hold more than six such mandates.

Mandates are defined as mandates in the supreme governing body of a legal entity that is required to be registered in the Swiss Commercial Register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed to be a single mandate.

Election and term of office

The members of the Board of Directors, the Chairman of the Board of the Directors, the members of the Compensation Committee and the independent proxies are elected annually at the Annual General Meeting of the Shareholders. There are no restrictions on terms of office.

Internal organisation

The Board of Directors shall constitute itself, unless otherwise provided by law. The Chairman shall convene meetings of the Board of Directors if and when the need arises or upon the written request of any other member. Except in urgent cases, callings for meetings are to be sent out five days before the meeting, stating the items for discussion.

Minutes are to be kept of the discussions, and are to be signed by the Chairman and the minute-taker. The minute-taker will be designated by the Board of Directors. They do not need to be a member of the Board of Directors. A majority of the Board of Directors must be present in order for resolutions to be validly adopted. No attendance quorum is required to determine the execution of a capital increase and to resolve the subsequent amendment of the Articles of Association. Resolutions shall be passed by a simple majority of the votes cast. In the event of a tied vote, the Chairman, who shall always cast a vote, shall have the casting vote. Resolutions can also be passed in writing by way of circular letter, provided no members request a verbal discussion of the item in question. These are to be included in the minutes.

There are usually six Board meetings a year, each lasting about five hours. Members of the Executive Board will be called in to these meetings if and when necessary. In the financial year 2021, eight meetings of the Board of Directors took place, with an average duration of five hours. All members of the Board of Directors attended all meetings.

The tasks and responsibilities of the Compensation Committee are presented in the Compensation Report (page 56). The Board of Directors has not established any other committees. At our mid-sized company, the respective tasks are performed by the Board of Directors as a whole. Moreover, the Executive Board regularly consults with the Chairman of the Board of Directors and individual members on an informal basis regarding important aspects of specific topics.

Definition of areas of responsibility

The Board of Directors has the overall responsibility for the management of the company as well as the supervision of the executive management. The Board of Directors has delegated most of the executive management powers to the CEO. However, the Board of Directors remains responsible for tasks that legally cannot be delegated and other important business. These include in particular matters such as business strategy, approval of the annual budget, decisions with regard to acquisitions and important personnel matters.

Information and control instruments vis-à-vis the Executive Board

Executive management control is exercised primarily through regular reporting by the Executive Board to the Board of Directors, in particular by means of:

- monthly and quarterly financial reports including commentary on the corresponding key figures (incoming orders, sales revenues, margins, profits, investments, liquidity, capital commitment);
- regular information about market and business developments as well as important projects;
- detailed information about market and business developments at every Board meeting, which are partially attended by the CEO and CFO and by other members of the Executive Board as required.

In addition, the Chairman of the Board of Directors discusses current developments with the CEO on a regular basis. Walter Fust and Adrian Stürm also exercise further control functions as members of the Supervisory Board of Starrag Technology GmbH and Walter Fust as a member of the Board of Directors of Starrag Vuadens SA.

Risk management

As a leading global manufacturer of precision machine tools, the Starrag Group is faced with various risks.

The most significant risks include:

- the weakening of the economic environment in customer markets as well as business cycles could lead to a reduction in demand,
- misjudgements of developments in customer markets or in the competitive environment could lead to missed business opportunities or losses,
- failure in research and development as well as other innovation-based activities could prevent business potential from being realised,
- a lack of availability of financial resources could impair the performance and operations of the Starrag Group and
- natural events (such as fires) could impair operating activities.

the Board of Directors and the Executive Board give high priority to the careful handling of strategic, financial and operational risks. The Starrag Group has a holistic risk management process which is analysed every year by the Executive Board and the Board of Directors.

The following goals are pursued:

- systematically identifying special risks,
- establishing processes to monitor, reduce and ideally to prevent risks and
- finding the right balance between risks and opportunities.

The risk management system is based on a classic risk matrix involving the probability of occurrence and possible extent of damage (identification and classification) and includes internal instructions as well as a risk log, in which operational data as well as action planning for risk management are documented.

The Executive Board has appointed an officer to implement and moderate risk management, who reports directly to the CFO, as well as a responsible member of the Executive Board for each risk area.

In the annual risk review, the risks are carefully identified, analysed and evaluated, and appropriate measures are defined to reduce the risks. This information is documented in a comprehensive group-wide risk matrix. The implementation of the measures is monitored by the risk management officer. In business processes with recurring risks, the resolved measures are integrated as process steps in the operative processes of the daily business.

On an annual basis, the Executive Board reports on the nature, extent and assessment of significant risks and the measures taken for risk minimisation to the Board of Directors. Risks in the area of accounting and financial reporting are monitored and reduced by a suitable internal control system.

Additional information on financial risk management can be found on page 79.

Internal auditing

In accordance with the simplifications stated in the Swiss Code of Best Practice for Corporate Governance, the Board of Directors has decided not to implement an internal audit.

The codex implies corresponding simplifications for small and medium companies as well as for companies with active majority shareholders.

Executive Board

Members of the Executive Board

The Board of Directors has appointed an Executive Board and has specified its powers and responsibilities in organisational guidelines and an accompanying functional chart.

Dr. Christian Walti (1967, Swiss) has been CEO of the Starrag Group since June 2018 CEO and interim Head of Sales since July 2019 to 31 March 2020 (up to June 2019 Head of Regional Sales).

From 2012 to 2018 he was the Managing Director of Bosch Packaging Systems in Beringen, Switzerland. He was additionally responsible for the Horizontal Packaging Systems Food from 2017, a unit with five international production sites. His primary responsibilities were global alignment of the product portfolio, organizational optimization, expansion of the key account business, implementation of Industry 4.0 and the general positioning of the company as a technology leader in its targets areas of expertise. From 2005 to 2011, as a shareholder and member of the Board of Directors of Faes Finanz AG (Holding), he held the position of Delegate of the Board of Directors and CEO of Faes AG in Wollerau, Switzerland, where he established the company's international acitivites, among other achievements. Christian Walti completed his studies in Business Administration at the University of St. Gallen (HSG) with a doctorate.

Thomas Erne (1973, Swiss and German) has been Chief Financial Officer (CFO) and Head of Corporate Center of Starrag Group since 01.09.2020.

He previously served as CFO at DMG Mori since 2015. From 2007 to 2015, he was Regional Finance Director at Zimmer Biomet and was responsible for Eastern Europe, Russia, Middle East and Mediterranean as well as the European finance for the Business Units Trauma, Spine, Surgical and Computer Assisted Solutions. From 2006 to 2007, he was Senior Controller at Swissport, responsible for the US business. From 2004 to 2006, he worked in the USA for Altana Pharma, where he accompanied the market development of the American business in the finance department. From 2002 to 2004 he completed a trainee program in finance at Altana Pharma AG.

Thomas Erne holds a degree in business administration from the University of Constance/DE.

Alexander Attenberger (1977, German) has been responsible for the Sales division of the Starrag Group from April 2020.

He previously worked for the German Grob Group since 2013, first as a Head of Department and then as Division Manager of Sales of universal machines. From 2010 to 2012, he was the Executive Vice President of Sales Industrial Equipment at MAG IAS. Between 2007 and 2010, he worked for Deckel Maho Pfronten, first as the Head of Back Office Sales, then as Sales Director for horizontal machining centres. From 2003 to 2007, he was the Product Sales Manager Milling at DMG München Vertriebs und Service GmbH.

Alexander Attenberger is a Precision Engineering Master and an HWK (Chamber of Crafts) Business Economist.

Dr. Stefan Breu (1964, Swiss) joined Starrag Group on May 2019 and has been Head of Group Operations since July 2019, responsible for supply chain management, strategic procurement, manufacturing and sub-assemblies and Head of Business Unit Horizontal Machining Systems, which comprises the Heckert, Scharmann and WMW product lines.

He previously served in various executive positions with Bosch Packaging Systems, Beringen/Switzerland (former SIG Division SIG Pack), where he was finally responsible for the entire unit's operations as General Manager. Between 208 and 2016 he was COO of Schleuniger Group and Head of Global Production and Supply Chain of SIG Combibloc Group. His earlier professional career included operational responsibility of SIKA's China business and various executive positions in marketing, trading, sales and production at ATEL, where he ultimately served as Head of Group Operations and member of the Executive Board.

Stefan Breu hold a degree in mechanical engineering form ETH Zurich and a Ph.D. in economics from the University of St. Gallen. He also completed the International Executive Program at INSEAD Fontainebleau and the Stanford Executive Program at Stanford University, USA.

Dr. Bernhard Bringmann (1977, Swiss and German) has been Head of the business unit High Performance Systems (product areas Starrag, Ecospeed, TTL) since July 2019.

From 2015, he was previously Head of the Starrag plant in Rorschach as part of the former business unit Aerospace & Energy in Rorschach and bore overall responsibility for the market segments Aero Engine and Power Turbine as well as central functions in the segment Aero Structure. In 2014, he was Head of the former business unit 1 and thus responsible for the brands Starrag and the technology subsidiary TTL, UK. Bernhard Bringmann has previously held various management positions in the areas of Development, Innovation and Technology since joining Starrag in 2008.

Bernhard Bringmann holds a Dr. of Science (Dr. Sc.) from the ETH Zurich and has a Master of Science in Mechanical Engineering from the Rensselaer Polytechnic Institute in Troy/USA.

Günther Eller (1960, German) has been head of Customer Service at the Starrag Group since 2007.

From 1986, he previously held various management positions at OC Oerlikon in Sales and Customer Service, 2001 to 2006 as Head of the business unit Customer Service in the Data Storage Division, 1995 to 2001 as Managing Director of a sales and service company for the investment business and prior to this various management positions in the areas of Sales and Key Account Management.

Gunther Eller holds an M.Sc. in Engineering Physics.

Jean-Daniel Isoz (1959, Swiss) has been Head of the business unit Precision Machining Centres (product areas Bumotec, SIP) since July 2019, which comprises the Bumotec and SIP product lines.

Previously, he was responsible for the market segments Luxury Goods, Micromechanics and Med Tech within the former Business Unit Precision Engineering since 2015. Before he was responsible for the former Business Unit 4 for the brand Bumotec in Sâles (Switzerland) and SIP in Geneva (Switzerland). Prior to that, he had served as Managing Director of SIP Société d'Instruments de Précision SA from 2006. After first working as director for SIP from 2000 and 2002, he took over as managing director of Bula Machines until end of 2005. Previously, he had acquired 15 year of experience in various management positions in production and customer services for Bobst SA in Lausanne, USA and Asia.

Jean-Daniel Isoz holds a degree in electrical engineering and has completed Finance and Marketing programs at INSEAD in Fontainebleau, France.

Maximum number of permissible mandates

The members of the Executive Board may not hold more than three mandates in other companies.

The following mandates are not subject to the aforementioned limitations:

1. Mandates in companies that are controlled by the company;
2. Mandates held at the request of the company or companies controlled by it; no member of the Board of Directors or the Executive Board may hold more than ten such mandates; and
3. Mandates in associations, charitable foundations, staff welfare foundations and associations; no member of the Board of Directors or the Executive Board may hold more than six such mandates.

Mandates are defined as mandates in the supreme governing body of a legal entity that is required to be registered in the Swiss Commercial Register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed to be a single mandate.

Acceptance of mandates/appointments outside the Starrag Group by members of the Executive Board requires prior approval by the Board of Directors.

Management contracts

There are no management contracts with companies outside the Starrag Group.

Compensation, shareholdings and loans

Information on compensation and loans are specified in the Compensation Report (page 59) and information regarding participation can be found in the Notes to the Financial Statement (page 97).

Shareholders' Participation Rights

Shareholders of Swiss stock corporations have extensive participation and protective rights. The protective rights include the right to inspection and information, the right to a special audit, the right to convene a General Meeting, the right to add topics to the agenda, the right to challenge resolutions and the right to raise claims regarding responsibility.

The participation rights include, in particular, the right to participate in General Meetings, the right to express opinions and the right to vote.

Voting rights restrictions and representation

There are no restrictions on the voting right for all shareholders whose right to vote is registered in the share register. Every shareholder is entitled to be represented at the General Meeting by another shareholder who is authorised to do so in writing, by their legal representative or by the independent voting representative.

The Board of Directors determines the requirements for proxy and the instructions given to the independent voting representative.

Statutory quorum

There is no statutory quorum.

Convening of the Annual General Meeting

There are no statutory regulations regarding the convening of General Meetings that deviate from the law. A notice convening a General Meeting must be sent in writing to shareholders at least 20 days before the scheduled date of the General Meeting.

Extraordinary General Meetings are to be called upon resolution of a General Meeting of shareholders or the Board of Directors, or at the request of the auditors, or if shareholders representing at least 3 percent of the share capital request in writing that a General Meeting be called, specifying the agenda items to be discussed and the proposals to be voted on.

Additions to the agenda

The notice convening a General Meeting shall state the agenda items and the motions of the Board of Directors as well as any proposals by shareholders who have duly requested that a General Meeting be called or that an item be included in the agenda. Shareholders representing at least 1% of the share capital can request the addition to the agenda of an item to be discussed. Such inclusion must be requested in writing at least 40 days prior to the next scheduled General Meeting, specifying the agenda items to be discussed and shareholder proposals to be voted on.

Registrations in the share register

The Board of Directors keeps a share register in which the shareholders and beneficiaries are entered with their names and addresses. With respect to the company, shareholders and beneficiaries are only recognised as such if they are registered in the share register. Any entry requires the approval of the Board of Directors, a committee determined by the Board of Directors or a single person determined by the Board of Directors. The Board of Directors may request from the applicant all information necessary for the assessment of the registration request that appears to be relevant to the request. The entry in the share register of a shareholder with the right to vote or a beneficiary can be denied for the following reasons:

- if the acquirer does not, at the company's request, explicitly confirm that they have acquired and are holding the shares on their own behalf, in their own interests and for their own account;
- if and as long as the recognition of the acquirer may, based on the available information, prevent the company from complying with Swiss law requiring proof of Swiss control of the company.

Acquirers who are not yet recognised by the company are to be registered in the share register as shareholders without voting rights after the transfer of rights. The corresponding shares are deemed not to be represented at the General Meeting.

After hearing the person in question, the Board of Directors can delete registrations in the share register if these have resulted from invalid information by the acquirer. The acquirer has to be informed immediately of this deletion.

The key date for the registration of registered shareholders in the share register with regard to attendance of the General Meeting will be set on a date shortly before expiry of the statutory period on the convention of the General Meeting.

Changes in control and defence measures

Obligation to make an offer

There are no statutory regulations regarding "opting out" and "opting-up" which differ from law.

Clauses on changes in control

There are no clauses on changes in control.

Auditors

Duration of the mandate and term of office of the auditor in charge

PricewaterhouseCoopers AG, St. Gallen, has been the statutory and consolidated financial statement auditor since 1981. They are elected for a term of office of one year by the General Meeting. The current term of office expires at the Annual General Meeting in 2022. The auditor in charge, Oliver Kuntze, was first assigned the auditing mandate with the auditing of the 2019 financial statement. The rotation rhythm of the leading auditor corresponds to the maximum duration of seven years legally applicable for Swiss companies.

Audit fees

Audit fees paid to PricewaterhouseCoopers AG during the 2021 financial year and charged to the consolidated financial statement amounted to TCHF 250.

Additional fees

In the financial year 2021, additional fees in the amount of TCHF 9 were incurred with the formal review of the equal pay analysis in accordance with the Gender Equity Act (GIG) to PricewaterhouseCoopers AG.

Supervisory and control instruments pertaining to the auditors

The external audit is supervised by the Board of Directors. The Board of Directors assesses the audit plan, the audit scope, the audit and the results of the audit. The auditor's report significant findings directly to the Board of Directors. In the reporting year, the auditor in charge attended two meetings of the Board of Directors. At these meetings, the audit plan, scope, and results of the audit, as well as other important aspects of auditing were discussed.

Information policy

The company informs its shareholders and the capital market in an open and timely fashion and with the highest possible levels of transparency. The most important information tools are the Annual and Half-Year Reports, the www.starrag.com website, media releases, balance sheet presentations for the media and analysts and the Annual General Meeting.

As a company listed on the stock exchange, the Starrag Group Holding AG is required to disclose information relevant to the share price in accordance with the ad hoc publicity guidelines of the listing regulations of the SIX Swiss stock exchange.

Any interested party can register at www.starrag.com (click on E-mail distribution under Investors) to receive potential information relevant to the share price directly from the company via the e-mail distribution list. This information is also available on the website (www.starrag.com, click on Media releases under Investors) and can be provided to any interested parties upon request.

Important Data:

- **23.04.2022**
  Annual General Meeting
- **28.07.2022**
  Half-Year Report 2022
- **27.01.2023**
  Sales and order situation 2022
- **10.03.2023**
  Annual Report 2022, analysts and media conference
- **21.04.2023**
  Annual General Meeting

The information mentioned will be published on our website www.starrag.com as far as possible.

Official announcements and invitations will be sent by post to shareholders using the addresses recorded in the share register. Public announcements prescribed by law are made by publication in the Swiss Official Gazette of Commerce.

Trading blackout periods

General trading restrictions

Purchase and sale of share of Starrag Group Holding AG and corresponding financial instruments is prohibited for members of the Board of Directors, members of the Group Management and employees of the accounting departments in Rorschacherberg, Vuadens, Chemnitz and Mönchengladbach from the beginning of the year until the announcement of the key figures of the annual financial statements as well as 30 days prior to the publication of the half-year report.

Special trading blackout periods

Both the Chairman (or the Vice-Chairman if the Chairman is prevented from attending or is absent) and the CEO are entitled in individual cases to set additional trading blackout periods for individual persons and to designate those persons who must comply with them. There trading blackout periods must be observed regardless of the personal assessment of their necessity and duration.

Contacts:

Thomas Erne, CFO
investor@starrag.com

Compensation report

Compensation report

Introduction

This Compensation Report contains information on the compensation of the members of the Board of Directors and the Executive Board. The report was prepared in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations (OaEC). Furthermore, the report is consistent with the Swiss Code of Best Practice for Corporate Governance of the Swiss Business Federation economiesuisse and Chapter 5 of the Appendix to the SIX Exchange Regulation Corporate Governance Directive.

The information included under the headings "Remunerations" and "Loans and Credits" was audited by the statutory auditors.

Compensation policy and principles

The Starrag Group ensures comprehensive transparency regarding the compensation of members of the Board of Directors and the Executive Board. Within the Starrag Group, compensation is based on the principles of value-based management with the aim of guaranteeing that management compensation is in line with market conditions and thus ensuring that qualified executives can be recruited and remain with the company in the long-term. Compensation policy also promotes entrepreneurial thinking and approaches and aligns the interests of executive bodies with those of the shareholders.

The compensation of the members of the Board of Directors and the Executive Board is determined on the basis of individual tasks and performance, the course of business of the company, market conditions in the respective global sales and local labour market as well as salary comparisons with regard to the function, business activity, size and internationality of employers with similar positions. These criteria are applied individually for each member of the Executive Board at their due discretion.

Responsibilities in determining compensation

The responsibilities in determining the compensation are regulated on the basis of the Ordinance against Excessive Compensation with respect to Listed Stock Corporations (OaEC) in the Articles of Association and Organisational Regulations of Starrag Group Holding AG.

General Meeting

The General Meeting has the non-transferable power to:

- elect and dismiss members of the Compensation Committee;
- approve the compensation of the Board of Directors and the Executive Board
- determine the statutory principles governing the performance-related compensation of the members of the Board of Directors and the Executive Board, as well as other provisions of the Articles of Association in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations.

Each year, the ordinary General Meeting approves the maximum total compensation of the Board of Directors for the period until the next ordinary General Meeting and the maximum total compensation of the Executive Board for the financial year following the General Meeting.

In addition, the General Meeting approves the Compensation Report retrospectively in a non-binding consultative vote.

Board of Directors

Subject to the powers of the General Meeting, the Board of Directors is responsible, at the request of the Compensation Committee, for determining the compensation that is to be paid to the members of the Board of Directors and the members of the Executive Board. In particular, at the request of the Compensation Committee it has the following tasks and responsibilities:

- defining the compensation system for the members of the Board of Directors and the Executive Board in accordance with the Articles of Association;
- reviewing the fixed compensation of the members of the Board of Directors and the Executive Board and determining the same, within the framework of the total compensation approved by the General Meeting;
- determining any additional compensation for the members of the Board of Directors for special tasks and bonuses for extra services within the framework of the total compensation approved by the General Meeting;
- determining variable profit-sharing plans for the members of the Board of Directors and the Executive Board in accordance with the Articles of Association and within the framework of total compensation approved by the General Meeting;
- preparing the Compensation Report.

Compensation Committee

The Compensation Committee shall have the following tasks and responsibilities (fundamental principles):

- drafting and periodic review of the compensation policy and principles of the Starrag Group and periodic review of the implementation thereof, and submission of proposals and recommendations to the Board of Directors;
- preparing all relevant decisions of the Board of Directors relating to the compensation of the members of the Board of Directors and the Executive Board, and submitting proposals to the Board of Directors concerning the nature and amount of the annual compensation of the members of the Board of Directors and the Executive Board, and preparing a proposal for the maximum total amount of compensation.

The Compensation Committee held several meetings by phone and writing in the fulfilment of its statutory duties. In 2018, the Compensation Committee developed and introduced a new system for the variable salary component of the Executive Board members valid for the period from 2018 to 2020, with the aim of focusing even more consistently on growth and increasing the profitability of the units and the Group. The variable salary components of the Executive Board members, which depend on EBIT improvements, were redefined for the years 2022 to 2023 according to this proven system.

The Board of Directors and the Compensation Committee can engage external experts on compensation issues to obtain neutral advice and/or data as a basis for comparison of compensation levels. The Board of Directors and the Compensation Committee performed their duties during the past year without the involvement of external consultants.

Compensation elements

Board of Directors

The members of the Board of Directors each receive fixed compensation and variable profitbased compensation. The Board of Directors may grant additional compensation to individual members for extra duties (serving on committees, etc.).

In the financial years 2021 to 2023, the net profit is the basis of assessment for variable profit-sharing compensation for the members of the Board of Directors, reduced by an advance interest on equity capital depending on the development of interest rates. The amount of the advance interest and the shares of the individual members of the Board of Directors in the basis of assessment as well as the other details (payout terms and date, any limitation on the variable profit sharing, etc.) are determined by the Board of Directors. If net profit falls below the defined amount of advance interest, no variable profit-sharing compensation will be paid. Variable profit-sharing compensation for the members of the Board of Directors is capped at CHF 125’000 per member.

The fixed compensation is paid monthly in cash. The variable profit-sharing compensation is paid annually in cash after the consolidated financial statement has been approved by the General Meeting. The company does not have any share participation plans.

The members of the Board of Directors are not insured through pension plans or comparable schemes of the company or Group companies. Members of the Board of Directors are not entitled to severance pay or other benefits upon separation of service.

Executive Board

The members of the Executive Board receive fixed compensation and variable profit-sharing compensation. The Board of Directors may resolve special bonuses for exceptional performance.

The Board of Directors determines the variable profit-sharing compensation of the Executive Board members based on individual performance metrics pertaining to the areas of operation for which they are responsible and/or to collective performance metrics pertaining to the consolidated results.

In the financial years 2021 to 2023, the basis of assessment for the variable profit-sharing compensation of members of the Executive Board was calculated on the basis of the operating result EBIT minus minimum expected results. Group operating result EBIT was one measure of performance. For the business unit managers, a second measure based on the operating result EBIT of their particular area of responsibility was applied. In the average expected result distribution, this second component accounts for around two-thirds of the total variable compensation for the heads of the business units, while the percentage of their compensation based on the Group result amounts to approximately one-third. If the operating result EBIT falls below the specified minimum threshold, no variable compensation will be paid. The variable profit-sharing compensation for the members of the Executive Board is limited to 150% of the fixed compensation.

The fixed compensation is paid monthly in cash. The variable profit-sharing compensation is paid annually in cash after the consolidated financial statement has been approved by the General Meeting. The company does not have any share participation plans. Pension benefits are only paid to members of the Executive Board within the framework of domestic and foreign pension plans and comparable plans of the company or Group companies. The benefits to insured parties and the employer's plan contributions are defined in the aforementioned plans or the corresponding plan regulations.

An additional amount of compensation as defined in Art. 19 of the OaEC equivalent to 40% of the approved total amount of compensation of the Executive Board is available for members appointed to the Executive Board after the maximum total amount is approved.

Compensation may be paid by the company or the corresponding Group company for services rendered at companies that are directly or indirectly controlled by the company. Such compensation must be consolidated at Group level and included in the votes on compensation at the General Meeting.

Company loans and credits to a member of the Executive Board and any guarantees or other collateral offered to secure the obligations of an Executive Board member may not exceed three times the annual salary of the respective member of the Executive Board.

Members of the Executive Board are not entitled to severance pay or other benefits upon separation of service.

Remuneration

CHF 1'000	**2021**					2020				
	Fixed	Additional services	Variable	Pension and other	Total	Fixed	Additional services	Variable	Pension and other	Total
Prof. em. Dr. Christian Belz	50	-	-	2	52	43	-	-	2	45
Dr. Erich Bohli	50	9	-	3	62	43	9	-	2	54
Walter Fust (Chairman until 25.4.2020, after Vice-Chairman)	50	25	-	2	77	55	24	-	3	82
Michael Hauser (Chairman from 25.4.2020, previously Vice-Chairman)	130	27	-	12	169	59	-	-	4	63
Adrian Stürm	50	12	-	4	66	43	12	-	3	58
Total Board of Directors	**330**	**73**	**-**	**23**	**426**	243	45	-	14	302
Variable as percentage of total compensation			0%					0%		
Total Executive Board	**1'892**	**28**	**1'130**	**514**	**3'564**	2'039	36	825	418	3'318
Variable as percentage of total compensation			37%					29%		
Thereof:										
‣ Dr. Christian Walti, CEO	390	-	300	132	822	364	-	300	95	759
Variable as percentage of total compensation			43%					45%		

Remuneration is reported on a gross basis (incl. 13th month's salary and salary share of company car).
The reported contributions to pensoin and social insurance schemes include the employer's contributions.

Notes regarding compensation

Compensation for additional duties performed by members of the Board of Directors is owed in connection with the service of Walter Fust and Adrian Stürm on the Supervisory Board of Starrag Technology GmbH in Mönchengladbach, the service of Walter Fust on the Board of Directors of Starrag Vuadens SA and as well as of Ericht Bohli for the work of the Compensation Committee.

The fixed compensation of the Executive Board was higher in 2020 due to a change in the Group Executive Board. New additions were Alexander Attenberger and Thomas Erne, while departing Executive Board members continued to impact 2020. This was partly compensated by a voluntary waiver of 10% of the fixed compensation by the management.

All compensation was assigned to the appropriate period in accordance with the Swiss GAAP FER accounting and reporting recommendations (accrual basis).

Loans and credits

In the year under review, as well as in previous years, the Starrag Group granted no loans or credits to current or former members of the Board of Directors or the Executive Board. Neither did the Starrag Group provide compensation or any loans or credit to any related parties of current or former members of the Board of Directors or the Executive Board at non-market rates or conditions.

Report of the statutory auditor

Report of the statutory auditor

to the General Meeting of Starrag Group Holding AG

Rorschacherberg

We have audited the accompanying remuneration report of Starrag Group Holding AG for the year ended 31 December 2021. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained on page 60 (Table) and page 61 of the remuneration report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of Starrag Group Holding AG for the year ended 31 December 2021 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Oliver Kuntze	Oscar Maier
Audit expert Auditor in charge	Audit expert

St. Gallen, 3 March 2022

Financial Report

Financial commentary

Strong recovery in order intake, sales almost at previous year's level, strong improvement in EBITR, EBIT burdened by restructuring measures

- Order intake plus 97% to CHF 379 million, currency adjusted plus 96%
- Sales down 2% to CHF 293 million, currency adjusted also down 2%
- Order backlog increased by 47% to CHF 256 million
- Operating result EBIT at CHF -8.5 million vs. CHF 1.3 million in 2020, due to restructuring cost of CHF 1.3.3 million
- Net result CHF -5.4 million versus CHF -0.6 million in 2020
- Solid balance sheet with 56% equity ratio
- Consistent cost management and first effects of restructuring could significantly improve EBITR (EBIT before restructuring) from CHF 1.5 million in 2020 to CHF 4.8 million in 2021

CHF m	**2021**	2020	Change
Order intake	378.7	192.5	96.7%
Order backlog end of the year	255.8	173.7	47.3%
Sales revenue	292.6	297.1	-1.5%
Operating result EBIT	-8.5	1.3	-773.6%
Net result	-5.4	-0.6	789.4%
EBIT as percentage of sales revenue	-2.9%	0.4%	n/a
Cash flow from operating activities	16.4	11.0	49.0%
Capital expenditure in non-current assets	6.2	5.2	18.9%
Free cash flow	11.0	6.2	77.4%
Employees (full-time positions at the end of period)	1'316	1'356	-2.9%
Total assets	300.4	317.5	-5.4%
Net cash	17.6	6.6	168.8%
Shareholders' equity	168.3	175.5	-4.1%
Equity ratio	56.0%	55.3%	n/a
Return on equity ROE	-3.1%	-0.3%	n/a
Earnings per share (in CHF)	-1.61	-0.19	n/a
Profit distribution per share (in CHF) [1]	1.00 [2]	0.00	n/a

[1] Whereby be paid out 0.50 CHF tax-free from reserves from capital contributions and CHF 0.50 from retained earnings.
[2] Proposal of the Board of Directors to the Annual General Meeting on 23.04.2022.

The Starrag Group closed the 2021 financial year with an operating result of CHF -8.5 million and a net profit of CHF -5.4 million. The EBIT margin was 2.9% of sales revenue (previous year 0.4%). Before restructuring expenses of CHF 13.3 million, Starrag Group was able to achieve an EBITR margin of 1.6% on sales that were still below average. This is a consequence of the consistent cost opimisation and increase in process efficiency.

Order intake were significantly up 97% to CHF 379 million above the previous year. The order backlog of CHF 256 million shows a clear recovery and ensures basic capacity utilisation for 2022.

Due to the significant improvements in operational business and the positive expectations for the financial year 2022 the Board of Directors proposes at the Annual General Meeting on 23 April 2022 to distribute a dividend of CHF 1.00 per share.

Sales

At CHF 293 million, sales revenue was 2% (also minus 2% adjusted for currency effects) below the previous year (CHF 297 million). Due to the POC (Percentage of Completion) accounting method, the recovery in order intake of +97% has a smaller effect on sales and therefore increases the order backlog for the following year 2022.

Order intake almost doubled compared to previous year due to recovery of economic demand

In contrast to the previous year, the relevant key figures for 2021 were significantly better. Orders intake almost doubled by 97% to CHF 379 million (+96% adjusted for currency effects) and were thus back in line with previous years. The strong increase extended across all four customer industries. That applies primarily to the Aerospace sector, where new orders - after an actual slump in the aerospace sector, which is important for the Starrag Group, in the previous year – more than doubled thanks to the positive development of the space business. The fact that Starrag has used the last two years to respond to customer requirements with maximum flexibility and to strengthen competitive advantages has made a significant contribution to this. But the other three sectors, Industrial, Transportation and Energy, also made significant gains across the board. The new Heckert compact series with a wide range of applications is generating significant growth rates. The biggest increase was in Europe, followed by Asia and North America, where the sales structure has been renewed and the local service organisation has been geared to the stronger growth expected in the coming years.

The standard service share of order intake was CHF 71 million (previous year CHF 60 million) and is significantly above the previous year's figure of 2020. While the business with medium and small orders (< CHF 5 million) could grow by 51% to CHF 189 million in 2021, the pent-up investment demand for large projects (> CHF 5 million) shows an extraordinary increase from CHF 6 million in 2020 to CHF 119 million in 2021. This increase is mainly driven by aerospace investments. The recurring service business also shows a recovery and ends 18% better than in 2020 at CHF 71 million.

The starting position for 2022 is characterised by an increased order backlog at the end of the year, which stands at CHF 256 million. This has increased significantly compared to 2020, at CHF 82 million, and represents a 47% improvement. The recurring substantial service business will continue to contribute to a recovery of the order book in 2022. The book-to-bill ratio (order intake to sales) improved significantly to 1.29 compared to 0.65 in the previous year.

The operating result EBIT becomes negative due to restructuring measures

Gross profit (sales revenue minus cost of materials plus/minus change in inventory) amounted to

CHF 173 million and was CHF 13 million or 7.4% above the prior-year figure of CHF 160 million. At 59.0%, the gross profit margin was above the previous year's level of 53.8%. The improvements in project management stabilised the margin situation in a challenging environment.

Personnel expenses of CHF 118 million were at the same level as 2020, which was also CHF 118 million. The CHF 118 million in personnel costs were influenced by CHF 5.7 million in short-time work (CHF 6.9 million in 2020). Due to negotiations with the works councils at the Mönchengladbach and Bielefeld sites, short-time work had to be suspended at these sites from the second half of 2021 for legal reasons. As a result, additional savings of CHF 0.8 million could not be realised.

The headcount has been reduced by 40 FTE from 1'356 at the end of 2020 to 1'316 at the end of 2021. The company agreements in Mönchengladbach will lead to a further reduction of 96 employees in the first half of 2022. Severance costs are accrued for this in 2021.

General expenses amounted to CHF 43 million and were thus 26.1% higher than in the previous year, adjusted for currency effects. The increase in expenses is due to the recovery of the markets. Slightly higher travel expenses and changes in warranty provisions increased costs. Active cost management, which was pushed forward in 2020 and 2021, will continue to ensure close cost control in the future.

Restructuring costs weigh on the accounts

The implementation of the reduction of 150 jobs announced in mid-2021 to close production at the Mönchengladbach site and reduce the number of employees at the Bielefeld site has been completed for Mönchengladbach. Starrag Group was able to reach agreement with the works council on a reduction of 96 employees at the Mönchengladbach site. As part of these measures, CHF 10.7 million in provisions for personnel expenses, CHF 0.8 million in severance payments, CHF 0.6 million in expenses for legal and consulting costs, CHF 0.9 million in write-offs on inventory goods and CHF 0.3 million in accrued expenses and deferred income for the dismantling of production facilities for service were posted.

As a result, the operating result before interest and taxes (EBIT) fell by CHF 9.8 million to CHF -8.5 million (previous year CHF 1.3 million).

Investments in development at a high level

Expenditure for development remained at a high level. During the year under review, CHF 30.3 million or 10.4% of sales revenue was spent on developing innovative products and processes as well as on customer-specific further development, laying a solid foundation for the competitiveness of the products.

Net income negative due to restructuring negative

The financial result in 2021 improved by CHF 1.6 million compared to 2020 and amounted to CHF -0.1 million. The improvement is mainly due to an effect from currency gains in 2021, which could not be realised in this form in 2020.

Income taxes will have an effect of plus CHF 3.2 million in 2021 due to the posting of deferred taxes – primarily in the German companies.

As a result, net profit for the Group was minus CHF 5.4 million.

Balance sheet still sound

On 31 December 2020, the balance sheet total was CHF 300 million, down 5.4% compared to previous year .

The capital employed through construction contracts in progress decreased slightly from CHF 28 million to CHF 27 million, whereby CHF 56 million was shown under receivables (previous year CHF 60 million) and CHF 29 million under liabilities (previous year CHF 33 million). The capital commitment consists of order costs and recognised profits of CHF 242 million (previous year: CHF 309 million), less advance payments received in the amount of CHF 215 million (previous year: CHF 282 million). The level of financing of construction contracts in progress thus increased slightly from 91.1% to 89%.

Current assets decreased by 5.9% to CHF 216 million in the reporting year (previous year CHF 229 million). Improvements in incoming orders led to higher customer receivables, which rose from CHF 24 million to CHF 30 million.

Fixed assets decreased to CHF 85 million (previous year CHF 89 million). Investments in fixed assets amounted to CHF 6.2 million and are almost CHF 1 million higher than in 2020.

Liabilities decreased by 7.0% to CHF 132 million (previous year CHF 142 million). This decrease is mainly due to the reduction of bank liabilities, which were reduced by CHF 13 million to CHF 9 million.

Shareholders' equity remains at CHF 168 million and the equity ratio at the end of the reporting year improved to 56% (previous year 55%).

Intact free cash flow

The operating cash flow improves to CHF 16 million (previous year CHF 11 million) and is mainly driven by changes in net working capital. The cash outflow from investing activities is CHF 5 million and is at the previous year's level of 2020.

The significant increase in order intake enables an increase in free cash flow from CHF 6 million in 2021 to CHF 11 million in 2020.

Measure to cushion the Covid-19 impact

Various measures were implemented to ensure liquidity and profitability: The Group adjusted capacity, implemented cost saving programmes, increased focus on working capital reduction, concentrated on only essential investments and stabilised credit lines. The pandemic had no significant impact on the valuation of balance sheet items. Contributions from short-time working were shown as cost-reducing in the income statement.

Currency effects

The financial result for 2021 was reduced by CHF 1.2 million due to currency gains from machine transactions settled in USD with a term of more than 2 years.

The slump in the year-end exchange rate compared to the previous year led to negative currency translation effects in the balance sheet, which slightly reduced equity by 4%. The average exchange rate for the translation of the income statement and cash flow statement was 1.0935, slightly above the previous year (1.0813), while the year-end exchange rate for the translation of the balance sheet was significantly below the previous year (1.04525 compared to 1.09464).

The majority of Starrag Group's production and costs are incurred in the euro zone. This natural hedge stabilises the Group's currency fluctuations. In order to further reduce the economic currency risk and thus to maintain the competitiveness of the Swiss plants, Starrag Group relies on continuous productivity increases and cost reductions in the Swiss area in order to counteract the pressure of the continuing strong Swiss franc.

Additional definitions of performance indicators

The financial information in this Annual Report includes in addition certain performance indicators that are not defined by the Swiss GAAP FER. These are used by management to measure the performance of the company. They might deviate from similar measurement parameters used in other companies and are not to be considered as a replacement for the Swiss GAAP FER indicators.

Order intake
Order intake include all the orders that have been received during the reporting period, including products (new machines, modernisation, maintenance and repairs).

Order backlog
The order backlog include all orders that have not yet been completed, net after deduction of the revenue already recognised.

Currency-adjusted changes
To calculate the currency-adjusted changes, the corresponding key indicators are translated at the exchange rates of the comparative period.

Operating result before restructuring costs EBITR
The operating result before restructuring costs EBITR is calculated as follows:
+ Operating profit EBIT
– Restructuring costs

Restructuring costs
Restructuring costs include costs in conjunction with strategic restructuring.

EBITDA
The operating result before depreciation and amortisation of property, plant and equipment and intangible assets.

Free cash flow
The free cash flow is calculated as follows:
+ Cash flow from operating activities, net
+ Cash flow from investment activities, net

Net liquidity
The net liquidity is calculated as follows:
+ Liquid assets
– Current financial liabilities
– Non-current financial liabilities

Equity ratio
To calculate the equity ratio, the equity is divided by the total of the assets.

Return on equity ROE
To calculate the return on equity, the net profit is divided by the equity at the start of the reporting period.

Total shareholder return TSR
To calculate the total shareholder return, the share price at the start of the reporting period is subtracted from the share price at the end of the reporting period and added to the dividend distribution that has taken place in the reporting period. This interim result is divided by the share price at the start of the reporting period.

Consolidated income statement

CHF 1'000		2021 01.01. – 31.12.	2020 01.01. - 31.12.
Sales revenue	1	292’605	297'051
Other operating income	2	1’769	1'903
Change in inventory of finished and unfinished goods		-1’720	5'559
Cost of materials and components		-118’245	-142'716
Personnnel expenses	3	-118’465	-118'041
Restructuring exprenses	12	-13’290	-227
Other operating expenses	4	-42’849	-33'737
Earnings before interest, taxes, depreciation and amortization EBITDA		-195	9’792
Depreciation of tangible fixed assets		-7’135	-7’069
Depreciation of intangible assets		-1’157	-1’463
Operating result EBIT		**-8’487**	1’260
Financial result	5	-117	-1’712
Ordinary profit before taxes		**-8'604**	-452
Income tax expenses	16	3'223	-153
Net result		**-5'381**	-605
Thereof:			
‣ Shareholders of the company		-5'399	-634
‣ Minority shareholders		18	29
Earnings per share in CHF	6	-1.61	-0.19
Diluted earnings per share in CHF		-1.61	-0.19

The enclosed notes are part of the consolidated financial statements.

Consolidated balance sheet

	CHF 1'000	31.12.2021	31.12.2020
Cash and cash equivalents		29'799	32'506
Receivables from goods and services	7	84'963	82'479
Other receivables		6'960	4'647
Inventories	8	92'188	108'090
Prepaid expenses and accrued income		1'664	1'280
Total current assets		215'574	229'002
Tangible fixed assets	9	82'576	86'129
Intangible assets	10	2'257	2'412
Total non-current assets		84'833	88'541
Total assets		**300'407**	**317'543**

	CHF 1'000	31.12.2021	31.12.2020
Financial debts	11	9'983	23'456
Payables for goods and services		11'665	13'639
Other liabilities		15'766	10'788
Provisions	12	15'209	3'627
Accrued expenses and deferred income	13	68'987	73'893
Total current liabilities		121'610	125'403
Financial debts	11	2'210	2'500
Provisions	12	8'329	14'146
Total non-current liabilities		10’539	16'646
Total liabilities		**132'149**	**142'049**
Share capital		28'560	28'560
Additional paid-in capital		51'884	51'884
Retained earnings		87'770	95'017
Total shareholders' equity, shareholders of the company		168'214	175'461
Minority shareholders		44	33
Total shareholders' equity	14	**168'258**	**175'494**
Total liabilities and shareholders' equity		**300'407**	**317'543**

The enclosed notes are part of the consolidated financial statements.

Consolidated cash flow statement

CHF 1'000	**2021 01.01. – 31.12.**	2020 01.01. - 31.12.
Net result	-5'381	-605
Depreciation of tangible fixed assets	8'292	8'532
Change in non-current provisions	-5'721	-1'984
Other non-cash items	685	-2'345
Change		
‣ Receivables from goods and services	-5'042	29'229
‣ Inventories	13'741	-192
‣ Other receivables and deferred expenses	-2'679	1'667
‣ Payables from goods and services	-1'613	-9'307
‣ Other liabilities, accrued expenses and deferred income	14'104	-13'997
Cash flow from operating activities, net	**16'386**	**10'998**
Capital expenditure for:		
‣ Tangible fixed assets	-4'740	-3'677
‣ Intangible assets	-1'432	-1'513
Disposals of fixed assets	741	369
Cash flow from investing activities, net	**-5'431**	**-4'821**
Change in current financial liabilitites	-13'295	12'345
Repayment of non-current financial liabilities	-273	-250
Dividend payment	-5	-40
Cash flow from financing activities, net	**-13'573**	**12'055**
Currency translation	-90	-337
Net change in cash and cash equivalents	-2'707	17'895
Cash and cash equivalents at beginning of period	32'506	14'611
Cash and cash equivalents at end of period	**29'799**	**32'506**

The enclosed notes are part of the consolidated financial statements.

Consolidated statement of shareholders' equity

CHF 1'000	Share capital	Additional paid-in capital	Retained earnings Currency translation	Goodwill offset	Others Retained earnings	Total Retained earnings	Shareholders' equity shareholders of the company	Minority share-holders	Total Share-holders' equity
31.12.2019	**28'560**	**51'884**	**-737**	**-28'497**	**126'803**	**97'569**	**178'013**	**44**	**178'057**
Net income	-	-			-634	-634	-634	29	-605
Currrency translation	-	-	-1'982	64		-1'918	-1'918	-	-1'918
Dividend payment	-	-	-	-	-	-	-	-40	-40
31.12.2020	**28'560**	**51'884**	**-2'719**	**-28'433**	**126'169**	**95'017**	**175'461**	**33**	**175'494**
Net income	-	-			-5'399	-5'399	-5'399	18	-5'381
Currency translation	-	-	-2'900	1'052		-1'848	-1'848	-2	-1'850
Dividend payment	-	-	-	-	-	-	-	-5	-5
31.12.2021	**28'560**	**51'884**	**-5'619**	**-27'381**	**120'770**	**87'770**	**168'214**	**44**	**168'258**

The enclosed notes are part of the consolidated financial statements.

Notes to the consolidated financial statement

Machine tools for greater accuracy and productivity

The Starrag Group is a global technology leader in manufacturing high-precision machining tools for milling, turning, boring and grinding work pieces of metallic, composite and ceramic materials. Its customers include leading companies in the customer sectors of Aerospace, Energy, Transportation and Industrial. Its portfolio of machine tools in combination with wide-ranging technology and services enables customers to substantially enhance their quality and productivity.

The umbrella brand Starrag unites the product areas of Berthiez, Bumotec, Dörries, Droop+Rein, Ecospeed, Heckert, Scharmann, SIP, Starrag, TTL and WMW. Headquartered in Rorschach/Switzerland, the company Group operates production sites in Switzerland, Germany, France, the UK and India as well as sales and services companies in numerous other countries.

The shares of Starrag Group Holding AG are listed on the SIX Swiss Exchange.

As per 31 December and as per the end of the previous year, Starrag Group Holding AG held the following fully consolidated participations directly or significantly indirectly with a capital share of 100% (provided not otherwise specified):

- Starrag Group Holding GmbH, Chemnitz, Germany
- Starrag Group Holdings Ltd., Birmingham, UK
- Starrag AG, Rorschacherberg, Switzerland
- Starrag GmbH, Chemnitz, Germany
- Starrag SAS, Saint-Etienne, France
- Starrag Service Center GmbH & Co. KG, Ichtershausen, Germany (capital share 80%)
- Starrag Technology GmbH, Mönchengladbach, Germany
- Starrag Vuadens SA, Vuadens, Switzerland
- Toolroom Technology Limited, Haddenham, UK
- Starrag (Shanghai) Co. Ltd., Shanghai, China
- Starrag India Private Limited, Bangalore, India
- Starrag Italia Sri, Rivoli, Italy
- Starrag RU Ltd., Moscow, Russia
- Starrag UK Limited, Birmingham, UK
- Starrag USA Inc., Hebron USA
- Starrag Makina Ticaret ve Servis Ltd., Ankara, Turkey
- Starrag Mexico, S. de R.L. de C.V., San Pedro Garcia, Mexico

Capital management

The managed capital corresponds to the shareholders' equity shown in the consolidated balance sheet. The main goals of capital management are to ensure the necessary financial flexibility and to optimise the capital structure for reducing capital costs in order to create additional value for shareholders and other stakeholders.

The equity base is periodically reviewed and adjusted, taking into consideration economic conditions and loan agreements (see Note 11). In particular, the General Meeting of the shareholders passes resolutions each year on the appropriation of profits and thus the dividend payment.

Business performance is measured using an internal income statement. The results can then be classified and analysed in various different ways within this income statement. The primary control key figure is the earnings before interest and taxes (EBIT). Additionally, a balanced set of key figures is reported on a regular basis, which gives consideration to the areas of conflict of liquidity, growth and profitability.

Segment information

Internal reporting to the Board of Directors is carried out according to the existing operational business units. The business unit High Performance Systems is responsible for the product areas Starrag and Ecospeed. The business unit Horizontal Machining Systems processes the product areas Heckert, Scharmann/Ecoforce and WMW. The business unit Large Parts Machining Systems includes the product areas Dörries, Berthiez and Droop+Rein. The business unit Ultra Precision Machining Centres is responsible for the product areas Bumotec and SIP. A significant proportion of the employees are responsible for the central functions distributed among the locations and regions for all business units and brands.

Risk management

As a leading global manufacturer of precision machine tools, the Starrag Group is faced with various risks.

The most significant risks include:

- The weakening of the economic environment in customer markets as well as business cycles could lead to a reduction in demand,
- misjudgements of developments in customer markets or in the competitive environment could lead to missed business opportunities or losses,
- failure in research and development as well as other innovation-based activities could prevent business potential from being realised,
- a lack of availability of financial resources could have an impact on the performance and operating activity of the Starrag Group and
- natural events (such as fires) could impair operating activities.

The Board of Directors and the Executive Board give high priority to the careful handling of strategic, financial and operational risks. The Starrag Group has a holistic risk management process which is analysed every year by the Executive Board and the Board of Directors.

The following goals are pursued:

- systematically identifying special risks,
- establishing processes to monitor, reduce and ideally to prevent risks and
- finding the right balance between risks and opportunities.

The risk management system is based on a classic risk matrix involving the probability of occurrence and possible extent of damage (identification and classification) and includes internal instructions as well as a risk log, in which operational data as well as an action plan for risk management are documented. The Executive Board has designated an officer for implementing and moderating risk management, who reports directly to the CFO.

An annual risk review includes diligent identification, analysis and evaluation of risks and a definition of appropriate measures to reduce the risks. This information is documented in a group-wide risk matrix. The risk management officer monitors the implementation of the measures. In business processes with recurring risks, the resolved measures are integrated as process steps in the operative processes of the daily business. On an annual basis, the Executive Board reports on the nature, extent and assessment of significant risks and the measures taken for risk minimisation to the Board of Directors. Risks in accounting and financial reporting are monitored and reduced by a suitable internal control system.

Financial risk management

The main risks occurring from the group's financial instruments consist of risk of receivables default, counterparty risk, foreign currency risk, interest rate risk and liquidity risk.

Risk of receivables default

The risk of receivables default is limited by the number and the geographical spread of customer credit balances. In addition, it is limited by adequately examining the financial circumstances of customers before entering into a contract. In most transactions, customers make advance payments upon order confirmation. Delivery might only follow against prepayment or credit. The outstanding receivables are continuously monitored.

Counterparty risk

The Starrag Group mainly holds its liquid assets as deposits or current account deposits with major creditworthy banks. These deposits generally have a term of less than three months. Transactions with derivative financial instruments are also only concluded with major creditworthy banks.

Foreign currency risk

The Starrag Group does not engage in business operations in foreign currencies which show an unusual volatility. The foreign currency risk results mainly from sales and purchases which are not made in a functional currency. In the case of orders in foreign currencies, hedging transactions (forward exchange contracts and currency options) are sometimes deployed with major credit institutions as a counterparty in order to hedge foreign currency risks. Probable future orders will also be hedged in certain cases. Foreign currency risks arising from the conversion of income statement and balance sheet items of foreign group companies are not hedged.

Interest rate risk

Interest rate risk results primarily from variable interest rates for financial liabilities. In some cases, these interest rates are fixed through fixed advances and fixed interest rates in the short- or long-term.

Liquidity risk

The liquidity risk is limited by contractually agreed cash lines which cover the peak demand for operating resources. It is continuously monitored by liquidity status reports.

Management assumptions and estimates

Estimates and assumptions are continually evaluated and are based on experience values and other factors, including the expectation and assessment of future events that are believed to be reasonable under the prevailing circumstances. The resulting accounting estimates will by definition seldom comply with the actual subsequent outcome. The main sources of estimation uncertainties are:

Determination of net realisable values and profit shares in the case of construction contracts valued with percentage of completion

While preparing the financial statement, the Group continuously examines the valuation of various balance sheet items which are connected with the regular machine tool business. In this connection, assumptions must be made with regard to costs for completion and realisable market prices. Should situations occur which change original assumptions regarding realisable income, costs that are still necessary or work progress, these assumptions will be adjusted.

These adjustments may lead to adjustments affecting the net income of the balance sheet items concerned. The book value of the balance sheet items concerned is shown in Note 15 (Construction Contracts).

Provisions for warranty obligations and onerous contracts

In the ordinary course of business, the Group may be involved in legal disputes. Provisions for pending disputes are measured on the basis of available information based on a realistically expected cash outflow. The final outcome of such a dispute might require recognition of adjustments in provisions in the income statement (see Note 12).

Income taxes

The evaluation of current tax liabilities is subject to an interpretation of the tax laws in the respective countries, the suitability of which will be mostly assessed retrospectively for several financial years in the context of the final assessment and during tax audits by the tax authorities. Substantial adjustments in tax expenses may occur as a result (see Note 16).

Significant accounting principles

Principles of presentation

The consolidated financial statement of the Starrag Group has been prepared in accordance with the Guidelines of the Accounting Regulations (Swiss GAAP FER). In addition, the provisions of the Listing Rules of the SIX Swiss Exchange as well as Swiss accounting legislation have been complied with. This consolidated financial statement is based on historical costs, with the exception of liquid assets and derivative financial instruments, which are valued at market value. Reporting is in Swiss Francs (CHF). This financial statement includes estimates and assumptions that affect the reported figures and related disclosures. Actual results may differ from these estimates.

Principles of consolidation

The scope of consolidation comprises the annual annual statements of Starrag Group Holding AG and all directly or indirectly controlled subsidiaries. Assets and liabilities as well as income and expenses are fully included in the consolidated financial statement using the full consolidation method. All intra-group relationships (income and expenses, receivables and liabilities) as well as intercompany profits on intra-group transactions and inventories are eliminated.

Capital consolidation is based on the purchase method, i.e. the acquisition costs of an acquired company are offset against the net assets measured at fair value at the time of acquisition. Any resulting goodwill is offset directly with the retained earnings in shareholders' equity by purchase. In the Notes to the Financial Statement, the effects of a theoretical capitalisation and any value impairment are shown by applying a depreciation period of five years. In the event of a possible subsequent sale, the goodwill offset against shareholders' capital at the time of the acquisition is calculated in profit or loss against the proceeds of the sale. The earnings of acquired companies are included in the consolidated accounts as of the acquisition date.

Currency conversion

Foreign currency transactions are converted at the exchange rate of the transaction date. Outstanding foreign currency receivables and payables at balance sheet date are converted using the exchange rate of that date. The resulting exchange rate differences are recorded in the income statement. Non-monetary items are not revaluated at the balance sheet date. Assets and borrowed capital of foreign subsidiaries are converted to CHF using the exchange rates at the balance sheet date. Annual average exchange rates are applied to convert the income statements. Conversion differences arising from the consolidation of foreign currency financial statements are recorded directly in retained earnings.

Sales revenue and profit realisation

Sales revenue is recorded at the transition of benefit and risk. Sales revenue from construction contracts at fixed prices is reported including a profit share, depending on the percentage of completion (percentage of completion method). Percentage of completion is defined by the direct order costs excluding material costs. In the balance sheet, the order value after deduction of advance payments received is reported under receivables or accrued expenses and deferred income from construction contracts valued using the percentage of completion method.

Research and development
Research costs are charged to the income statement on a continuous basis. Development costs will only be capitalised to the extent that the amount to be capitalised is covered by corresponding expected income. Capitalised developments are reassessed annually with regard to impairment. All other research and development costs are charged to the income statement.

Income taxes
Income tax expense includes all income tax levied on the taxable profits of the group. For tax, in particular withholding tax levied on dividend payments of retained earnings (mainly of group companies), provisions are only set up if the distribution of such profits is probable. Provisions for deferred income taxes will be set up according to the liability method.

This takes into account the income tax effects of temporary differences between the intercompany and the tax-related assets and liabilities. Tax losses carried forward are only taken into account in the calculation of deferred income tax to the extent that it is probable that sufficient future taxable profit will be available to be set off against the tax loss carry forward.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, postal cheque and bank balances as well as sight and deposit money with an original term of less than 3 months. These are valued at market value.

Receivables
Receivables are balanced at their nominal value less necessary value adjustments. The value adjustment is determined on the basis of due dates and recognisable credit risks. Receivables include the value from construction contracts valued according to percentage of completion after deduction of received payments.

Inventories
Raw materials and supplies as well as trading goods are assessed at average purchase costs, manufactured products at average manufacturing costs. Discounts are recognised as purchase cost reductions. If the realisable net value is lower, valuation adjustments are made accordingly. Manufacturing costs include the direct costs of materials used, labour and operating costs as well as an appropriate portion of production and construction overhead costs. Obsolete and slow-moving items are adjusted appropriately. Inventories also include advance payments to suppliers.

Tangible fixed assets
Tangible fixed assets are carried at acquisition costs or manufacturing costs less depreciation required for business purposes. Depreciation of tangible fixed assets is calculated using the straight line method for the estimated useful lives of: buildings 20 to 50 years, technical equipment and machines 4 to 12 years, IT hardware and communication 3 to 8 years. Land is not depreciated.

All gains and losses resulting from the disposal of tangible fixed assets are recognised in the income statement. Expenditure for goods of low value are debited directly to operating expenses in the income statement.

Intangible assets

Goodwill resulting from the acquisition of a company is offset against retained earnings in shareholders' equity at the time of an acquisition. In the Notes to the Financial Statement, the effects of a theoretical capitalisation and any impairment of value are shown using a depreciation period of five years.

Other intangible assets are carried at acquisition or manufacturing costs less depreciation required for business purposes. These intangible assets are amortised on a straight-line basis over their estimated useful lives, which is 3 to 8 years for software and 5 to 10 years for development costs.

Provisions

Provisions are made if a legal or constructive obligation resulting from a past event exists at the key date, the use of resources for the settlement of such an obligation is probable and a reliable estimation of the amount of the obligation can be made. The amount of provisions depends on the expected use of funds needed to cover the obligation.

Employee benefits

The professional pension situation for the Starrag Group companies' personnel is governed by the legal regulations and practices of the respective country and is correspondingly different.

The pension situation of the companies located in Switzerland is governed by the provisions of the Swiss Federal Law on Occupational Benefits. The Swiss pension funds of the Starrag Group are foundations which are legally independent of the Starrag Group, and which have re-insured the pension plans (according to the contribution plans defined by law) with an insurance company in a congruent manner. The plans are financed by employer and employee contributions, which are periodically determined such that the insurance premiums due can be financed.

The German companies do not maintain any professional pension plans. Staff are insured with the national pension insurance scheme of Germany.

The economic obligations or benefits of Swiss pension plans are determined on the basis of the financial statement prepared in accordance with Swiss GAAP FER 26 “Accounting for Pension Funds” accounting standard. The economic impact of pension plans of foreign subsidiaries is determined according to the valuation methods applied locally. Employer contribution reserves and comparable items are capitalised in accordance with Swiss GAAP FER 16.

Financial instruments

Financial assets include liquid assets and receivables. Financial liabilities mainly include financial debts and operating liabilities. These are valued according to the “effective interest method” at discounted costs. In addition to the effective interest payments, interest expenses also include the annual compound interest and pro-rata transaction costs.

In order to be able to react to short-term foreign exchange fluctuations, derivative currency hedge instruments can be held. Financial instruments held for trading are recognised at market value. Changes in market value are included in the financial result.

The hedging of future cash flows (“cash flow hedges”), whose underlying transactions have not yet been recognised in the balance sheet, are disclosed in the Notes to the Financial Statement, if future cash flows will occur with high probability.

1. Sales revenue by production site

CHF 1'000	2021	2020
Switzerland	108'634	99'248
Germany	151'880	161'850
Other countries	32'091	35'953
Total	**292'605**	297'051

2. Other operating income

Other operating income includes in particular compensation payments from insurance companies, income from subleases, gains on the sale of fixed assets and government grants.

3. Personnel expenses

	CHF 1'000	2021	2020
Wages and salaries		95’124	93'185
Pension benefit expenses	17	2’679	2'643
Other social benefit expenses		17’367	17'701
Other personnel expenses		3’295	4'512
Total personnel expenses	12	**118’465**	118'041

Starrag Group did not make use of any government Corona subsidies in the extraordinary Corona pandemic year 2020 and 2021. By using the possibilities of short-time work, as well as by reducing time accounts and temporary employees, a significant cost block in personnel costs could be saved.

4. Other operating expenses

Other operating expenses include in particular travel expenses, sales expenses, administration expenses, vehicle and transport charges, expenses for premises, repair and maintenance of tangible fixed assets as well as other expenses.

5. Financial result

CHF 1'000	2021	2020
Interest income	90	70
Interest expenses	-589	-412
Currency result	1'275	-564
Other financial expenses	-893	-806
Total financial result	**-117**	-1'712

6. Information per share

Earnings per share are calculated from earnings after income taxes less share of minority interest based on the average number of shares outstanding (excluding treasury shares). In 2021, this number of shares was 3'360'000 (unchanged from previous year). Based on the net result attributable to the shareholders of the company of CHF -5.4 million (prior year CHF -0.6 million) earnings per share amount to CHF -1.61 (prior year CHF -0.19). As the company has not issued any stock options or convertible bonds, earnings per share were not diluted.

7. Receivables from goods and services

	CHF 1'000	**31.12.2021**	31.12.2020
Trade receivables from goods and services		28'787	22'356
Receivables from construction contracts	15	56'176	60'123
Total receivables		**84'963**	82'479
Thereof:			
‣ not due		76'748	73'565
‣ past due < 90 days		7'739	5'673
‣ past due ≥ 90 days		476	3'241

Receivables are stated net of value adjustments of CHF 0.9 million (prior year CHF 1.7 million).

8. Inventories

CHF 1'000	**31.12.2021**	31.12.2020
Raw materials and components	50'930	54'864
Work in progress	29'426	32'982
Finished products	7'540	9'248
Prepayments to suppliers	4'292	10'996
Total inventories	**92'188**	108'090

Inventories are stated net of value adjustments of CHF 44.6 million (prior year CHF 42.5 million).

9. Tangible fixed assets

	2021				2020			
CHF 1'000	Land and buildings	Machinery and equipment	Other tangible fixed assets	Total	Land and buildings	Machinery and equipment	Other tangible fixed assets	Total
Cost at beginning of year	113'167	49'794	14'028	176'989	113'854	53'134	12'955	179'943
Additions	650	2'822	1'215	4'687	165	1'393	1'872	3'430
Disposals	-	-8'885	-1'267	-10'152	-18	-4'289	-717	-5'024
Currency translation	-1'630	-907	-351	-2'888	-834	-444	-82	-1'360
Cost at year end	**112'187**	**42'824**	**13'625**	**168'636**	113'167	49'794	14'028	176'989
Accumulated depreciation at beginning of year	40'224	39'347	11'289	90'860	37'227	40'876	11'042	89'145
Depreciation	3'176	2'314	1'645	7'135	3'168	2'881	1'020	7'069
Disposals	-	-8'652	-1'377	-10'029	-18	-4'098	-694	-4'810
Currency translation	-961	-647	-298	-1'906	-153	-312	-79	-544
Accumulated depreciation at year end	**42'439**	**32'362**	**11'259**	**86'060**	40'224	39'347	11'289	90'860
Net carrying value at beginning of year	72'943	10'447	2'739	86'129	76'627	12'258	1'913	90'798
Net carrying value at year end	**69'748**	**10'462**	**2'366**	**82'576**	72'943	10'447	2'739	86'129

CHF 1'000	2021 Land and buildings	2021 Machinery and equipment	2021 Other tangible fixed assets	2021 Total	2020 Land and buildings	2020 Machinery and equipment	2020 Other tangible fixed assets	2020 Total
Fire insurance value at year end	184'173		111'412	295'585	188'953		121'966	310'919

	Land area m²	Floor area m²	Production area m²	Year of manu-facture	Year of acquisition	Acquisi-tion value	Net book value	Insurance value
Rorschacherberg	50'000	25'000	8'390	1925–2007	1925–2007	29.3	14.5	47.9
Vuadens	33'000	18'000	10'860	2016	2016	38.1	35.3	27.7
Bielefeld	22'000	11'000	7'585	1999/2009	2011	10.0	4.7	17.1
Chemnitz	85'000	46'000	26'400	1967–1973	1998	14.00	4.5	41.8
Mönchengladbach	28'000	21'000	15'680	1884–1998	2011	13.7	7.0	46.0
Ichtershausen*	2'385	1'050	720	1996	n/a	n/a	n/a	n/a
St. Etienne*	10'000	8'000	7'890	n/a	n/a	n/a	n/a	n/a
Haddenham*	1'100	750	500	n/a	n/a	n/a	n/a	n/a
Bangalore	32'000	11'000	1'700	2013	2013	6.2	5.1	6.2

* Rental property

These figures are unaudited values.

10. Intangible assets

CHF 1'000	2021 Software	2021 Development cost	2021 Total	2020 Software	2020 Development cost	2020 Total
Cost at beginning of year	14'340	9'676	24'016	12'929	10'810	23'739
Additions	1'359	73	1'432	1'513	-	1'513
Disposals	-733	-	-733	-84	-1'115	-1'199
Currency translation	-342	-143	-485	-18	-19	-37
Cost at year end	**14'624**	**9'606**	**24'230**	14'340	9'676	24'016
Accumulated amortization at beginning of year	11'928	9'676	21'604	10'893	10'420	21'313
Depreciation	1'156	1	1’157	1'118	345	1'463
Disposals	-337	-	-337	-63	-1'072	-1'135
Currency translation	-309	-142	-451	-20	-17	-37
Accumulated depreciation at year end	**12'438**	**9'535**	**21'973**	11'928	9'676	21'604
Net carrying value at beginnig of year	2'412	-	2'412	2'036	390	2'426
Net carrying value at year end	**2'186**	**71**	**2'257**	2'412	-	2'412

11. Financial liabilities

CHF 1'000	**31.12.2021**	31.12.2020
Current financial liabilities	9'983	23'456
Non-current financial liabilities	2'210	2'500
Total financial liabilities	**12'193**	25'956
Thereof in:		
‣ EUR	12'193	25'956
‣ CHF	0	0
Average interest rate	0.8%	0.8%
Unused short-term cash credit line	86'295	76'507

Credit agreements contain partly financial covenants and other conditions under which banks are able to terminate financial liabilities which are recorded as non-current at short notice. These financial covenants are based on key figures, resulting from EBITDA, net equity and net debt. The financial covenants were complied with in 2021 and 2020.

12. Provisions

	2021				2020			
CHF 1'000	Deferred income taxes	Warranty	Other provisions	Total	Deferred income taxes	Warranty	Other provisions	Total
Carrying value at beginning of year	11'363	6'410	-	17'773	13'666	8'865	-	22'531
Addition	656	6'849	11'238	18'743	4'719	4'152	-	8'871
Utilization	-6'113	-5'859	-	-11'972	-7'010	-6'580	-	-13'590
Release		-262	-	-262	-	-	-	-
Currency translation	15	-263	-496	744	-12	-27	-	-39
Carrying value at year end	**5'921**	**6'875**	**10'742**	**23'538**	11'363	6'410	-	17'773
Thereof:								
‣ current	-	4'467	10'742	15'209	-	3'627	-	3'627
‣ non-current	5'921	2'408	-	8'329	11'363	2'783	-	14'146

The provisions for deferred income taxes include a claim for unused tax loss carryforwards of CHF 12.6 million (previous year CHF 8.6 million), which does not expire.

In addition to CHF 10.7 million in other provisions for personnel cost from restructuring, employees in the amount of CHF 0.8 million have already been compensated in the period 2021. In addition, expenses of CHF 0.6 million for legal and consulting fees, CHF 0.9 million for depreciation on inventory and CHF 0.3 million in accrued expenses and deferred income for the dismantling of production facilities for service were posted. Total expenses (provisions + expenses) for restructuring amount to CH 13.3 million (previous year CHF 0.2 million).

13. Accrued expenses and deferred income

CHF 1'000	**31.12.2021**	31.12.2020
Accrued costs for customer orders	12'932	10'490
Liabilities from construction contracts	29'116	32'570
Personnel expenses	10'899	11'450
Commissions	711	739
Current income taxes	5'323	5'522
Other	10'006	13'122
Total accrued expenses and deferred income	**68'987**	73'893

14. Shareholders' equity

The share capital of CHF 28.6 million consists of 3’360’000 registered shares with the nominal value of CHF 8.50 each. The company has no outstanding conditional capital and there is no authorised capital (previous year: no conditional capital/no authoised capital).

As at 31 December 2021, non-distributable reserves amounted to CHF 5.7 million, unchanged from the previous year.

Goodwill resulting from the acquisition of a company is offset against retained earnings in shareholders' equity at the time of an acquisition.

15. Construction contracts

CHF 1'000	**2021**	2020
Revenue from construction contracts valued using the Percentage of completion method	202'136	215'248

CHF 1'000		**31.12.2021**	31.12.2020
Contract costs incurred and recognized profit share		241'777	309'340
Advance payments received		-214'717	-281'787
Net carrying value		**27'060**	27'553
Thereof:			
‣ Receivables from goods and services	7	56'176	60'123
‣ Accrued expenses and deferred income	13	-29'116	-32'570

16. Income tax expenses

CHF 1'000	2021	2020
Ordinary income before taxes	-8'604	-452
Expected tax rate	14.4%	14.5%
Expected income tax expenses	-1'239	-66
Debits/credits from prior reporting period	176	97
Non-deductable expenses/non-taxable income	-4'176	122
Non-capitalised tax loss carry forwards	-1'174	3'230
Effects from the application of different tax rates	-5'162	-3'230
Income tax expenses	**3'223**	-153
Thereof:		
‣ Current income tax expenses	-2'506	-2'411
‣ Deferred income tax expenses	5'729	2'258

The applicable tax rate of the municipatlity of Rorschacherberg SG, domicile of Starrag Group Holding AG, was used for the calculation of the expected income tax expense. Due do the volatility of the results of the various Group companies, the Group considers the tax rate of 14.4% (previous year 14.5%) to be appropiate.

The Starrag Group has unexpired loss carryforwards of CHF 52.9 million, of which CHF 12.6 million has been recognized.

The claims for unused tax loss carry for forwards have developed as follows:

CHF 1'000		2021	2020
Opening balance		8'583	8'754
Addition of loss carry forwards		4'282	6'951
Used loss carry forwards		-	-115
Used non-capitalised loss carry forwards		-	-207
There of not activated		-275	-6'800
Capitalised loss carry forwards	**12**	**12'589**	8'583

In Switzerland and India, the loss carry forwards expire after 7 years at the latest.

There are unrecognised claims for unused tax losses carried forward of CHF 2.0 million (previous year CHF 2.4 million). Of this, CHF 1.7 million (previous year CHF 1.6 million) will expire within one to three years, CHF 0.3 million (previous year CHF 0.7 million) within four to seven years. No loss carryfowards expire after morre than seven years (previous year CHF 0.1 million).

The average applicable tax rate in relation to the ordinary result, calculated using absolute values excluding the holding company, is 29.1% (previous year 25.4%).

17. Pension benefits

CHF 1'000	2021 Patronage funds	2021 Employee benefit plans without surplus/deficit	2021 Employee benefit plans with surplus	2021 Total	2020 Patronage funds	2020 Employee benefit plans without surplus/deficit	2020 Employee benefit plans with surplus	2020 Total
Surplus/deficit pension benefit plan at end of year	1'660	-	8'902	**10'562**	1'447	-	7'461	8'908
Economic benefit at end of year	-	-	-	**-**	-	-	-	-
Change in economic benefit	-	-	-	**-**	-	-	-	-
Accrued contributions	-	411	2'268	**2'679**	-	308	2'335	2'643
Pension benefit expenses	-	411	2'268	**2'679**	-	308	2'335	2'643

There are no employer contribution reserves.

18. Pledged assets

CHF 1'000	**31.12.2021**	31.12.2020
To ensure financial debts in the amount of the following land and buildings are mortgaged:	2'127	2'470
‣ Net carrying value	4'700	5'395
‣ Charge	4'700	5'395

19. Derivative financial instruments

CHF 1'000	**31.12.2021**	31.12.2020
Forward currency exchange contracts: Contract value	**34'267**	3'607
Replacement value:		
‣ positive	25	59
‣ negative	-113	-12
Options: Contract value	**0**	12'551
Replacement value:		
‣ positive	0	294
‣ negative	0	0

20. Operating lease liabilities

CHF 1'000	**31.12.2021**	31.12.2020
‣ Due within 1 year	1'835	2'008
‣ Due within 2 to 5 years	1'166	1'518
‣ Due after 5 years	52	201
Total operating lease liabilities	**3'053**	3'727

The lease contracts are for premises, cars and IT equipment.

21. Other unrecognised obligations

The Starrag Group is occasionally confronted with claims for damages, which are to be regarded as a normal side effect of ordinary business activities. These mainly relate to warranties, property and financial damages as well as product liability. Provisions and sureties exist for these claims, which the Starrag Group assumes will cover all foreseeable risks.

22. Exchange rates

	2021	2020
Average rates (for income statement and cash flow statement)		
1 EUR	1.0935	1.0813
1 USD	0.9230	0.9501
1 GBP	1.2698	1.2179
1 CNY	0.1431	0.1375

	31.12.2021	31.12.2020
Year end rates (for balance sheet)		
1 EUR	1.0453	1.0946
1 USD	0.9233	0.8908
1 GBP	1.2469	1.2130
1 CNY	0.1449	0.1364

23. Events after the balance sheet date

The consolidated financial statement was approved and released for publication by the Board of Directors on 3 March 2021. It is also subject to approval by the Annual General Meeting of the shareholders scheduled for 23 April 2021.

Report of the statutory auditor

Report of the statutory auditor

to the General Meeting of Starrag Group Holding AG

Rorschacherberg

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Starrag Group Holding AG and its subsidiaries (the Group), which comprise the consolidated income for the year ended 31 December 2021, the consolidated balance sheet as at 31 December 2020, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 70 to 88) give a true and fair view of the consolidated financial position of the Group as at 31 December 2021 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 1'400'000

We concluded full scope audit work at six reporting units in two countries. Our audit scope addressed over 74% of the Group's revenue.

As key audit matter the following area of focus has been identified:

Accounting construction contracts

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 1'400'000
Benchmark applied	sales revenue
Rationale for the materiality benchmark applied	We chose sales revenue as the benchmark for determining materiality. This benchmark takes into account the volatility of the business environment and it is a generally accepted benchmark for materiality considerations.

We agreed with the Board of Directors that we would report to them misstatements above CHF 140'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The audit strategy for the audit of the consolidated financial statements was determined taking into account the work performed by the component auditors in the PwC network. As Group auditor, we performed the audit of the consolidation and the disclosures and the presentation of the consolidated financial statements. Where audits were performed by component auditors, we ensured that, as Group auditor, we were adequately involved in the audit in order to assess whether sufficient appropriate audit evidence was obtained from the work of the component auditors to provide a basis for our opinion. Our involvement comprised the inspection of the reporting, taking part in telephone calls with the component auditors during the interim audit and the year-end audit, communicating the risks identified at Group level, specifying the audit procedures relating to the recognition and measurement of term construction contracts and specifying the materiality levels to be applied.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting construction contracts

Key audit matter	How our audit addressed the key audit matter
Starrag Group has construction contracts, which it recognises and measures using the percentage-of-completion (PoC) method in accordance with Swiss GAAP FER 22 – Long-term contracts. The degree of completion is determined on the basis of the direct contract costs excluding costs of materials. Management has to estimate the progress of projects as of the balance sheet date and the costs to be incurred in the future until their completion. An incorrect estimate could have a significant impact on the result for the period (Receivables from construction contracts in progress CHF 56.2 m and liabilities from construction contracts in progress CHF 29.1 m, see note 15). Please refer to page 77 (Management assumptions and estimates), page 78 (Key accounting principles – Sales revenue and profit realisation) and page 85 (Other notes – Percentage-of-completion-valued construction contracts) in the notes to the consolidated financial statements.	Our audit procedures regarding the recognition and measurement of construction contracts using the percentage-of-completion (PoC) method comprised in particular the following: • We assessed the design and the existence of the key controls regarding the production orders and tested the effectiveness of selected controls. • We selected various production orders (sample testing based on the contract volumes, the contribution margin and the age of the order) and focussed our testing on the following, in par-ticular: - We assessed the contract related calculations to determine whether the contractual terms – including sale proceeds and penalties for non-performance – had been recorded appropriately. - We discussed with the project controllers and project managers the progress of the projects based on the latest project accounts, the costs still to be incurred until their completion and changes in the margin. - We obtained written information from the legal representatives of the Group. We inspected this written information with regard to indications of potential quality deficiencies or penalties for non-performance and assessed whether these matters were presented appropriately in the consolidated financial statements. • During the audit, we inspected various machines under construction and assessed the progress of the projects. • For the production orders completed during the year under review, we compared various final parameters with the estimates made in the planning phase or those as of the previous balance sheet date in order to assess, with hindsight, the accuracy of the estimates made by Management. • We checked the arithmetical correctness of the key assessments relating to the progress of projects, costs to be incurred in the future and sales revenue. • We checked whether the disclosures in the consolidated financial statements were made in accordance with Swiss GAAP FER 22 – Long-term contracts. The results of our audit support the recognition and measurement of construction contracts and their disclosure in the 2021 consolidated financial statements.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Oliver Kuntze	Oscar Maier
Audit expert Auditor in charge	Audit expert

St. Gallen, 3 March 2022

Income statement

CHF 1'000	**2021 01.01. – 31.12.**	2020 01.01. - 31.12.
Other operating income:		
‣ Income from investments	-	1'565
Financial income	3'040	3'007
Total revenue	**3'040**	4'572
Fees	-433	-36
Other operating expenses	-479	-242
Depreciation and value adjustments of fixed assets	-431	-431
Financial expenses	-3'294	-195
Income tax expenses	-120	-316
Net income	**-1'718**	3'351

Balance sheet

CHF 1'000		31.12.2021	31.12.2020
Cash and cash equivalents		1'380	14
Other receivables:			
‣ from group companies		10'160	10'410
‣ from third parties		4	4
Prepaid expenses		94	24
Total current assets		**11'638**	10'452
Financial assets:			
‣ Loans to group companies		65'692	70'621
Investments	7	144'174	144'174
Total fixed assets		**209'865**	214'795
Total assets		**221'503**	225'246

CHF 1'000		31.12.2021	31.12.2020
Other liabilities:			
‣ to group companies		21'426	23'545
‣ to third parties		472	34
Accrued expenses and deferred income		116	460
Total current liabilities		**22'014**	24'038
Total liabilities		**22'014**	24'038
Share capital	8	28'560	28'560
Legal capital reserves:			
‣ Capital contribution reserves	12	51'121	51'121
‣ Other legal capital reserves		1'222	1'222
Voluntary retained earnings			
‣ Retained earnings		120'305	116'954
‣ Net income		-1'718	3'351
Total shareholders' equity		**199'490**	201'208
Total liabilities and shareholders' equity		**221'503**	225'246

Notes to the financial statement

Key accounting principles

1. Principles of presentation

The financial statement of Starrag Group Holding AG, Rorschacherberg was prepared in accordance with the provisions of the Swiss Law on Commercial Accounting defined by the Swiss Code of Obligations.

The company prepares a consolidated financial statement in accordance with the Swiss GAAP FER accounting standards. Correspondingly, the company does not prepare any additional Notes to the Financial Statement, a management report or a cash flow statement.

The main balance sheet items are accounted for as explained below.

2. Other current receivables and liabilities

Other current receivables and liabilities are carried at their nominal value. Individual value adjustments on other current receivables are recognised taking into account the maturity structure and identifiable credit risks. For the remainder, general value adjustments are created at the discretion of the Board of Directors as permitted by tax legislation.

3. Financial assets

The financial assets include long-term loans to Group companies. Loans granted in foreign currency are valued at the current year-end exchange rate, whereby unrealised losses are recognised but unrealised gains are not recognised.

4. Shareholdings

Shareholdings are reported in the balance sheet at the cost of acquisition less appropriate value adjustments for impairments that are anticipated to be permanent.

5. Currency conversion

Transactions in foreign currencies are converted into Swiss Francs at the exchange rate valid at the time of the transaction. Pursuant to the imparity principle, assets and liabilities in foreign currencies are converted into Swiss Francs at the year-end rate.

Supplementary information and explanations on the financial statement

6. Full-time employees

The company does not have any employees.

7. Shareholdings

On 31 December 2021 and as per the end of the prior year, the company held the following direct or significantly indirect shareholdings with an equity share and percentage of voting rights of 100% each (unless otherwise indicated):

- Starrag Group Holding GmbH, Chemnitz, Germany (share capital 4.5 Mio. EUR)
- Starrag Group Holdings Ltd., Birmingham, UK (share capital 0.1 Mio. GBP)
- Starrag AG, Rorschacherberg, Switzerland (share capital 10 Mio. CHF)
- Starrag GmbH, Chemnitz, Germany (share capital 5.1 Mio. EUR)
- Starrag SAS, Saint Etienne, France (share capital 1.3 Mio. EUR)
- Starrag Service Center GmbH & Co. KG, Ichtershausen, Germany (share capital 0.1 Mio. EUR) (share capital 80%)
- Starrag Technology GmbH, Mönchengladbach, Germany (share capital 22 Mio. EUR)
- Starrag Vuadens SA, Vuadens, Switzerland (share capital 0.5 Mio. CHF)
- Toolroom Technology Limited, Haddenham, UK (share capital 0.02 Mio. GBP)
- Starrag (Shanghai) Co. Ltd., Shanghai, China (share capital 1.5 Mio. CNY))
- Starrag India Private Limited, Bangalore, India (share capital 848 Mio. INR)
- Starrag Italia Srl, Rivoli, Italy (share capital 0.01 Mio. EUR)
- Starrag RU Ltd., Moskau, Russia (share capital 2 Mio. RUB)
- Starrag UK Limited, Birmingham, UK (share capital 1 Mio. GBP)
- Starrag USA Inc., Hebron, USA (share capital 0.03 Mio. USD)
- Starrag Makina Ticaret ve Servis Ltd., Ankara, Turkey (share capital 5 TTRY)
- Starrag Mexico, S. de R.L. de C.V., San Pedro Garcia, Mexico (share capital 3 TMXN)

8. Share capital

The share capital of CHF 28.6 million consists of 3'360'000 registered shares with the nominal value of CHF 8.50 each.

9. Major shareholders

The following major shareholders hold more than three per cent of the voting rights:

	31.12.2021	31.12.2020
Walter Fust, Freienbach, Switzerland	53.87%	55.20%
Eduard Stürm AG, Goldach, Switzerland	9.26%	9.26%
Max Rössler / Parmino Holding AG, Goldach, Switzerland	8.01%	7.98%

10. Compensations

Compensations to the Board of Directors and to the Executive Board are disclosed in the compensation report from page 76 of the annual report.

11. Participations of the Board of Directors and Executive Board

Number of shares	**31.12.2021**	31.12.2020
Prof. Dr. Christian Belz, Member	2'800	2'800
Walter Fust, Vice-President	1'810'147	1'854'703
Adrian Stürm, Member	27'150	27'150
Alexander Attenberger, Head Sales	230	230
Dr. Bernhard Bringmann, Head BU High Performance Systems	121	121
Günther Eller, Head Customer Service	200	200

12. Capital contribution reserves

The reported legal capital contribution reserves at 31 December 2021 amounted to CHF 51.1 million (prior year CHF 51.1 million), of which CHF 47.9 million (prior year CHF 47.9 million) were recognized by the Swiss Federal Tax Administration within the meaning of Article 20 (3) of the Federal Income Tax Act and Article 5 (1) of the Federal Withholding Tax Act.

13. Securities for the benefit of Group companies

The total amount of securities furnished for third-party liabilities amounts to CHF 277.8 million (prior year CHF 322.6 million).

14. Contingent liabilities

The company is part of the VAT group of Starrag AG and thus jointly liable for VAT debts of the whole group to the Swiss Federal Tax Administration.

Appropriation of retained earnings

Proposal of the Board of Directors for the appropriation of retained earnings

CHF 1'000	**2021**	2020
Retained earnings	120'305	116'954
Net income	-1'718	3'351
Retained earnings	**118'587**	120'305
Dividend CHF 0.50 (50%)	-1'680	-
To be carried forward	**116'907**	120'305

Proposal of the Board of Directors for the appropriation of legal capital contribution reserves

CHF 1'000	**2021**	2020
Available capital contribution reserves	**51'121**	51'121
Withholding tax free distribution CHF 0.50 per registered share (50%)	-1'680	-
To be carried forward	**49'441**	51'121

The Board of Directors proposes to pay out to the Annual General Meeting of 23 April 2022 a dividend of CHF 1.00 CHF, 0.50 CHF tax-free from reserves from capital contributions and CHF 0.50 from retained earnings Due to the newly applicable tax law, no more than 50% of the dividend may be paid from be distributed from tax-advantaged reserves from capital contributions.

Report of the statutory auditor

Report of the statutory auditor
to the General Meeting of Starrag Group Holding AG

Rorschacherberg

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Starrag Group Holding AG, which comprise the income statement for the year ended 31 December 2021, the balance sheet as at 31 December 2021 and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 93 to 98) as at 31 December 2021 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 1'100'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

Impairment testing of investments in subsidiaries

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 1'100'000
Benchmark applied	total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is a relevant bechmark for holding company, and it is a generally accepted benchmark for holding companies.

We agreed with the Board of Directors that we would report to them misstatements above CHF 110'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment testing of investments in subsidiaries

Key audit matter	How our audit addressed the key audit matter
Investments in subsidiaries is a significant asset category on the balance sheet (CHF 144.2 million). Impairment testing of investments whose book value is greater than the book value of the underlying net assets requires Management to consider capitalised earnings. Doing so involves significant scope for judgement, particularly to determine the assumptions to use concerning future business results. In identifying the potential need for impairment of investments in subsidiaries, Management uses a predefined impairment testing process. Please refer to page 95 and 96 (Investments) of the notes to the financial statements.	In our audit of investments in subsidiaries, we performed the following main audit procedures: • We compared the book value of the investments in the year under review with their pro-rata share of the respective company's equity or the company's valuation, based on capitalised earnings. • We checked for plausibility the key assumptions applied by Management (revenue, margin growth and discount rate). We consider the valuation process and the assumptions used to be an appropriate and adequate basis for the impairment testing of the goodwill as at 31 December 2021.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings and reserves complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Oliver Kuntze	Oscar Maier
Audit expert Auditor in charge	Audit expert

St. Gallen, 3 March 2022

Five-year overview

CHF 1'000	**2021**	2020	2019	2018	2017
			FER [1]		
Order intake	378.7	192.5	343.2	461.0	349.3
Order backlog at year end	255.8	173.7	284.3	365.9	301.7
Sales revenue	292.6	297.1	418.1	388.8	405.3
Operating result before deprecation and amortization EBITDA	-0.2	9.8	16.8	22.2	26.1
Operating result EBIT	-8.5	1.3	4.8	11.1	15.3
Net result	-5.4	-0.6	6.9	8.4	12.1
EBITDA as % of sales revenue	-0.1%	3.3%	4.0%	5.7%	6.4%
EBIT as % of sales revenue	-2.9%	0.4%	1.1%	2.9%	3.8%
Cash flow from operating activities	16.4	11.0	10.5	26.9	13.1
Capital expenditure in non-current assets	6.2	5.2	5.1	7.3	11.7
Free cash flow	11.0	6.2	8.3	19.7	3.9
Employees (full-time positions at the end of period)	1'316	1'356	1'492	1'511	1'504
Total assets	300.4	317.5	334.6	369.7	335.3
Capital Employed	159.0	183.1	193.5	205.0	221.9
Return on capital employed ROCE	-3.5%	0.5%	1.8%	5.7%	-20.7
Net cash	17.6	6.6	0.6	-5.3	-20.7
Shareholders' equity	168.3	175.5	178.1	176.6	177.3
Equity ratio	56.0%	55.3%	53.2%	47.8%	52.9%
Return on equity ROE	-3.1%	-0.3%	3.9%	4.7%	7.5%
Earnings per share (in CHF)	-1.61	-0.19	2.02	2.49	3.58
Share price at year end (in CHF)	46.60	39.20	46.20	43.00	65.35
Profit distribution per share (in CHF)	1.00 [2]	0.00 [3]	0.00	1.00	1.50
Total shareholder return TSR	18.9%	-13.0%	9.8%	-31.9%	26.4%

[1] Since 2017, the finacial statements of Starrag Group have been prepared in accordance with the Swiss GAAP FER accounting standards.
[2] Proposal of the Board of Directors to the Annual General Meeting on 23.04.2022.
[3] In accordance with the resolution of the General Meeting of 23.04.2021, no dividend was distributed.

Financial calendar

23 April 2022	Annual General Meeting
28 July 2022	Half year report 2022
27 January 2023	Sales and orders 2022
10 March 2023	Annual report 2022, analysts and media conference
21 April 2023	Annual General Meeting

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This annual report is also available in German. In case of any discrepancy between the two versions, the German text shall prevail. The annual report may also be viewed online on our website: www.starrag.com

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