Half-year report
2019

Increased sales – Lower order intake – Order backlog for over one year – Improved operating margin – Net income affected by restructuring costs

- Sales up 12% to CHF 214 million
- Order intake of CHF 173 million, down 0.7% year-on-year, down 21% compared to prior-year period
- Order backlog of CHF 321 million secures basic capacity utilisation for over one year
- Operating margin before restructuring costs of 4.1%, prior-year period 3.5%
- Net income 3.4 million CHF, down 21%
- "Programme 2021" for a sustained increase in profitability

CHF m	**2019** 01.01. – 30.06.	**2018** 01.01. – 30.06.	Change
Order intake	172.7	216.3	-20.2%
Sales revenue	214.5	192.3	11.5%
Operating result before restructuring costs EBITR	8.8	6.7	31.0%
Operating result EBIT	0.9	6.6	-85.7%
Net income	3.4	4.3	-20.8%
EBITR as percentage of sales revenue	4.1%	3.5%	17.4%
Return on equity ROE	3.9%	4.8%	na.
Return on capital employed ROCE	0.7%	4.4%	na.
Cash flow from operating activities	8.2	1.7	374.4%
Capital expenditure in non-current assets	3.0	3.9	-21.8%
Free cash flow	5.2	-2.1	na.
Earnings per share (in CHF)	1.01	1.28	-21.1%
Employees (average full-time equivalents)	1'515	1'511	0.3%

CHF m	**30.06.2019**	31.12.2018	Change
Order backlog	321.2	365.9	-12.2%
Total assets	364.2	369.7	-1.5%
Capital employed	196.1	205.0	-4.4%
Net debt	2.9	5.3	-45.5%
Shareholders' equity	176.4	176.6	-0.2%
Equity ratio	48.4%	47.8%	na.

Dear shareholders

Encouraging increase in sales

Sales in the first half of 2019 of CHF 214 million exceeded the previous year's figure by an encouraging 12% (currency-adjusted +13%). This reflects the prior year's high order intake and in part the effects of various measures to optimise project management, after delays in order processing led to a decline in sales in 2018.

Order intake normalised

Starrag Group's order intake must always be assessed in the light of the longer-term nature of its capital equipment business. Individual periods, such as the first half of 2018, may be significantly affected by the timing or booking of large orders. Accordingly, as already announced in spring, a normalisation was to be expected for the current year. At CHF 173 million, order intake in the reporting period was around 20% below the corresponding figure for the prior year (minus 18% adjusted for currency effects). On an annual basis (July 2018 to June 2019), on the other hand, the figure remained virtually unchanged (minus 0.7%).

By region and target industry

The decline in new orders mainly affected the Asian market and, to a lesser extent, Europe, while the order intake in North America remained virtually unchanged.

In terms of customer segments, Aerospace recorded the largest decline, albeit after a very good prior year. New orders also declined in the Transportation segment, with the prior year characterised by various major projects. In the Industrial customer segment, the prior year's figure was almost maintained thanks to the classic industrial sector, with the luxury segment declining after a strong prior year. Energy improved slightly but still at a low level.

Continued high order backlog

As at the end of June 2019, the Starrag Group's order backlog for new machinery stood at CHF 321, remaining virtually unchanged year-on-year (CHF 322 million). Compared with the end of 2018, the backlog was 12% lower, with the 2018 financial year ending with the historically highest figure. This order backlog continues to ensure a base capacity utilisation for one year. It should be noted that the new machine business always entails substantial additional services for customers.

Earnings situation affected by restructuring costs

Thanks to the increase in sales, operating earnings before restructuring costs (EBITR) rose to CHF 8.8 million or 4.1 per cent of sales (prior year CHF 6.7 million or 3.5%). The implementation of the 150 job cuts announced in April 2019 at the Mönchengladbach site is proceeding according to plan. CHF 7.9 million was charged to the income statement for restructuring costs in the period under review.

The corporate tax reforms adopted in various cantons in the first half of 2019 had a positive impact. In accordance with the Swiss GAAP FER accounting standard, these resulted in the release of tax provisions, which led to a one-time reduction of CHF 2.3 million in income tax expenses. Net profit thus fell slightly to CHF 3.4 million. Earnings per share declined accordingly from CHF 1.28 to CHF 1.01.

Balance sheet remains healthy

At CHF 364 million, total assets as at 30 June 2019 was CHF 6 million lower than at the end of 2018. At CHF 176 million, equity remained virtually unchanged compared to the end of 2018. Accordingly, the equity ratio increased slightly by 0.6 percentage points to 48.4%. Net debt was reduced significantly year-on-year to CHF 2.9 million. As a result, the Starrag Group continues to have above-average financial flexibility.

"Starrag 2021" programme for a sustained increase in profitability

The currently clearly unsatisfactory earnings situation notwithstanding, we are on the right path with our strategic action programme, as shown by the progress made so far. It is based on three pillars. A first focus is on innovation with the claim to be a leader in application competence. Our proprietary Integrated Production System has put the Group well on the way to Industry 4.0. Our ambition is to develop the next generation of machine tools and associated automation concepts.

Secondly, it is about expanding our geographical presence. Our focus is on the US and China, and on strengthening our dealer network in key markets. Here, too, we have made significant progress in recent months. In Asia in particular, customer service structures were further expanded.

A third focus is on the clear and lasting improvement of operational excellence, where the Starrag Group still has considerable optimisation potential. With this in mind, we informed you in April about the far-reaching "Starrag 2021" programme, which ultimately aims to significantly improve profitability. The programme focuses on optimizing the product portfolio, fully exploiting synergy potential, strengthening corporate management and improving project management. This will be accompanied by a new Group structure, which came into force on 1 July.

Trade fairs and Technology Days

In April, we participated again at the China International Machine Tool Show CIMT in Beijing. Thanks to numerous interesting contacts, we were able to further strengthen the basis for future orders in the most important Asian market.

Our own Technology Days, where representatives of customers, strategic partners, but also relevant trade media as well as institutes and universities meet to inform themselves about the latest developments and innovations of the Group, have meanwhile become a tradition. In April, the "Turbine Technology Days" were once again held in Rorschacherberg.

Changes in the Board of Directors

At the Annual General Meeting on 26 April 2019, Walter Fust was elected Chairman of the Board of Directors and the other members of the Board were re-elected for a further term of office of one year. Michael Hauser assumed the office of Vice Chairman. Daniel Frutig resigned at his own request from the Board of Directors, which he had served on since 2014.

Outlook 2019

The sales markets as a whole are showing a certain decline, with the Starrag Group showing a differentiated picture depending on the customer industry and business as a whole becoming more volatile. Due to the continuing high demand for aircraft, demand in the aerospace sector is expected to remain high, while expectations for the other customer industries are rather subdued. In addition, exogenous global economic or political developments could adversely affect business. In terms of market regions, a positive mood can continue to be assumed for North America due to the economic development there. Despite a certain weakening of the largest single market, China, Asia also continues to offer great opportunities, while an economic slowdown is now noticeable in Europe.

Based on this market assessment and the high level of new orders in the prior year due to individual major orders, we expect an order intake for 2019 well below the prior year's level (in local currencies). For the year as a whole, sales are expected to exceed last year's level.

The earnings situation continues to be characterised by two opposing developments. The volume effect is having a positive impact, while higher personnel and material expenses and, above all, restructuring costs in connection with the "Starrag 2021" programme of measures are having a negative impact on earnings. Accordingly, the EBIT margin after restructuring costs for 2019 is expected to be significantly lower than in the prior year.

Thank you

The Board of Directors and the Executive Boards would once again like to thank all employees for their untiring efforts. We also thank our customers and suppliers and, not least, our shareholders, for their loyalty and the trust that they place in us.

Yours faithfully,

Walter Fust
Chairman of the Board of Directors

Dr. Christian Walti
CEO

Rorschacherberg, 24 July 2019

Financial commentary

Starrag Group generated a net profit of CHF 3.4 million in the first half of 2019 (prior-year period CHF 4.3 million). Operating profit before restructuring costs (EBITR) rose from CHF 6.7 million in the first half of 2018 to CHF 8.8 million, while restructuring costs for the implementation of the "Starrag 2021" programme reduced the net result by CHF 7.9 million. The corporate tax reform in various Swiss cantons led to a one-off positive tax effect of CHF 2.3 million.

Encouraging increase in sales

Sales in the first half of 2019 of CHF 214 million exceeded the previous year's figure by an encouraging 12% (currency-adjusted +13%). This reflects the prior year's high order intake and, to a certain extent, the effects of various measures to optimise project management, after delays in order processing led to a decline in sales in 2018.

Continued high order backlog

The order situation is characterised by a continued high order backlog for new machines totalling CHF 321 million. Together with a substantial share of sales from the recurring customer service business, this backlog ensures solid basic capacity utilisation.

Due to fewer large orders, the order intake in the first six months, which is subject to stronger fluctuations, reached CHF 173 million and was thus 20% below the strong prior-year period. Taking into account the long-term nature of Starrag Group's capital equipment business, the order intake for the last 12 months (July 2018 to June 2019) amounts to CHF 416 million, which is virtually unchanged (minus 0.7%) compared to the same period of the prior year after currency adjustments.

Operating margin increased

Gross profit (sales revenue less material costs plus/minus inventory changes) amounted to CHF 119 million, or 55.4% of sales revenue, and was thus CHF 8 million higher compared to the prior year, although the gross margin declined by 2.3%. After being positively influenced in the prior-year period by targeted upfront expenditures for expected customer orders, the weaker development of the gross margin represents a normalisation. In addition, the gross margin was negatively impacted by the lower average degree of completion of processed orders, which led to below-average margin realisation for timing reasons (percentage of completion method).

Pro-rata personnel costs before restructuring costs decreased from 37.8% to 35.3% due to the increased sales volume. In absolute terms, higher capacity utilisation and higher unit labour costs in Germany resulted in an increase in personnel expenses before restructuring costs of CHF 3 million. Other operating expenses remained unchanged at 13.6% of sales.

Thanks to the increase in sales, operating earnings before restructuring costs (EBITR) rose to CHF 8.8 million or 4.1 per cent of sales (prior year CHF 6.7 million or 3.5%).

Restructuring costs affect the accounts

The implementation of the 150 job cuts announced in April 2019 at the Mönchengladbach site is proceeding according to plan. Restructuring costs of CHF 7.9 million were charged to personnel expenses in the first half of the year.

Non-recurring tax effect reduces net profit

The financial result improved by CHF 0.6 million compared to the prior-year period, thanks in particular to a lower capital employed and a better currency result.

The corporate tax reforms adopted in the first half of 2019 in various Swiss cantons had a positive impact. In accordance with the Swiss GAAP FER accounting standard, these resulted in the release of tax provisions, which led to a one-time reduction of CHF 2.3 million in income tax expenses.

Net profit thus fell slightly to CHF 3.4 million. Earnings per share declined accordingly from CHF 1.28 to CHF 1.01.

Balance sheet remains healthy

At CHF 364 million, total assets as at 30 June 2019 were CHF 6 million lower than at the end of 2018. There were significant changes in receivables, which decreased by CHF 13 million thanks to increased incoming payments from customers. Inventories increased by CHF 5 million as a result of advance work for customer orders.

Liabilities decreased from CHF 193 million to CHF 188 million, in particular due to the CHF 5 million decline in trade payables as of the balance sheet date. Short-term provisions increased by CHF 5 million, in particular due to restructuring costs accrued in the first half of the year, while long-term provisions decreased by CHF 6.0 million due to the reduction in deferred income taxes.

At CHF 176 million, equity remained virtually unchanged compared to the end of 2018. Accordingly, the equity ratio increased slightly by 0.6 percentage points to 48.4%. Net debt was reduced significantly year-on-year to CHF 2.9 million. As a result, the Starrag Group continues to have above-average financial flexibility.

Higher free cash flow

Cash flow from operating activities increased from CHF 1.7 million to CHF 8.2 million. This was positively influenced by the CHF 5.5 million reduction in net working capital.

CHF 3.0 million was invested in fixed assets, mainly in equipment and tools as well as in IT (hardware and software).

Free cash flow stood at CHF 5.2 million, compared to a negative CHF –2.1 million in the prior-year period due to a build-up of inventories.

Cash flow from financing activities amounted to CHF –1.4 million. This includes the dividend of CHF 3.4 million paid out in May 2019 from the 2018 net profit, which stems from the withholding tax-free reserve from capital contributions. In addition, there were cash proceeds of CHF 2.1 million from the increase in financial liabilities.

Income statement

CHF 1'000	**2019** 01.01. – 30.06.	2018 01.01. – 30.06.	2018 01.01. – 31.12.
Sales revenue	214'478	192'330	388'773
Other operating income	924	952	2'059
Change in inventory of finished and unfinished goods	-782	8'814	6'774
Cost of materials and components	-95'692	-90'994	-173'111
Personnnel expenses	-83'542	-72'797	-146'058
Other operating expenses	-29'196	-26'181	-56'259
Earnings before interest, taxes, depreciation and amortization EBITDA	**6'190**	12'124	22'178
Depreciation of fixed assets	-3'969	-4'179	-8'302
Depreciation of intangible assets	-1'276	-1'336	-2'766
Operating result EBIT	**945**	6'609	11'109
Financial result	-584	-1'264	-2'221
Profit before taxes	**361**	5'345	8'888
Income taxes ecpenses	3'052	-1'035	-484
Net icome	**3'413**	4'310	8'404
Thereof:			
‣ Shareholders of the company	3'389	4'297	8'359
‣ Minority shareholders	24	13	45
Earnings per share in CHF	1.01	1.28	2.49
Diluted earnings per share in CHF	1.01	1.28	2.49

Balance sheet

CHF 1'000	**30.06.2019**	30.06.2018	31.12.2018
Cash and cash equivalents	35'433	13'690	31'842
Receivables from goods and services	109'242	121'207	121'492
Other short-term receivables	5'165	4'709	3'572
Inventories	110'274	96'630	104'782
Prepaid expenses and deferred income	2'187	2'356	2'713
Total current assets	**262'301**	238'592	264'401
Tangible fixed assets	96'762	101'621	99'215
Intangible assets	5'159	6'421	6'036
Total non-current assets	**101'921**	108'042	105'251
Total assets	**364'222**	346'634	369'652

CHF 1'000	**30.06.2019**	30.06.2018	31.12.2018
Financial dept	35'403	37'381	34'072
Payables form goods and services	25'305	25'255	30'639
Other liabilities	7'539	8'730	12'320
Provisions	10'652	5'318	4'611
Accrued liabilities and deferred income	89'242	67'509	85'221
Total current liabilities	**168'141**	144'193	166'863
Financial debt	2'883	3'293	3'094
Provisions	16'843	24'156	23'051
Total non-current liabilities	**19'726**	27'449	26'145
Total liabilities	**187'867**	171'642	193'008
Share capital	28'560	28'560	28'560
Additional paid-in capital	51'884	55'244	55'244
Retained earnings	95'857	91'135	92'810
Total shareholders' equity, shareholders of the company	**176'301**	174'939	176'614
Minority shareholders	54	53	30
Total shareholders' equity	**176'355**	174'992	176'644
Total liabilities and shareholders' equity	**364'222**	346'634	369'652

Cash flow statement

CHF 1'000	**2019** 01.01. – 30.06.	2018 01.01. – 30.06.	2018 01.01. – 31.12.
Net income	3'413	4'310	8'404
Depreciation of tangible fixed assets and amortization of intagible assets	5'245	5'515	11'069
Change in non-current provisions	-6'088	382	-289
Other non-cash items	114	134	211
Change in			
‣ Receivables from goods and services	11'702	751	-1'925
‣ Inventories	-6'271	-12'610	-22'413
‣ Other receivables, prepaid expenses and deferred expenses	-1'544	-1'050	-1'115
‣ Payables from goods and services	-4'402	-1'900	3'360
‣ Other liabilitiies, accrued expenses and deferred income	6'019	6'194	29'571
Cash flow from operating activities, net	**8'188**	1'726	26'873
Capital expenditure for:			
‣ Tangible fixed assets	-2'566	-2'850	-5'107
‣ Intangible assets	-438	-1'087	-2'234
Disposals of fixed assets	-	97	194
Cash flow from investing activities, net	**-3'004**	-3'840	-7'147
Change in current financial debt	2'161	10'026	7'360
Repayment of non-current financial debt	-180	-137	-662
Dividend payment	-3'360	-5'040	-5'094
Cash flow from financing activities, net	**-1'379**	4'849	1'604
Currency translation	-214	-117	-560
Net change in cash and cash equivalents	3'591	2'618	20'770
Cash and cash equivalents at beginning of period	31'842	11'072	11'072
Cash and cash equivalents at end of period	**35'433**	13'690	31'842

Statement of shareholders'equity

CHF 1'000	Share capital	Additional paid-in capital	Retained earnings	Shareholders' equity of the company	Minority share-holders	Total share-holders' equity
01.01.2018	28'560	60'284	90'762	179'606	39	179'645
Net income	-	-	4'297	4'297	13	4'310
Cashflow Hedges	-	-	-2'528	-2'528	-	-2'528
Currency translation	-	-	-1'396	-1'396	1	-1'395
Dividend payment	-	-5'040	-	-5'040	-	-5'040
30.06.2018	28'560	55'244	91'135	174'939	53	174'992
31.12.2019	28'560	55'244	92'810	176'614	30	176'644
Net income	-	-	3'389	3'389	24	3'413
Currency translation	-	-	-342	-342	-	-342
Dividend payment	-	-3'360	-	-3'360	-	-3'360
30.06.2019	**28'560**	**51'884**	**95'857**	**176'301**	**54**	**176'355**

Notes to the interim consolidated financial statements

1. Accounting principles

The unaudited interim consolidated financial statements for 2019 were prepared in accordance with Swiss GAAP FER (Swiss accounting and reporting recommendations). This is a condensed interim report pursuant to Swiss GAAP FER 31 "Additional recommendations for listed companies".

The consolidated interim financial statements do not contain all of the information found in the consolidated annual financial statements and should therefore be read together with the financial statements for the 2018 fiscal year. The current accounting standards are congruent with the accounting standards used to prepare the 2018 financial statements (refer to pages 103 to 105 of the 2018 Annual Report), unless stated otherwise in the following section.

The present interim report includes estimates and assumptions that affect the reported figures and the associated disclosure. The actual results may differ from these estimates.

2. Additional information

The Starrag Group is not affected by seasonal or cyclical factors as steady sales and margins are assured in the event of any brief fluctuations in order intake by the order backlog, which is currently equivalent to more than half a year's sales.

In the first half of 2019, personnel expenses were burdened by restructuring costs of CHF 7.9 million in connection with the announced reduction of 150 jobs at the Mönchengladbach site.

The corporate tax reform adopted in the first half of 2019 in various Swiss cantons led to a one-time reduction in income tax expenses of CHF 2.3 million due to the release of provisions for deferred income taxes.

3. Approval of interim consolidated report

No events have occurred after 30 June 2019 that would have a material effect on the interim accounts. The interim consolidated report was approved and released for publication by the Board of Directors on 16 July 2019.

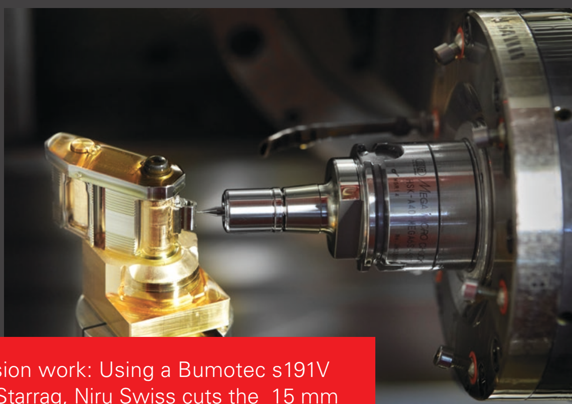
"Job Shop de luxe": A successful decade with Bumotec

Niru Swiss machines highly complex components for the jewellery and watchmaking industry. Felix Baumgartner, founder of chronometer brand Urwerk, explains why the "Job Shop de Luxe" and its production technology can be counted among the best of its kind. "It is not possible to create the unusual case design using conventional production technology." There is much talk in the industry of the case of the new UR-111C wristwatch, which is just 15 mm high and 46 mm wide and does not require a screw-on bottom plate. Instead, it is cut in a single piece from a stainless steel blank and includes a 20-mm-deep side compartment to accommodate the movement.

Managing Director of Niru Swiss AG Julien Ducommun has the Bumotec s191V vertical CNC high-performance machining centre to thank for producing such specialist products. This machining centre is capable of precise and productive machining of highly complex components for the jewellery and watchmaking industry.

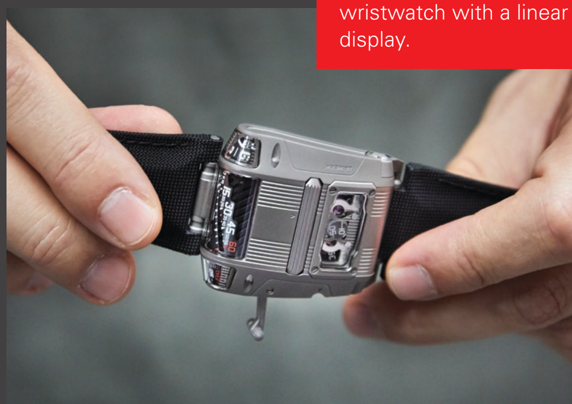
The "excellent thermal stability" allows Ducommun and his team to turn and cut components continuously from early in the morning until late at night without any loss of precision. With this technology, the components are achined with five axes simultaneously in a single clamping operation.

As a result of the company's investment, Ducommun is also setting his sights on conquering new industries. His company is not only machining metals, but also plastics such as PEEK. Little wonder that following this success, 35-year-old Ducommun is already turning his attention to a new workshop, which will provide much more space for both staff and machines. And that's why he can say with certainty that his next CNC machine will also be a Bumotec.



Precision work: Using a Bumotec s191V from Starrag, Niru Swiss cuts the 15 mm high, 46 mm wide case of the new UR-111C wristwatch from Urwerk from a blank, including a 20 mm deep side compartment to accommodate the movement.

Avant-garde: With its UR-111C, Swiss brand Urwerk once again appears to have achieved the impossible – a mechanical wristwatch with a linear time display.



Niru Managing Director Julien Ducommun: "For me, the most important requirement in this competitive field is the ability to deliver optimum productivity, precision and stability. And that's why I can say with certainty that my next CNC machine will also be a Bumotec."

Images: Starrag/Ralf Baumgarten

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. Principal customers are internationally active companies in the Aerospace and Turbines, Industrial and Transportation as well as Luxury Goods and Med Tech sectors. 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, 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 service subsidiaries in the most important customer countries.

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

Financial calendar

24 January 2020	Sales and orders 2019
6 March 2020	Presentation of 2019 results for analysts and the media in Zurich
25 April 2020	Annual general meeting in Rorschach
23 July 2020	Half-year report 2020

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