starragheckert
the milling experts

TTL SIP WMW

ANNUAL REPORT 2010

NEW PERSPECTIVES

FUTURE POTENTIAL

Content

RECOGNIZING WHEN NEW PERSPECTIVES ARE OPENING UP

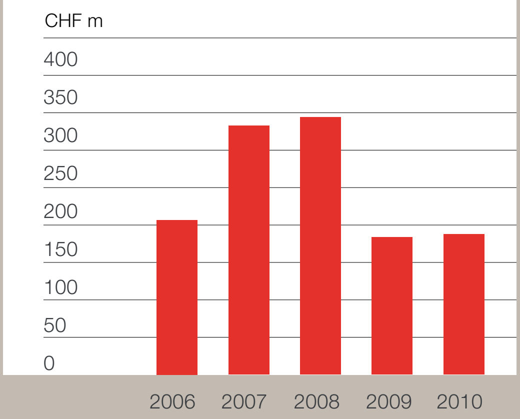
Factors for success, now and going forward

In what was a tough financial year 2010, the StarragHeckert Group fared markedly better than the rest of the market. This success owed nothing to luck – concentrating on the upper range of the quality scale, focusing on clearly-defined target markets, having a solid financial basis and high levels of internal flexibility, particularly when times are hard, and constantly providing innovative, customer-oriented solutions are the factors behind our success, and ones which last beyond economic cycles.

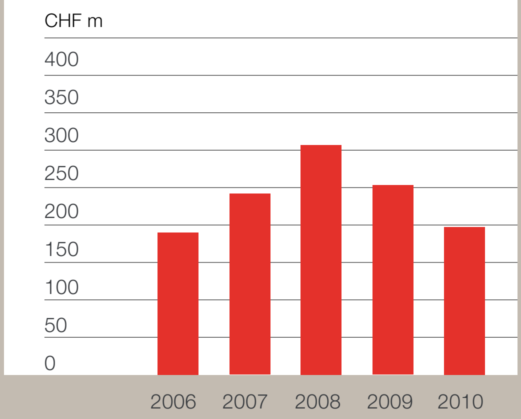
One thing that it is always important to recognize is when new perspectives are opening up. And then of course, you have to act on them. With Asia soon set to become the world's largest purchaser of machine tools, we opened up a technology center in India in 2010 and are currently setting up a local production site. We also succeeded to acquire the Dörries Scharmann Group, which is a perfect match for our own group in every respect and opens up a wealth of new potential.

STABILIZED BUSINESS PERFORMANCE

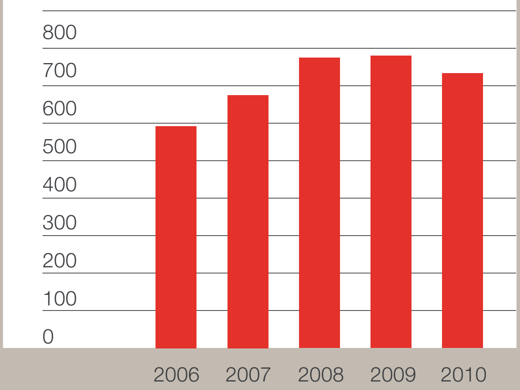
Order intake



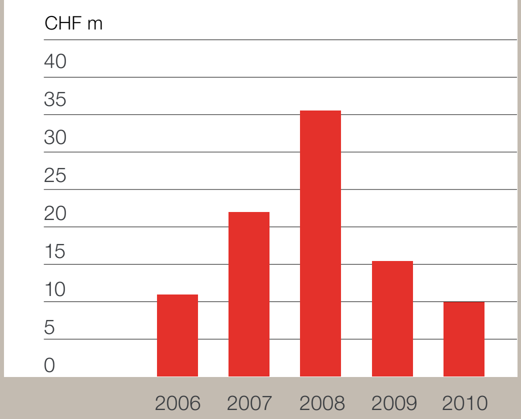
Sales revenue



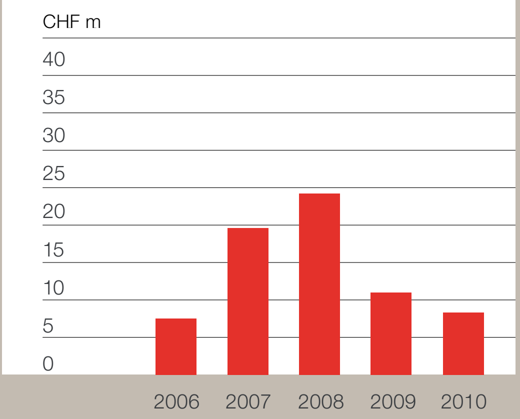
Employees at year end



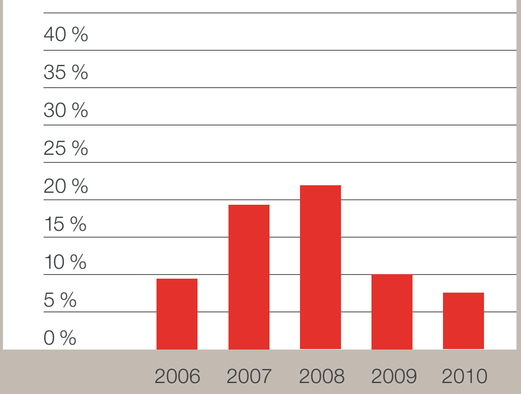
Earnings before interest and taxes (EBIT)



Net income



Return on Equity (ROE)



Share price development
STGN
CECIMO MTIX
SPI
900
800
700
600
500
400
300
200
100
0
Jan 06
Mrs 06
May 06
Jul 06
Sep 06
Nov 06
Jan 07
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Sep 10
Nov 10
Jan 11

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ANNUAL REPORT OF THE BOARD OF DIRECTORS AND OF THE EXECUTIVE MANAGEMENT

Recovery under way in financial year 2010

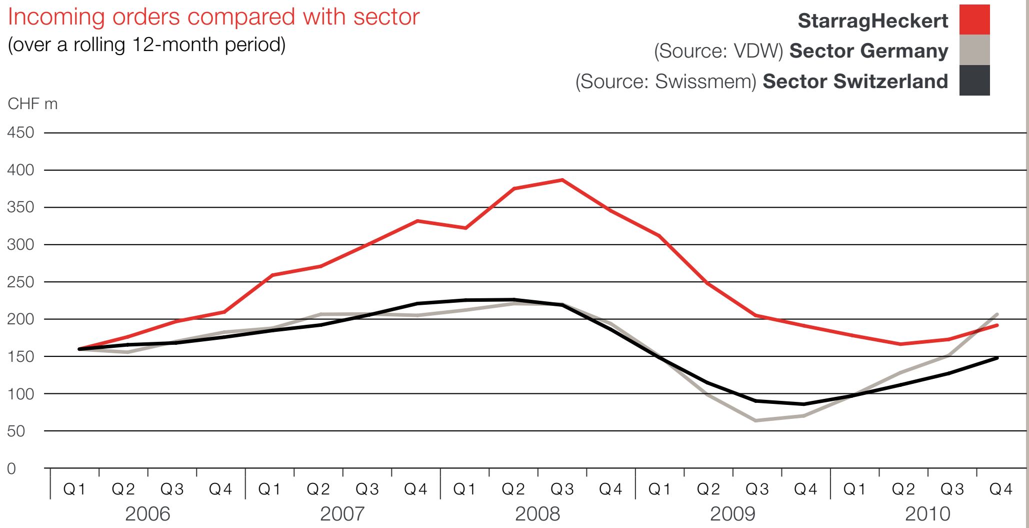
While 2009 was still characterized by a global economic downturn as far as the machine tool industry was concerned, the year under review in this report was one of successive recovery. This development was also reflected in the order intake and, with a corresponding delay, in sales revenue which StarragHeckert registered. Overall, our group held up better than the market, which fell by around 60 % in Europe and up to 80 % in Japan throughout the period of the recession. In the financial year 2010, incoming orders picked up from the second quarter onwards, and this positive trend was confirmed throughout the rest of the year. In 2011 we are expecting a further recovery in the market. The acquisition of the German Dörries Scharmann Group will also open up new perspectives for us both in terms of the market and on the product side.

Increasingly volatile market environment

The global machine tools market has been characterized in recent years by an increasing level of volatility. After a period with high growth rates between 2006 and 2008, there was a similarly abrupt phase of downswing. Both the speed and the extent of the changes to the market were of a scale that had never before been experienced. Given the environment, StarragHeckert achieved respectable results across the cycle. During the down-swing, customers were first of all forced to postpone or cancel planned capacity expansions and subsequently do likewise with investments into upgrades. The market was therefore still highly competitive in 2010, and the manufacturers of standard machines, particularly in Asia, were the most seriously affected by this.

Incoming orders compared with sector

(over a rolling 12-month period)



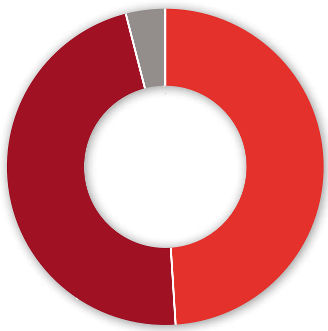
Tried and trusted business model

StarragHeckert on the other hand concentrated on simply manufacturing to contract machines in higher price categories which offer clearly defined customer benefits, specifically focusing in the process on the four sales markets of aerospace, power generation, transport applications and precision engineering. Our business model therefore sets itself apart from those of our competitors who merely focus on volume, and again in the most recent economic crisis it proved itself to be incredibly resilient.

Our strategic deliberations also took into consideration from an early stage the possibility of an economic downturn, which is why we were in a position to react quickly to the looming recession. We adapted our human resources capacities to lower levels of activity, making use of the possibility of short-time work, enforcing an even more active net working capital management. These and other measures posed a new set of challenges to our management team, challenges which we managed to overcome quickly yet prudently thanks to a mutual environment of trust.

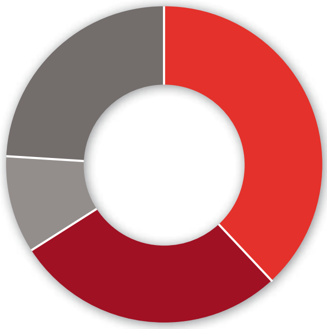
Incoming orders by region

	2010	2009
Europe	49 %	59 %
Asia	47 %	27 %
North America	4 %	14 %



Incoming orders by market segment

	2010	2009
Transport applications	37 %	18 %
Precision engineering	28 %	32 %
Aviation	10 %	34 %
Power generation	24 %	16 %

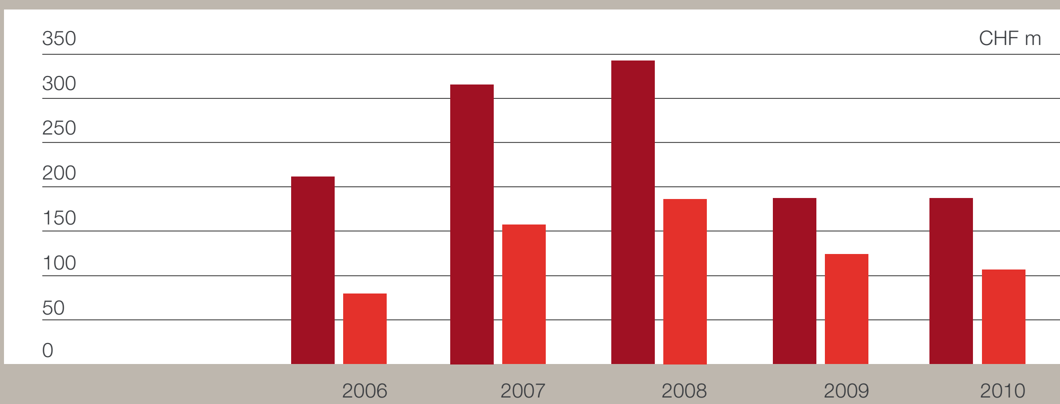


Stabilized business development

In the first quarter of 2010, incoming orders remained stuck at low levels, carried by our activities in Asia. The after-sales service and spare parts businesses then became more active in the second quarter, and this positive trend carried over into the second half of the year into the incoming orders for the new machines business in Europe and Asia, which were almost double the figures registered in the first six months. The overall result for the financial year was a currency-adjusted increase in incoming orders of 6 %. Without taking currency fluctuations into account, incoming orders remained at the same level as the previous year, at CHF 188 million. We were thus able to begin the current financial year with a solid CHF 104 million of orders on our books.

Profitability despite reduced sales

Sales revenue decreased to CHF 199 million due to the lower order intake in the first half of the year – in currency-adjusted terms this represents a reduction of 17 %. From the second half of the year however, sales revenue began to increase again, with the service business proving to be a real catalyst. The sharp decline in volumes was compensated for to a significant extent by strict cost management, producing an EBIT margin which was well above the sector average at 5.1 % (compared with 6.1 % the previous year). The operating profit (EBIT) was down from CHF 15.4 million in 2009 to CHF 10.1 million in 2010, while net profit was CHF 8.1 million – CHF 32.66 per share – which represents a 30 % decrease on the previous year due to reduced volumes. StarragHeckert has therefore managed to remain one of the few machine manufacturers to have come through the third year of the economic crisis without recording losses.



in CHF m		2006	2007	2008	2009	2010
Incoming orders		206	328	341	188	188
Orders on books		81	165	188	124	104

Dividend payment

This positive profit situation led to the board of directors applying at the annual general meeting for the payment of a dividend of CHF 10.00 per share (compared with CHF 15.00 the previous year) in the form of a payment from capital which is exempt from withholding tax. This represents a payout ratio of 25% of the net profit which corresponds to the scope of the long-term dividend policy which we are aiming for.

Sustainable total shareholder return

In 2010, the shareprice of StarragHeckert increased by 25.2 %, thus exceeding the SPI (+4.9 %) clearly. After consideration of the par value repayment of June, a total shareholder return of 27.9 % could be achieved (prior year 10.9 %). The average annual total shareholder return over the last five years was 13.5 % (share price development plus total of monetary payments to shareholders).

Continued investment and process improvements

StarragHeckert is continuing to invest in the development of new products and tapping into new markets. In the year under review, we officially opened a technology center in Bangalore, India which has some 30 employees which is designed to provide customers with support in terms of technology consultancy and services aimed at increasing productivity. StarragHeckert will also be setting up a new production location, near Bangalore International Airport, for the production of machining centers for the Indian market, which will entail an investment of some CHF 10 million in 2011/2012. The year under report also saw CHF 3 million invested in improved manufacturing possibilities for component production and machine assembly at the European factories – a move which should enable us to take particular advantage of the expected upturn in the economy which will bring with it reduced delivery times.

Measures to improve procedures and processes within the company were also stepped up in the financial year 2010. Example of this are the detailed capacity planning instruments on a department level, the shortening of lead times for assembly and the reduction in installation times of machinery at customer locations. In the service sector, the monthly evaluation of customer satisfaction by means of key indicators was further refined and should be extended to regions outside Europe in 2011.

Dörries Scharmann unlocks further opportunities

In January 2011, StarragHeckert acquired the Dörries Scharmann Group for a purchase price of EUR 70 million. This move clearly strengthens our position in the target markets that are aeorspace, power generation, transport and precision engineering and almost doubles our business volume. You will find further details regarding this acquisition on pages 28 – 43 of this annual report.

A consistently-implemented strategy

The most recent economic crisis seems to indicate that the environment will be more volatile in the future, with even more pronounced market fluctuations. This will require the company to show increased flexibility, have the most balanced possible diversification of risks in terms of markets and regions, and a solid financing structure in order to ensure growth and innovation. Geographically speaking the sales markets will shift towards Asia, which by 2015 should already have become responsible for over half of the machine tools consumed around the world. One of the ways in which StarragHeckert will be looking to participate in this growth will be via the abovementioned investment in a local manufacturing base in India. Various significant trends also indicate that our group will be able to achieve further organic growth in this region: there is a growing need for mobility, increasing demand for renewable, conventional energy, a real necessity for investment in infrastructure and the mechanization of agriculture and increasing demand for consumer goods.

This is why we are anticipating that our growth will exceed that of the overall European machine tool industry in the medium term. It is our firm intention to maintain our basic strategy of playing a leading role in all four target markets, namely aviation, power generation, transport and precision engineering. In terms of earnings, StarragHeckert is targeting an average EBIT margin over several years of around 8 %.

Comprehensive sustainability put into practice

StarragHeckert's social and industrial commitment is one for the long term. We maintain an open dialogue with all stakeholders to make sure that we can take their needs into account in a balanced way. StarragHeckert's sustainability measures fully cover both the relevant economic and social aspects as well as environmental protection. Economic sustainability can thus be based on a results-oriented corporate culture where the company is striving to increase its value over the long term.

Systematic employee development

StarragHeckert undertakes a variety of efforts to increase the commitment that employees have to achieving the company's aims. This in particular involves regular staff information meetings regarding the course of business and to enable discussions on current topics and projects, as well as formal annual staff appraisals. During the latter, further training needs are raised and the corresponding measures then follow. In the year under review, further technical training and dealing with IT tools was very much the focus. We will subsequently be im-plementing measures in favor of systematic health management. Safety at the workplace and the health of employees is one of our top priorities, and the corresponding indicators are recorded and evaluated on a monthly basis.

In 2009, we took part in a survey for a financial publication which enabled us to compare the levels of commitment and satisfaction of our employees with those working for other Swiss machine manufacturers. The potential for improvement which emerged from the survey in terms of personnel management and employee qualifications has been achieved by the implementation of targeted measures. In the current financial year, we will be launching a multi-year program of staff training, with external support and active group management participation and a particular focus on junior staff with potential.

Environmental protection and energy efficiency

Our group decided at an early stage to take part in the «Blue Competence» campaign launched by the German Machine Tool Builders' Association (VDW) and to integrate the relevant recommendations into the development of new products with increased energy efficiency. When the manufacturing process is considered as a whole, the cycle time required for the production of a workpiece becomes the decisive factor, which is why we have a genu-ine advantage over manufacturers who are purely volume-oriented thanks to our solid, customer-specific constructions. Taking part in research projects to increase energy efficiency means that we are able to implement new findings and technologies straight away. Potential effects on the environment caused by machine tools are minimized by the use of hermetically-sealed machining rooms.

Further market recovery expected

While we are expecting a further recovery in the global machine tools market in 2011, we are not counting on a return to the high growth rates that were prevalent before the economic crisis. Together with Dörries Scharmann, we will be able to achieve better penetration in the target markets and offer total and specific production solutions from within the group, creating clear cost benefits when it comes to production. In terms of potential risks, there is the possible turbulence in the exchange rates and the increasing levels of protectionism.

Our thanks

During what have been difficult times, StarragHeckert has managed to assert itself, but this would not have been possible without our highly qualified and motivated employees and the loyal work which they have carried out for us as part of a global team. Throughout the year under report, they have demonstrated incredible flexibility in fulfilling our customers' wishes to the best of their abilities, underpinned by our corporate culture which is founded on dialogue and partnership. For this, we are incredibly grateful.
We would like to thank our customers and suppliers for the trust and commitment they have extended to our company, and of course you, our shareholders, for the loyalty which you have continued to show us.

Walter Fust
President of the board of directors

Dr. Frank Brinken
CEO

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POTENTIAL FOR SUCCESS

Dr Frank Brinken, CEO of the StarragHeckert Group, inside the enormous interior of the BTP 5000.

«StarragHeckert uses the latest in technology to turn client-specific applications into innovative, ultra-modern products.»

A SENSE FOR WHEN OPPORTUNITIES FOR INNOVATION MAY ARISE

Developing products that meet the needs of the market is a constant challenge for the «constructors» who work for StarragHeckert. Highly-qualified engineers actively drive innovation using ultra-modern methods of development and construction, with added value for the customer being at the heart of every new development. Stiff machines for processing titanium, dynamic 5-axis centers which enable the cost-effective machining of turbine blades, strong gear spindles for high cutting rates are just some of the disciplines in which StarragHeckert specializes.

Big Titanium Profiler – BTP 5000

This is the largest 5-axis machining centre in Switzerland weighing over 200 tons, and is used for machining titanium parts up to five meters in length for the aviation industry.

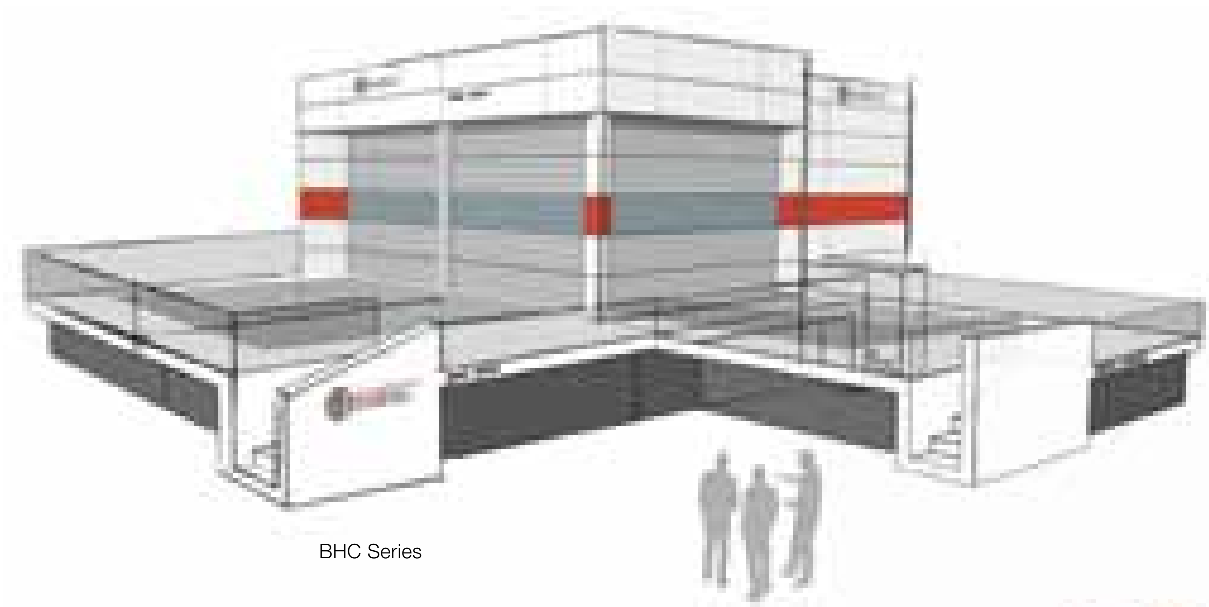
INNOVATIONS 2010

Big Horizontal Center – BHC 3500 / 4500 / 5500

This horizontal machining center sets new standards in processing large, heavy parts. The BHC Series is used to process a variety of parts in a cost-effective way, including wind energy gear units and large-scale components for the oil and gas industry measuring up to 5,400 mm and weighing up to 25,000 kg.

PTM® – «Planetary TurnMill head»

The PTM combines the advantages of a cross slide with those of a radial facing slide. The PTM is applicable for all common milling and drilling works, as well as turning work for inner and outer diameters, the machining of concentric plane surfaces and relieving works.
With this option for big StarragHeckert machining centers, large Workpieces; for example gear boxes for wind mills, can be machined completely with only one clamping.



BHC Series

PTM

LX 451 – The dynamic blade machining center

This is the largest blade machining center in the LX Series and is ideally equipped to meet the needs of the simultaneous 5-axis machining of turbine blades which are implemented for energy recovery.


SIP

CONSISTENT BRANDING POLICY

The group's brands – StarragHeckert, SIP, TTL and WMW – all enjoy excellent reputations and high levels of recognition, and all three business units rely on the brands in terms of external recognition. StarragHeckert has consistent methods for dealing with counterfeits and imitations. The company takes appropriate measures to support the recognition of the group's brands, including clear rules regarding their usage and active implementation of them in the company's communications.

Brand	Usage
starragheckert the milling experts	**StarragHeckert** Distribution and service of precision four and five axis machining centers, «Process Engineering»
SIP	**SIP** Distribution and service of super and ultra precision four and five axis machining centers, «Process Engineering»
TTL	**TTL** «Adaptive machining» technology as its core business. Automatic machining of workpieces which previously necessitated time-consuming manual work processes.
WMW	**WMW** Distribution and Service of four axis horizontal machining centers for precision production requirements, «Process Engineering»

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RESEARCH AND DEVELOPMENT AS INNOVATION DRIVER

StarragHeckert regularly invests a significant part of its turnover in the development of new products. As a global company, StarragHeckert knows that innovation is one of the prime catalysts for business, and the group runs development centers in Switzerland, Germany and India. Application engineers at the local sales companies work hand in hand with customers and pass their requirements back to the in-house development centers. When it comes to development, StarragHeckert sets great store by direct contact with customers to accelerate the innovation process and thus generate real added value for the customers and for the company.

Cooperation with universities of applied sciences and research institutes

StarragHeckert protects its developments via a variety of patents which document the innovative strength of the company. Trends and new products within the sector are systematically analyzed and the findings used for the company's own product developments. Active monitoring of the life-cycles of products enables new developments to be implemented ahead of the game. This development activity is supported by collaboration with various universities of applied sciences and research institutes.

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OUR GLOBAL SERVICE NETWORK KEEPS US CLOSE TO OUR CUSTOMERS

Proximity to the market

Our international customer base sets great store by our simple and direct methods of communication. StarragHeckert has an active market presence around the world in all the important industrial hot-spots. Our distribution and application specialists who are present at all the various locations have a great deal of experience as well as an in-depth knowledge of the local culture and customs – important qualities when it comes to building up closer customer relations based on trust.

Tailored customer service

StarragHeckert's range of services is consistently tailored towards increasing productivity on a regular basis. To achieve this, we rely on a flexible distribution network that is as global as it is local, just like our rapidly expanding service team which also has a worldwide presence. We create the foundation for efficient, incident-free production by implementing individual maintenance packages and modern visualization systems for machine monitoring.

FINANCIAL COMMENT

- **Increase in order intake: +6.2% currency adjusted**
- **Solid backlog of orders of CHF 104 million**
- **Clearly positive results despite lower sales revenue**
- **High operating cash flow leading to net liquidity of CHF 31 million**

Due to the low backlog of order at the beginning of the year, StarragHeckert recorded a decline in sales revenue of 21.1 %. Strict cost management however produced a strongly positive EBIT margin of 5.1 % of sales revenues and a return on equity of 7.5 %. Financing remained very comfortable, with an equity ratio of 64.1 %.

Increase in order intake

Order intake stabilized in 2010 at CHF 188 million, which represents an increase year-on-year of 0.3 %, or +6.2 % currency adjusted. The various segments paint a varied picture: order intake from the transport applications sector doubled year-on-year and are getting back to the record levels of 2007 and 2008. The precision engineering sector came in around 10% below 2009 figures, while the later-cycle sectors of aviation and power generation were considerably below the levels of the previous year.

Customers from China and Germany were responsible for significant growth, while in order intake from Eastern Europe and Russia as well as from North America were weak.The order backlog decrease by 16.4 % to CHF 104 million. This can be attributed on the one hand to the fact that sales revenue was higher than order intake, and on the other hand due to a negative currency effect of -7.4 %, or CHF 9.2 million.

Decreasing sales revenues

In 2010, StarragHeckert generated sales revenue of CHF 199 million, a decrease of 21.1 % compared with the previous year. When currency adjusted, sales revenue was lower by 17.3 %. This decrease is due to a lower order intake resulting from the worldwide economic downturn and the corresponding reduction in the order backlog. From the second half of 2010, there was a discernible reversal in the trend in sales revenues, which are still developing in positive terms, driven by the customer services business.

In the year under review, a gross margin of 53.6 % was achieved, which represents an improvement on 2009 (prior year 51.8 %). This increase can be attributed to a lower material share, since the average percentage of completion of the orders in progress was higher than in the prior year. Gross profit fell by 18.4 % to CHF 106.7 million, due to a decline in sales revenues and the currency translation effects of the weaker euro rates.

Strict cost management

A reduction in personnel costs totaling CHF 11.6 million was achieved, representing a cut of some 16.6 %. These significant cost savings were the result of personnel measures which were implemented such as a reduction in working time accounts and also short-time work. Operating costs came in CHF 7.3 million below the previous year's level and represented 17.1 % of sales revenues (compared with 16.4 % the previous year). Two-thirds of this reduction can be attributed to the lower sales volumes, while the remaining third is the result of the various measures introduced by the further enforced cost management.

Operating result (EBIT): Sustainable profitability despite decline in sales revenue

StarragHeckert's operating result (EBIT) decreased to CHF 21.9 million in 2010 from CHF 16.3 million the previous year – a reduction of 25.7 %. Both the lower sales volumes and the currency translation effect due to the weak levels of the euro influenced the operating result (EBIT). The EBIT margin amounted to 5.1 % of sales revenues, compared with 6.1 % the previous year. Despite the decrease in the return of net operating assets, from 13.7 % in 2009 to 12.0 %, it still significantly exceeded the weighted average cost of capital of around 10 %.

Solid net profit

StarragHeckert achieved a solid net profit of CHF 8.1 million, compared with CHF 11.5 million the previous year (-29.6%). This net profit was positively influenced by currency effects as well as lower interest payments due to the reduced capital employed. On the other hand there was a higher effective tax rate of 27.1% (compared with 23.6% the previous year) due to the share of earnings which came from countries with higher tax rates.

Balance sheet: high equity financing thanks to a further reduction in capital commitment

The balance sheet total as of 31 December 2010 stood at CHF 169.4 million, coming in CHF 10 million or 5.6% below the previous year's level. Currency fluctuations were responsible for a decrease of around CHF 6.3 million. There were significant changes compared with the previous year in the receivables and inventories, which were adjusted in line with the lower levels of activity as part of the focused working capital management. The latter, in the form of net operating assets, fell by CHF 12.5 million to CHF 84.8 million CHF and could thus be reduced to 42.6% of sales revenues (compared with 44.7% the previous year).
Cash increased significantly, by CHF 20.2 million to CHF 32.2 million as of 31 December 2010, thanks to the high operating cash flow, and the net liquidity (cash minus financial liabilities) tripled from CHF 10.4 million CHF at 31 December 2009 to CHF 31.1 million as of 31 December 2010.
StarragHeckert's capital structure remained very solid in 2010. Equity did shrink by CHF 6.2 million to CHF 108.5 million, due to the fact that there was a CHF 11 million currency-related reduction in equity which resulted from the weaker levels of the euro. On the other hand however, a CHF 3.9 million reduction in liabilities was achieved. The equity ratio (equity / total assets) remained at high levels (64.1% compared with 63.9% the previous year).

High operating cash flow

The cash flow (before the change in net current assets) amounted to CHF 16.0 million in the financial year 2010 (compared with CHF 22.5 million in the previous year). When the significantly reduced net working capital due to the lower sales volumes are taken into account, this gives a cash flow from operating activities of CHF 32.2 million (compared with CHF 34.1 million the previous year).
Cash flow from investing activities, at CHF 4.2 million, came in slightly below the figures of the previous year (CHF 5.0 million). As well as capital expenditures for improvements in the European factories, there were also strategic investments made in emerging market countries in the year under review. These include the building of a technology center in Bangalore, India which will be used to help customers increase their productivity via technology consultancy and services.
Free cash flow, which is made up of cash flow from operating acitivities as well as from investing activities also reached high levels this year, coming in at CHF 28.0 million CHF or 14.0 % of sales revenues (compared with CHF 29.2 million or 11.6 % in the previous year).
The lion's share of the cash flow from financing activities was made up by the dividend payout in the form of a reduction in par value of CHF 3.7 million (compared with a dividend payment the previous year of CHF 5.0 million).
The currency effects on cash in the year under review amounted to CHF -3.8 million CHF, due to the very low value of the euro at the end of the year, after minor currency gains of CHF 0.3 million were recorded in 2009.

INFORMATIONEN ZUR CORPORATE GOVERNANCE

StarragHeckert Group practices an open information policy towards its investors, the financial market and the general public. The transparency which exceeds the legal requirements and the continuity of the investor relations are underlined by our extensive financial reporting, our quarterly reports on StarragHeckert Group's business developments as well as the continuously updated information on our website.

The entire documentation according to the Corporate Governance Directive of the SIX Swiss Exchange is published on our website under the following link: www.starragheckert.com (Menu Investors – Corporate Governance). Hard Copies of the documentation ca be ordered from StarragHeckert Holding AG at any time.

Shareholders

On 31 December 2010, 643 registered shareholders held the following number of shares:

More than 10'000 shares	→ 3 shareholders
1'001 to 10'000 shares	→ 9 shareholders
101 to 1'000 shares	→ 61 shareholders
1 to 100 shares	→ 570 shareholders

The following registeres shareholders are holding voting rights of more than 5 percent:

Walter Fust, Freienbach, Switzerland	→ 138'288 Aktien	→ 54.9 %
Eduard Stürm AG, Goldach, Switzerland	→ 32'792 Aktien	→ 13.0 %

Capital structure

The share capital of StarragHeckert Holding AG of 21'420'000 CHF is split in 252'000 paid-up registered shares with a nominal value of 85 CHF each. The shares are traded at the SIX Swiss Exchange (securities number 236106, ISIN CH0002361068, ticket STGN). The market capitalisation was CHF 173.9 million on 31 December 2010.
Further information on the capital structure can be found in StarragHeckert Group's consolidated financial statement of the corresponding years (page 50 and 69).

Value based compensation

The compensation at StarragHeckert based on the principles of value based management. The compensations paid to the Board of Directors and the Management Board comprise a fixed component and a share in profits which is proportional to the net profit reduced by a certain minimum return on equity. The StarragHeckert Group compensation system for management and employees includes a fixed component and a share in profits which is based on the operating result and is paid out insofar as a set minimum return on equity has been generated.

The compensations paid to the Board of Directors and the Management Board are disclosed in the consolidated financial statements on page 77 (note 29).

Auditors

PricewaterhouseCoopers AG, St. Gallen, is the statutory auditor as well as the group auditor. It is elected for a term of office of three years at the annual general meeting. The current term of office will continue until the annual general meeting in 2011.

Agenda

The upcoming dates are:

09.04.2011 → Annual general meeting in Rorschacherberg
06.05.2011 → Media release with interim information on 1st quarter
29.07.2011 → Shareholders' letter and media release on half-year results
04.11.2011 → Media release with interim information on 3rd quarter
25.01.2012 → Media release with preliminary information on annual results
09.03.2012 → Annual analysts and media conference in Zurich
20.04.2012 → Annual general meeting in Rorschacherberg

Contacts

Dr. Frank Brinken **CEO**
Phone: +41 71 858 81 11
Fax: +41 71 858 82 09

Gerold Brütsch **CFO**
Phone: +41 71 858 81 11
Fax: +41 71 858 82 30

investor@starragheckert.com

Chairman Walter Fust

BOARD OF DIRECTORS

Vice Chairman Valentin Vogt

Prof. Dr. Christian Belz

Dr. Hanspeter Geiser

Adrian Stürm

GROUP MANAGEMENT

1 Dr. Frank Brinken **CEO**

2 Walter Börsch

3 Stefan Knellwolf

4 Günther Eller

5 Dr. Eberhard Schoppe

6 Gerold Brütsch **CFO**

Board of Directors → Walter Fust, Chairman → Valentin Vogt, Vice Chairman → Prof. Dr. Christian Belz → Dr. Hanspeter Geiser → Adrian Stürm

CEO → Dr. Frank Brinken

Business Unit 1 → Stefan Knellwolf

Sales → Product Management → Project Management → Application Engineering → Center of Production Excellence → Assembly

TTL → Paul Walton

SIP Genève → Jean-Daniel Isoz

Business Unit 2 → Dr. Eberhard Schoppe

Verkauf → Product Management → Project Management → Application Engineering → Assembly

WMW India → A.N. Chandramouli

Regional Sales → Dr. Frank Brinken

→ China, France, Great Britain, Canada, Russia, Turkey, USA

Customer Service → Günther Eller

→ China, Germany, France, Great Britain, India, Switzerland, Turkey, USA

Operations → Walter Börsch

→ Marketing & Development, Supply Chain, Mechanical Manufacturing

Corporate Center → Gerold Brütsch

→ Finance & Controlling, Human Resources, IT, Investor Relations

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TOGETHER

StarragHeckert and Dörries Scharmann – the ideal partnership

In January 2011, StarragHeckert was able to acquire Dörries Scharmann – a group which we had long been hoping to bring on board as a partner and which gives our own group a broader field of activity, enabling us to position ourselves better going forward. Like StarragHeckert, Dörries Scharmann managed to remain profitable throughout the most recent recession in the machine tool industry, and the StarragHeckert Group is delighted to be adding such a strong and successful company.

A big step forward for the benefit of both parties:

- → Two profitable businesses with strong market positions are coming together. They are both at the forefront of technology, and together they will be able to tap into new markets with an even greater level of success.
- → Our product ranges have very few overlaps and are perfectly complementary in every client segment: aviation, power generation, transport and precision engineering.
- → We are significantly increasing our geographical presence in North America, Brazil, India and Russia and very much strengthening our market position in China and Western Europe.
- → Synergies in terms of products and markets will lead to a solid medium-term increase in customer benefits which will thus increase the value of the company.
- → There will also be synergies in terms of customer services which will be even more efficient thanks to our increased geographical coverage, enabling us furthermore to continue to develop our range of services.
- → The employees of both companies know each other well, having shared common clients for a number of years now. The two corporate cultures are highly compatible since we operate on similar technological levels and speak the same technical, customer-focused language.
- → We were able to agree on a reasonable price with the selling company and thus take advantage of the strength of the Swiss franc.

StarragHeckert would like to take this opportunity to welcome its new colleagues and also to introduce Dörries Scharmann over the next few pages.

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MOVING INTO THE TOP DIVISION OF EUROPEAN MACHINE TOOL MANUFACTURERS

StarragHeckert and Dörries Scharmann Technologie GmbH – working together

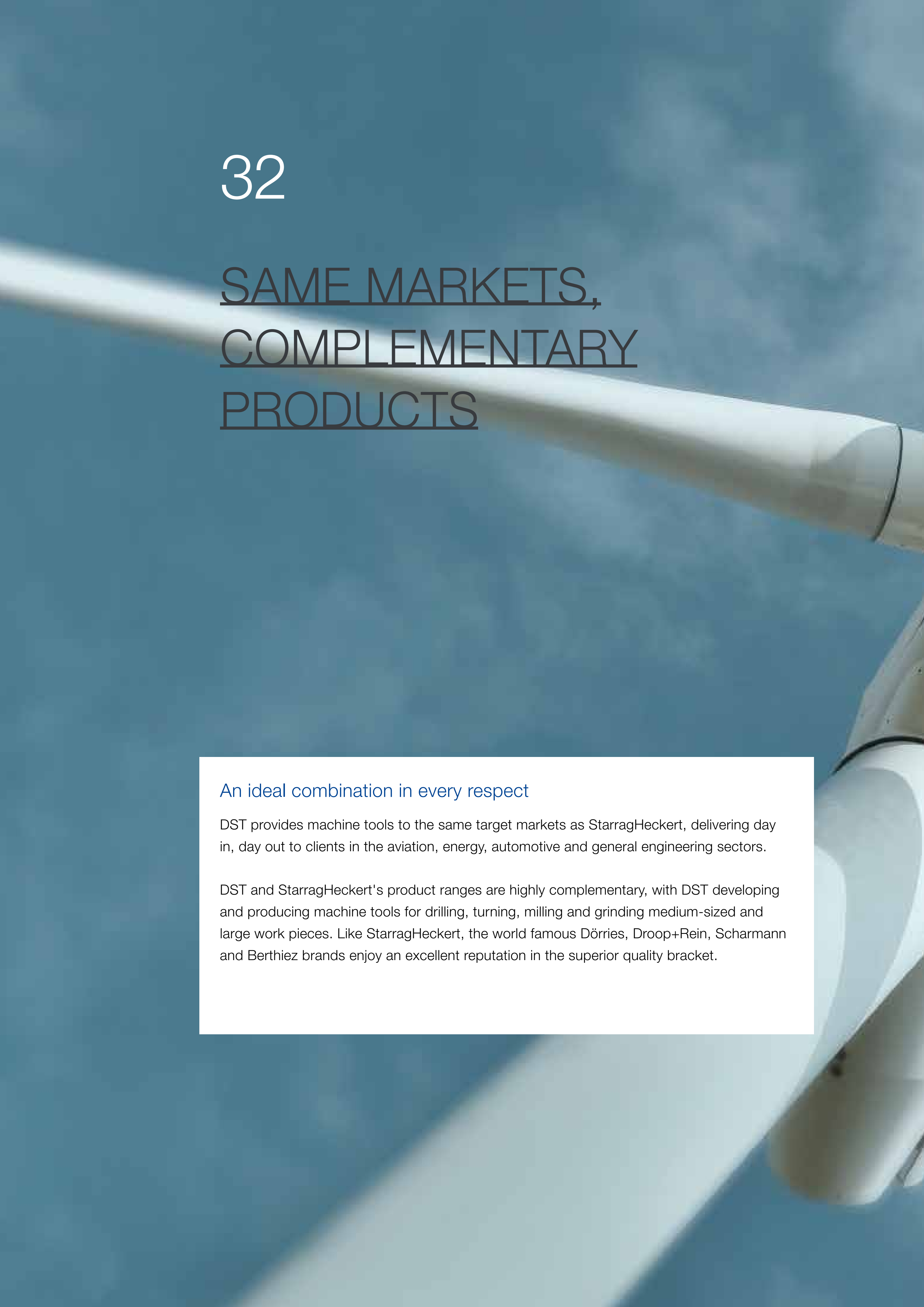
The acquisition of the Dörries Scharmann Group on 19 January 2011 enabled the StarragHeckert Holding AG to significantly strengthen their position in their target markets of aviation, power generation, transport and precision engineering, while almost doubling their business volume in the process.

DST
Dörries
Droop + Rein
Scharmann
Berthiez

Dörries, Ecospeed und Scharmann
in Mönchengladbach DE

Droop + Rein in Bielefeld DE

Berthiez in Saint-Etienne FR



SAME MARKETS, COMPLEMENTARY PRODUCTS

An ideal combination in every respect

DST provides machine tools to the same target markets as StarragHeckert, delivering day in, day out to clients in the aviation, energy, automotive and general engineering sectors.

DST and StarragHeckert's product ranges are highly complementary, with DST developing and producing machine tools for drilling, turning, milling and grinding medium-sized and large work pieces. Like StarragHeckert, the world famous Dörries, Droop+Rein, Scharmann and Berthiez brands enjoy an excellent reputation in the superior quality bracket.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DÖRRIES

Taking rotary applications to new dimensions

The Dörries CONTUMAT vertical lathes and turning centers are available as eccentric, compact or dual-stand machines with a linear turntable axis. It is then up to the customer to choose between an individual machine and a flexible production system.

The Dörries KDSM Series offers a new technically innovative solution for machining large shut-off ball valves for gas and oil pipelines.

Dörries: KDSM Ball turning and grinding machining center

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DROOP + REIN

Efficiency and precision you can rely on

For decades now, Droop + Rein machines have built up an impressive name for themselves in terms of tool and mould-making. They are also firmly established in the international market for aircraft construction and general engineering.
One of Droop + Rein's main technological focuses is the machining of large diesel engines, with a whole host of products ranging from universal, compact portal-type machining centers and high-speed centers right through to the largest portal-type milling machines, which are also available in a gantry design.

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SCHARMANN

Productivity and ultra-precision combined

When it comes to horizontal machining centers and girder boring and milling machines, the DST Scharman DBF 630/800, ECOFORCE and HEAVYSPEED product ranges offer modern, flexible solutions.
They make the most of their comprehensive and adaptable technologies to provide highly economical machining solutions for virtually all sectors of industry.

Scharmann: HEAVYSPEED

BERTHIEZ

Unusually precise and adaptability

The Berthiez TVU and RVU product ranges provide excellent solutions for machining smaller rotationally symmetrical workpieces. Both the lathes and the grinding machines can be adapted to incorporate a wide variety of machining technologies. TVU lathes are characterized by their complete casting design and are reputed for their highly accurate static and dynamic positioning and their high levels of long-term precision.
The RVU Series machines set new standards in terms of high-precision machining for the bearing, aviation and space industries.

Berthiez: RVU

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ECOSPEED

Setting the standard in terms of innovation and technology

In order to meet the increased needs of the aviation sector, Dörries Scharmann provides innovative products featuring technologies which are targeted to suit the machining profile of the industry. The company's products feature the latest, most innovative and efficient machining concepts for integral airplane parts.
The ECOSPEED series, developed by Dörries Scharmann Technologie GmbH, is designed to carry out demanding cutting work on complex parts. The machines are suitable both for series production and for machining individual lots. All of the models in the ECOSPEED series are dynamic and have high levels of precision and finish quality whilst at the same time enabling a scalable investment and providing the ultimate in efficiency and process reliability.

New 2011: ECOSPEED F

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STRONG SYNERGIES

Ideal conditions for a successful future together

With StarragHeckert and Dörries Scharmann now standing shoulder to shoulder, they have created one of the most modern total solutions providers for machine tools in Europe. The two companies have common target markets where they have built up expertise over many years regarding product ranges which are complementary, creating an impressive platform for exploiting synergies. The fusion will give the new group an increased geographical presence in various key markets, and the combined strength it will create in terms of the supply chain, sales and service will provide even better responses to local customers' needs.

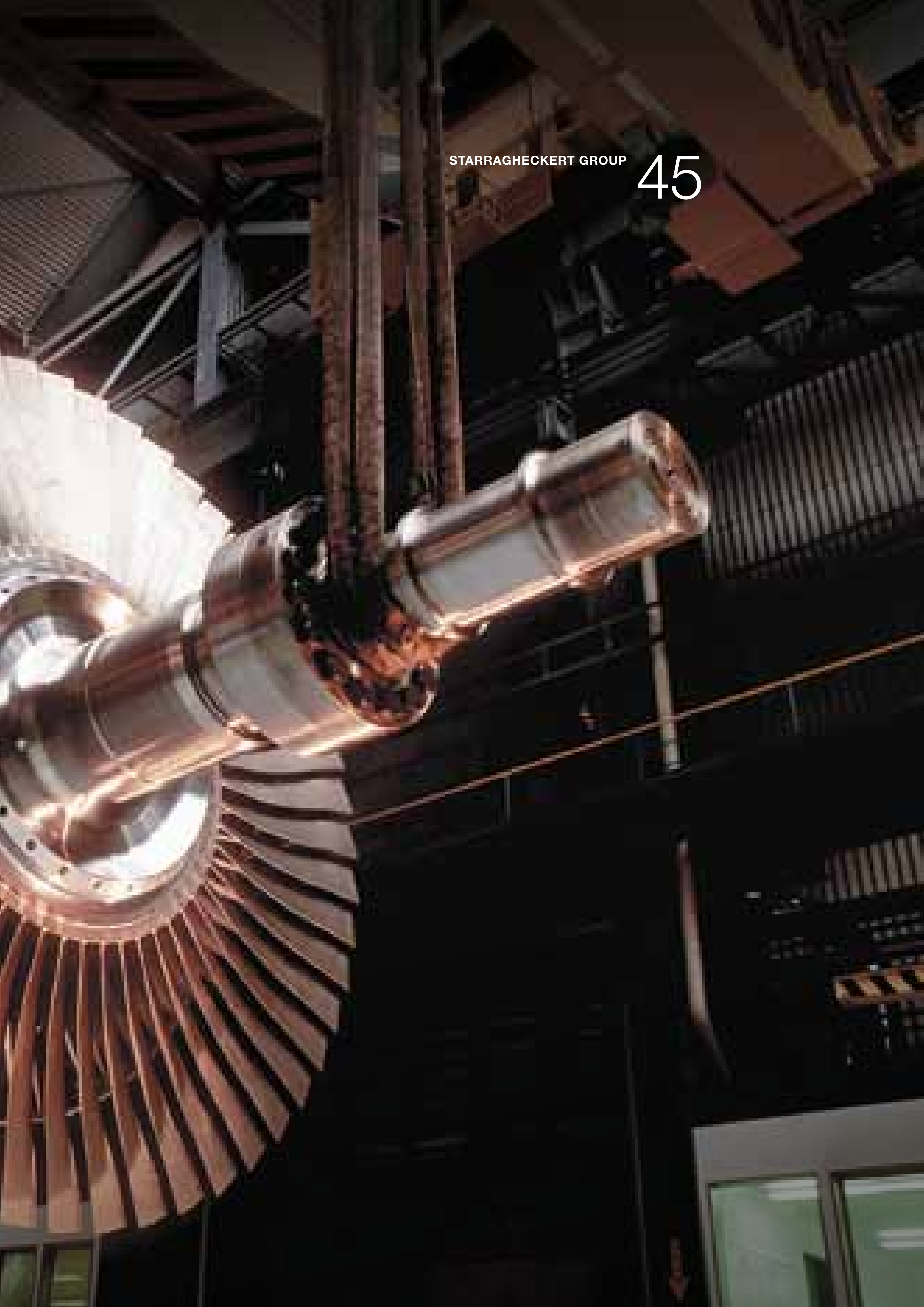
The newly-created group can now provide its highly-reputed global customers, some of whom the two entities already had in common, with excellent and cost-efficient single-source solutions with the highest possible levels of productivity.

Dr. Norbert Hennes, CEO of Dörries Scharmann:

«We consider ourselves fortunate to have found in StarragHeckert a strong industrial partner, both in financial and technological terms. The companies within the Dörries Scharmann Group now have a solid basis from which to look to the future. I am looking forward to the excellent opportunities that this merger will provide.»


CEO Dr. Norbert Hennes
CFO Daniel Rosenthal

CONSOLIDATED FINANCIAL STATEMENTS 2010



CONSOLIDATED INCOME STATEMENT

	CHF 1'000	2010	2009
Sales revenue	1,2	199'192	252'497
Change in self-manufactured products		-824	-4'587
Material expenses		-91'695	-117'130
Gross profit		**106'673**	130'780
Personnel expenses	3	-58'096	-69'657
Operating expenses	4	-34'133	-41'468
Other operating income	5	1'845	2'271
Depreciation and amortization	1,6	-6'152	-6'514
Earnings before interest and taxes EBIT		**10'137**	15'412
Financial income	7	1'693	552
Financial expenses	7	-730	-938
Earnings before tax		**11'100**	15'026
Income tax	24	-3'013	-3'543
Net income		**8'087**	11'483
Thereof:			
→ Shareholders of company	8	8'071	11'391
→ Minority shareholders		16	92
Earnings per share (in CHF)	8	32.66	46.09
Diluted earnings per share (in CHF)	8	32.66	46.09

The enclosed notes are part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

CHF 1'000	31.12.2010	31.12.2009
Net income	**8'087**	11'483
Change in fair value Cash Flow Hedges	572	-332
Income taxes on change in fair value Cash Flow Hedges	-9	83
Currency translation	-11'123	400
Other comprehensive income	-10'560	151
Total comprehensive income	**-2'473**	11'634
Thereof:		
→ Shareholders of company	-2'413	11'501
→ Minority shareholders	-60	133

The enclosed notes are part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

	CHF 1'000	31.12.2010	31.12.2009
Cash and cash equivalents		32'210	11'985
Receivables	9	49'273	61'845
Other financial assets	10	6'094	8'835
Inventories	11	40'066	48'890
Total current assets		**127'643**	131'555
Tangible fixed assets	12	36'137	40'626
Intangible assets	13	5'595	7'193
Total fixed assets	14	**41'732**	47'819
Total assets		**169'375**	179'374

	CHF 1'000	31.12.10	31.12.09
Financial liabilities	15	412	1'003
Operating liabilities	16	12'046	10'549
Accrued expenses and deferred income	17	32'418	33'513
Current income tax		2'910	3'836
Provisions	18	5'613	7'600
Total current liabilities		53'399	56'501
Financial liabilities	15	690	611
Deferred income tax	24	4'485	4'615
Provisions	18	2'315	2'981
Total non-current liabilities		7'490	8'207
Total liabilities		**60'889**	64'708
Share capital	19	21'420	25'200
Own shares	20	-2'801	-2'874
Additional paid-in capital		35'445	35'445
Cash flow hedges		1'841	1'278
Retained earnings		68'667	60'570
Currency translation		-16'801	-5'754
Total shareholders' equity of company		107'771	113'865
Minority shareholders		715	801
Total shareholders' equity		**108'486**	114'666
Total liabilities		**169'375**	179'374

The enclosed notes are part of the consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

CHF 1'000		31.12.2010	31.12.2009
Net income		8'087	11'483
Income tax expenses	24	3'013	3'543
Earnings before income tax		11'100	15'026
Interest expenses	7	32	289
Interest income	7	-171	-192
Depreciation and amortization	6	6'152	6'514
Change in non-current provisions		-440	305
Other non-cash items		-739	545
Change in inventory		3'998	21'233
Change in other non-cash net current assets		15'864	-5'476
Income tax paid		-3'619	-4'107
Cash flow from operating activities, net		**32'177**	34'137
Capital expenditure for			
→ Tangible fixed assets		-3'512	-4'244
→ Intangible fixed assets		-821	-788
Disposals of fixed assets		108	63
Cash flow from investing activities, net		**-4'225**	-4'969
Change in current financial liabilities		-306	-19'779
Repayment of non-current financial liabilities		–	-2'830
Interest paid		-35	-286
Interest received		173	195
Dividend payment	8	-3'733	-4'993
Purchase of own shares	20	–	-9
Cash flow from financing activities, net		**-3'901**	-27'702
Currency translation		-3'826	280
Net change in cash and cash equivalents		20'225	1'746
Cash and cash equivalents at beginning of year		11'985	10'239
Cash and cash equivalents at year end		**32'210**	11'985

The enclosed notes are part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF SHARE-HOLDERS' EQUITY

CHF 1'000		Share capital	Own shares	Additional paid-in capital	Cash flow hedges	Retained earnings	Currency translation	Shareholders' equity of the company	Minority shareholders	**Total shareholders' equity**
31.12.2008		25'200	-2'865	35'445	1'527	54'094	-6'117	107'284	723	108'007
Net income		–	–	–	–	11'391	–	11'391	92	11'483
Other comprehensive income		–	–	–	-249	–	363	114	37	151
Total comprehensive income		–	–	–	-249	11'391	363	11'505	129	11'634
Share-based payment		–	–	–	–	27	–	27	–	27
Dividend payment		–	–	–	–	-4'942	–	-4'942	-51	-4'993
Purchase of own shares		–	-9	–	–	–	–	-9	–	-9
31.12.2009		25'200	-2'874	35'445	1'278	60'570	-5'754	113'865	801	114'666
Net income		–	–	–	–	8'071	–	8'071	16	8'087
Other comprehensive income		–	–	–	563	–	-11'047	-10'484	-76	-10'560
Total comprehensive income		–	–	–	563	8'071	-11'047	-2'413	-60	-2'473
Share-based payment		–	–	–	–	26	–	26	–	26
Dividend payment / Par value repayment	8	-3'780	73	–	–	–	–	-3'707	-26	-3'733
31.12.2010		21'420	-2'801	35'445	1'841	68'667	-16'801	107'771	715	**108'486**

The enclosed notes are part of the consolidated financial statement.

STARRAG HECKERT

StarragHeckert globally provides a comprehensive range of technologically advanced precision milling machines, as well as productivity enhancing software and engineering solutions, engineering and process optimisation projects and a wide range of special tools for customers in the aerospace, energy, vehicle and machine building industry. The company brings to bear a nearly 150 years old heritage of technological innovation to help its customers to be more productive, efficient, precise and innovative.

StarragHeckert includes production plants in Rorschacherberg, Switzerland (Starrag); Chemnitz, Germany (Heckert); Geneva, Switzerland (SIP) and Haddenham, UK (TTL), as well as sales and service companies in China (Shanghai and Beijing); USA (Cincinnati, Dallas and Los Angeles); France, the UK, Russia and Turkey. The shares of StarragHeckert are quoted at the Swiss Stock Exchange SIX (symbol: STGN).

The StarragHeckert Holding AG with its registered office in Seebleichestrasse 61, Rorschacherberg, Switzerland (Business: Holding company) includes the following directly and indirectly controlled group companies:

→ **StarragHeckert Holding GmbH, Chemnitz, Germany**
(Business: Holding company; nominal capital TEUR 4'500; interest 100 %)

→ **Machine Tool Holdings Limited, Haddenham, UK**
(Business: Holding company; nominal capital TGBP 50; interest 100 %)

→ **StarragHeckert AG, Rorschacherberg, Switzerland**
(Business: Production; nominal capital TCHF 10'000; interest 100 %)

→ **StarragHeckert GmbH, Chemnitz, Germany**
(Business: Production; nominal capital EUR 5'113; interest 100 %)

→ **Toolroom Technology Limited, Haddenham, UK**
(Business: Engineering; nominal capital TGBP 20; interest 76 % indirectly)

→ **SIP Société d'Instruments de Précision SA, Satigny, Switzerland**
(Business: Production, nominal capital TCHF 1'500; interest 100 %)

→ **StarragHeckert Inc, Hebron, USA**
(Business: Sales; nominal capital TUSD 30; interest 100 %)

→ **StarragHeckert UK Limited, Haddenham, UK**
(Business: Sales; nominal capital TGBP 1'525; interest 100 %)

→ **StarragHeckert (Shanghai) Co. Ltd., Shanghai, China**
(Business: Sales; nominal capital TUSD 200; interest 100 %)

→ **StarragHeckert Finance Limited, St. Peter Port, Guernsey**
(Business: Financing; nominal capital TGBP 10; interest 100%)

→ **Starrag Heckert Ibérica S.L., Castelldefels (Barcelona), Spain**
(Business: Sales; nominal capital TEUR 3; interest 100%)

→ **StarragHeckert Machine Tools Private Limited, Bangalore, India**
(Business: Production; nominal capital TINR 10'500; interest 100%)

→ **StarragHeckert Makina Ticaret ve Servis Limited Sirketi, Izmir, Turkey**
(Business: Sales; nominal capital TTRY 5; interest 100%)

→ **OOO StarragHeckert, Moskau, Russia**
(Business: Sales, nominal capital TRUB 2'000; interest 100%
first time consolidation due to foundation in May 2009)

→ **StarragHeckert France SARL, Laperche, France**
(Business: Sales; nominal capital TEUR 8; interest 100%
first time consolidation due to foundation in October 2009)

Capital management

The managed capital is equal to the net equity stated in the consolidated balance sheet. Main targets of the capital management are to ensure the necessary financial flexibility and to optimize the capital structure for reducing capital costs in order to create additional value for shareholders and other stakeholders. The equity base is managed periodically with consideration of the economical conditions and the loan agreements (compare note 15). The annual general meeting of shareholders determines the profit distribution and thus the dividend payment. Business development is monitored internally based on segments. Primary performance figure is earnings before interest and taxes EBIT. Additionally, a balanced set of key figures is reported periodically, which gives consideration to the contradictory liquidity, growth and profitability.

Segment information

Internal reporting to the Board of Directors according to the existing organisation structure (Business Units). Business Unit 1 (Rorschacherberg and Geneva) is in charge of the market segments power generation and aerospace and Business Unit 2 (Chemnitz) of precision machinery and transport. Transactions between these two units are valued at costs and an reasonable margin. Intersegment profit eliminations are reported in the column consolidation. The central activities development, purchasing, mechanical manufacturing, finance and controlling, IT and human resources are included in the column Others/consolidation. Such costs are allocated to the business units according to usage as periodically agreed.

The company offers package solutions, comprising of a number of individual products and services. The individual compenents of the sales revenue can generally not be broken down to product and/or service level. Therefore no information on products or services can be reported.

Risk management

A diligent handling of all strategic, financial and operational risks is a top priority for the Board of Directors and the Management Board. StarragHeckert has a comprehensive process for the risk management, which is reviewed by the Management Board and the Board of Directors on an annual basis. The Management Board appointed a risk management representative for the moderation and implementation of the risk management and assigned one responsible member of the Management Board to each risk area.

In the annual risk review there is a diligent identification, assessment, analysis and evaluation of risks and appropriate measures are defined to reduce the risks. This information is documented in a group wide risk matrix. The implementation of the measures is monitored by the risk management representative. In business processes with recurring risks the measures are integrated as process steps in the operative processes of the daily business. On an annual basis, the Management Board reports nature, extent and assessment of significant risks and the measures taken for risk minimization to the Board of Directors. Risks in accounting and financial reporting are monitored and reduced by an adequate internal control system.

Financial risk management

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

Credit risk

The credit risk is limited by the number and the geographical spread of customers' receivables. In addition, it is limited by the adequate examination of the financial situation of customers before entering into a contract. Mostly, customers make advance payments upon order acknowledgement. If appropriate, shipment only follows upon advance payment or letter of credit. The outstanding receivables are constantly monitored.

Counterpary risk

StarragHeckert mainly holds his cash equivalents as deposit or current account with major creditworthy banks. Generally these deposits have durations under three months. Deals with derivative financial tools are concluded with major financial institutes only.

Foreign currency risk

The StarragHeckert Group does not enter into business operations in foreign currencies which show an extraordinary high volatility. The foreign currency risk results mainly from sales and purchases in foreign currencies other than in the functional currency. If adequate, hedge instruments like forward exchange contracts and currency option contracts with internationally well rated banks are applied to hedge business in foreign currencies.
As well, probable future orders will be hedged in certain cases. Foreign currency risks occurring from the translation of income statement and balance sheet positions of foreign group companies are not secured.

Interest rate risk
The interest rate risk results particularly from floating interest rates for bank loans. Partly, these interest rates are fixed for short or long terms through loans with fixed interest rates.

Liquidity risk
Liquidity risk is limited by stipulated cash lines which cover the peak demand for working capital. It is continuously monitored through a liquidity status.

Management assumptions and estimates

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances. The resulting accounting estimates will naturally seldom comply with the actual outcome. Main sources of critical accounting estimates are:

Evaluation of net realizable values and profit shares of percentage of completion valued orders. While preparing the accounts, the company continuously examines the valuation of various balance sheet positions which are related with the regular machine tool business. In this connection assumptions have to be made regarding costs to complete and realizable market prices. Should situations occur which change previous assumptions regarding realizable income, costs to complete or percentage of completion, these assumptions will be adjusted. This may lead to adjustments of the affected balance sheet items and to the result. The carrying values of the potentially affected balance sheet items are included in the notes 11 (work in progress and finished products) and 21 (percentage of completion valued contracts).

Provisions for warranty obligations and onerous contracts: While doing regular business, the company may be involved in legal disputes. Provisions for pending disputes are estimated by evaluating the realistic cash outflow on the basis of existing information. The final outcome of such a dispute may lead to resulteffecting adjustments in provisions (see note 18).

The evaluation of current tax liabilities is subject to the interpretation of tax laws in the respective countries. Its adequateness will be examined at the final evaluation and the audit by the tax authorities, sometimes retrospectively for several business years. Thus, major adjustments in tax expenses may occur.

KEY ACCOUNTING PRINCIPLES

Basis of presentation

The consolidated financial statements of the StarragHeckert Group are prepared in accordance with International Financial Reporting Standards (IFRS). The financial statements are based on historical costs, with the exception of cash and cash equivalents as well as derivative financial instruments which are valued at market value. The presentation is in Swiss Francs (CHF). The financial statements include estimates and assumptions that affect reported amounts and related disclosures. Actual results may differ from these estimates.

Consolidation principles

The consolidated financial statements include those of StarragHeckert Holding AG and its directly and indirectly controlled subsidiaries. All assets and liabilities as well as income and expenses are included in the consolidated financial statements. All intercompany transactions (income and expenses, receivables and liabilities) as well as gains on such transactions are eliminated. Capital consolidation is based on the purchase method, whereby the acquisition costs of a subsidiary are eliminated at the time of acquisition against net assets at fair value, determined according to uniform corporate valuation principles. There has been no amortization of goodwill as its value is being reassessed annually (impairment test). An impairment will immediately be recorded in the income statement. Net income of acquired subsidiaries is included in the consolidated financial statements beginning at acquisition date.

Currency translation

Foreign currency transactions are recorded at the exchange rate of the transaction date. Foreign currency receivables and liabilities at balance sheet date are translated using the exchange rate of that date. Resulting translation differences are recorded in the income statement. Not-monetary positions are not revaluated at balance sheet date.

Assets and liabilities of foreign subsidiaries are translated to CHF using the exchange rates of balance sheet date. Average exchange rates are used for the translation of the income statements. Translation differences arising from the consolidation of financial statements are booked on equity.

Sales revenue and profit realisation

Sales revenue is recorded on transition of benefit and risk. Sales revenue from construction contracts at fixed prices are reported including a profit share depending on percentage of completion (percentage of completion method). Percentage of completion is defined by the direct contracts costs excluding material costs.

In the balance sheet, the contract value after deduction of received payments is reported under receivables or accrued expenses and deferred income from percentage of completion valued contracts.

Research and development

Research costs are charged to the income statement when incurred. Development costs are merely capitalized to the extent that such an amount is covered by corresponding expected income. Capitalized developments are being reassessed yearly (impairment test). All other research and development costs are charged to the income statement when incurred.

Income tax

Income tax expense includes all income tax on the taxable profits of the group. For tax (esp. withholding tax) on future dividend payments on retained earnings, provisions are only set up if such dividend payments are probable. Provisions for deferred income tax are calculated by applying the liability method on the temporary differences between the carrying values and tax values of assets and liabilities. Tax relief on tax losses carried forward is only recognized 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 and bank balances as well as sight and deposit money with a original term of less than 3 months. These are valued at market value.

Receivables

Receivables are carried at their nominal value less impairment allowance which approximates the market value. The impairment allowance is determined on the basis of due dates and recognizable credit risks. Receivables include receivables from percentage of completion valued contracts after deduction of received payments.

Inventories

Raw materials and trade goods are carried at average purchase costs, manufactured products at average manufacturing costs. Discounts are recognized as purchase cost reductions. If the realizable 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 related overhead costs. Obsolete and slow moving items are adequately pro- vided for.

Tangible fixed assets

Tangible fixed assets are carried at historical costs less appropriately accumulated depreciation. Depreciation is calculated using the straight line method for the estimated useful lives of: buildings 20 to 50 years (considering an adequate residual value), technical equipment and machines 4 to 12 years, IT hardware and communication 3 to 8 years. Land is not depreciated. All gains and losses on disposals of tangible fixed assets are booked on the income statement. Assets of low value are charged directly to operating expenses.

Intangible assets

Goodwill resulting from the acquisition of a company is reported in intangible assets. It is assumed that goodwill has an unlimited useful life and thus, is not amortized but reassessed at least once a year (impairment test). This impairment test is based on current business plans considering past and future market developments. The discount rates used are pre-tax rates and reflect the market and country specific risks.

Other intangible assets are carried at historical cost less accumulated amortization.
Using the straight line method, amortization of intangible assets is effected for the estimated useful life, i.e. of patents and licenses 5 to 10 years, of development costs 5 years and of IT software 3 to 8 years.

Provisions

Provisions are made if a present obligation resulting from a past event exists, 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.

Pension benefits

The pension benefit situation of StarragHeckert companies' staff is in accordance with the legal requirements of the particular countries. The pension benefit situation of the Swiss companies is in accordance with the Swiss Pension Benefit Act (BVG). The Swiss pension benefit plans are separate funds which are financially independent from StarragHeckert and which have their pension benefit plans (according to Swiss law defined contribution plans) reinsured with an insurance company on a matching basis. The German companies do not maintain a pension benefit scheme, as personnel is covered by the state pension.

Employer's contributions to defined contribution plans are charged to the income statement when due. With defined benefit plans, pension benefit obligation equals to the present value of future cash outflows using interest rates of corporate or government bonds with a duration in line with the average cash outflow term. All actuarial profits and losses are amortized over the average remaining service time if they exceed 10% of the greater of the value of plan assets or 10 % of the defined benefit obligation. Actuarial gains and losses are reported in personnel expenses. Overfundings are only capitalized if they are actually available as future contribution refunds or reductions.

Share-based payment

Since 2004, there is an option agreement between the majority shareholder and the CEO. The majority shareholder grants the CEO the right to purchase 7'500 registered shares at a price of CHF 360 per share at his retirement in 2013 unless the CEO quits his employment by unilateral notice. This option agreement is treated in accordance with IFRS 2 (Share-based payment). The fair value is recorded over the term of the option agreement as personnel expenses in the income statement and is credited
in equity.

Financial instruments

Financial assets include cash, cash equivalents and receivables. Financial liabilities mainly include financial debts. Using the «effective interest method», these are valued at discounted cost as other financial liabilities. Apart from interest payments, yearly interest mark-up and pro rata transaction costs are also included in interest expenses.

To react on short-term currency fluctuations, derivative foreign exchange hedge instruments are used. These are valued at market based on quoted market values at the balance sheet date.

Changes of the market value arising from foreign exchange hedge transactions («Cash Flow Hedges») closed for hedging orders in foreign currencies are included in the other comprehensive income, as far as standards regarding documentation, validity and assessment are met. Changes in market value accumulated in the other comprehensive income are recorded in the income statement when the scheduled transaction has become recognized in income. If the standards are not met, the cash flow hedges are recognized at market value as financial instruments held for trading purposes. The result is reported in the financial result. The underlying market value is based on observable market data (level 2 of the fair value hierarchy).

Application of new or revised standards

For the accounts on 31 December 2010 the following new standards and interpretation as well as adjustments of existing standards apply for the first time:

- → **IAS 27 (revised)** → Consolidated and separate financial statements
- → **IAS 39 (revised)** → Financial Instruments: Recognition and Measurement
- → **IFRS 2 (revised)** → Share based payment
- → **IFRS 3 (revised)** → Business combinations
- → **IFRIC 17** → Distribution of non-cash assets to owners
- → **IFRIC 18** → Distribution of non-cash assets from customers
- → **IASB Annual Improvement Project 2009 and remaining adjustments 2008**

The first-time application of these standards did not influence the values in the consolidated financial statements but the notes to the consolidated financial statements were extended accordingly.

The following new standards and interpretations will become effective in successive periods:

- → **IAS 12 (revised)** → Deferred Tax (for business years starting from 1. January 2012)
- → **IAS 24 (revised)** → Related Party Disclosures (for business years starting from 1. January 2011)
- → **IAS 32 (revised)** → Financial Instruments: Presentation (for business years starting from 1. February 2010)
- → **IFRS 7 (revised)** → Financial Instruments: Disclosures (for business years starting from 1. July 2011)
- → **IFRS 9** → Financial Instruments (for business year starting from 1. January 2013)
- → **IFRIC 14 IAS 19** → Limits on a Defined benefit Asset, Minimum Funding Requirements and their Interaction (for business years starting from 1. January 2011)
- → **IFRIC 19** → Extinguishing financial liabilities with equity instruments (for business years starting from 1. July 2010)
- → **IASB Annual Improvement Project 2010**

Based on a first evaluation it can be expected that these standards will marginally influence the consolidated financial statements and lead to additional disclosure, but systematical analysis could not yet be made.

SEGMENT INFORMATION

1 Reporting by production site

	Business Unit 1		Business Unit 2		Others / consolidation		Total	
CHF 1'000	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Sales revenue with third parties	**100'873**	128'071	**98'068**	123'805	**251**	621	**199'192**	252'497
Sales revenue with group companies	1'845	2'197	10'355	8'646	-12'200	-10'843	–	–
Depreciation and amortization	-2'872	-2'713	-3'057	-3'698	-223	-103	-6'152	-6'514
Earnings before interest and taxes (EBIT)	**2'043**	9'765	**6'350**	2'403	**1'744**	3'244	**10'137**	15'412
Operating assets on 31 December	71'468	87'356	61'274	75'567	4'423	4'467	137'165	167'390
Operating liabilities on 31 December	-23'770	-28'986	-28'285	-22'901	-337	-2'756	-52'392	-54'643
Operating net assets on 31 December	**47'698**	58'370	**32'989**	52'666	**4'086**	1'711	**84'773**	112'747
Goodwill	755	870	1'067	1'277	–	–	1'822	2'147
Capital expenditure	1'571	2'313	2'426	2'444	228	275	4'225	5'032
Non-cash income	–	–	–	241	-739	304	-739	545

Earnings before interest and taxes (EBIT) in column Others/consolidation corresponds to the over or under absorption of the periodically agreed cost allocationof the central activities to the business units.

The operating net assets contain the operating assets without cash and cash equivalents less operating liabilities (without financial liabilities and without income taxes).

For the annual impairment test of goodwill a discount rate before tax of 10 % was used. The impairment test is based on the current business plan and does not consider a growth rate of the residual value.

Additional segment information are disclosed in Note 2 and 14.

NOTES ON INCOME STATEMENT

2 Sales revenue by production site

	CHF 1'000	2010	2009
Switzerland		92'496	118'341
Germany		96'607	123'323
Other countries		10'089	10'833
Total		**199'192**	252'497

3 Personnel expenses

	CHF 1'000	2010	2009
Wages and salaries		48'422	54'406
Pension benefits	23	1'788	1'832
Social benefits		7'215	8'316
Other personnel expenses		671	5'103
Total personnel expenses		**58'096**	69'657

4 Operating expenses

Operating expenses particularly comprise project risk costs, facility expenses, maintenance and repair of tangible fixed assets and travel, entertainment and administration expenses.

5 Other operating income

	CHF 1'000	2010	2009
Sublease income		746	976
Government grants		368	564
Profit from sales of assets		53	25
Other operating income		678	706
Total other operating income		**1'845**	2'271

Government grants are tied to certain research and development subjects. There are no other conditions attached to them. Government grants are recognized as income over the periods necessary to match them with related costs on a systematic basis.

6 Depreciation and amortization

CHF 1'000	2010	2009
Buildings	1'265	1'341
Machinery and equipment	2'688	2'605
Other tangible assets	387	386
Total depreciation tangible fixed assets	**4'340**	4'332
Development costs	938	1'156
IT software	874	1'026
Total amortization of intangible assets	**1'812**	2'182
Total depreciation and amortization	**6'152**	6'514

7 Financial result

CHF 1'000	2010	2009
Interest income	171	192
Interest expenses	-32	-289
Currency gains	1'522	360
Other financial expenses	-698	-649
Total financial result, net	**963**	-386
Thereof:		
→ Financial income	1'693	552
→ Financial expenses	-730	-938
Result from available-for-sale financial instruments	226	357

8 Details on shares

Earnings per share are determined by dividing net income after income tax less share of minority shareholders by the weighted average number of issued shares (excluding own shares). In 2010, the number of shares was 247'113 (prior year 247'113). Based on the net result attributable to the shareholders of the company of CHF 8.1 million (prior year CHF 11.4 million) net earnings per share come to CHF 32.66 (prior year CHF 46.09).
As there were no outstanding share options and convertible bonds, earnings per share were not diluted.

At the general meeting on 9 April 2011, the Board of Directors will apply for the distribution of CHF 10.00 per share out of the legal reserve from capital contribution. Of the annual result 2009, a par value repayment of CHF 15.00 has been paid.

NOTES ON BALANCE SHEET

9 Receivables

CHF 1'000	**31.12.2010**	31.12.2009
Trade receivables	12'909	13'239
Receivables from POC valued contracts	31'102	44'659
Other receivables	5'262	3'947
Total receivables	**49'273**	61'845
Thereof:		
→ not due	43'027	55'319
→ past due ≤ 90 days, not impaired	3'648	3'725
→ past due ≥ 90 days, not impaired	450	908
→ impaired	2'148	1'893
Thereof:		
→ CHF	26'093	31'226
→ EUR	20'153	25'668
→ USD	1'477	3'724
→ other	1'550	1'227

Trade receivables include no receivables, which are due following the fulfilment of contracted conditions. In consequence of the number and the geographical spread of customers' receivables, no substantial risk concentrations arise.

CHF 1'000	**2010**	2009
Allowance for doubtful accounts at beginning of year	2'243	3'030
Increase	488	845
Decrease	-36	-1'189
Use	-419	-462
Currency translation	-129	19
Allowance for doubtful accounts at end of year	2'147	2'243

10 Other financial assets

CHF 1'000	**2010**	2009
Prepayments to suppliers	2'594	2'908
Deferred expenses	1'774	4'508
Cash Flow Hedges	1'726	1'419
Total other financial assets	**6'094**	8'835

The Cash flows from the Cash flow hedges are expected within an average of 3 to 12 months.

11 Inventories

CHF 1'000	**31.12.2010**	31.12.2009
Raw materials and components	24'421	32'078
Work in progress	11'293	9'909
Finished products	4'352	6'903
Total inventories	**40'066**	48'890

In 2010 an expense for valuation allowance of inventories of CHF 2.0 million was recorded (prior year CHF 9.1 million).

12 Tangible fixed assets

	2010				2009			
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**
Gross value at beginning of year	41'707	39'004	4'101	84'812	40'834	37'965	4'613	83'412
Additions	673	2'105	623	3'401	801	3'636	167	4'604
Government grants	–	-488	–	-488	–	–	–	–
Disposals	–	-3'477	-586	-4'063	-17	-2'777	-583	-3'377
Reclassification	–	223	-223	–	–	119	-119	–
Currency translation	-2'674	-3'163	-198	-6'035	89	61	23	173
Gross value at year end	**39'706**	**34'204**	**3'717**	**77'627**	41'707	39'004	4'101	84'812
Accumulated depreciation at beginning of year	15'502	25'522	3'162	44'186	14'155	25'662	3'324	43'141
Depreciation	1'265	2'688	387	4'340	1'341	2'605	386	4'332
Disposals	–	-3'450	-558	-4'008	-12	-2'749	-578	-3'339
Currency translation	-1'246	-1'548	-234	-3'028	18	4	30	52
Accumulated depreciation at year end	**15'521**	**23'212**	**2'757**	**41'490**	15'502	25'522	3'162	44'186
Net book value at beginning of year	26'205	13'482	939	40'626	26'679	12'303	1'289	40'271
Net book value at year end	**24'185**	**10'992**	**960**	**36'137**	26'205	13'482	939	40'626
Fire insurance value at year end	95'206	52'180		147'386	105'374	61'765		167'139

13 Intangible assets

CHF 1'000	2010 Goodwill	2010 Develop-ment costs	2010 IT Software	2010 Patents and licences	2010 Total	2009 Goodwill	2009 Develop-ment costs	2009 IT Software	2009 Patents and licences	2009 Total
Gross value at beginning of year	2'147	9'979	9'386	261	21'773	2'064	9'753	9'096	257	21'170
Additions	–	362	459	–	821	–	200	387	4	591
Disposals	–	–	-336	–	-336	–	–	-114	–	-114
Currency translation	-325	-966	-786	-41	-2'118	83	26	17	–	126
Gross value at year end	**1'822**	**9'375**	**8'723**	**220**	**20'140**	2'147	9'979	9'386	261	21'773
Accumulated depreciation at beginning of year	–	6'697	7'630	253	14'580	–	5'534	6'709	253	12'496
Depreciation	–	938	874	–	1'812	–	1'156	1'026	–	2'182
Disposals	–	–	-336	–	-336	–	–	-114	–	-114
Currency translation	–	-812	-658	-41	-1'511	–	7	9	–	16
Accumulated amortization at year end	–	**6'823**	**7'510**	**212**	**14'545**	–	6'697	7'630	253	14'580
Net book value at beginning of year	2'147	3'282	1'756	8	7'193	2'064	4'219	2'387	4	8'674
Net book value at year end	**1'822**	**2'552**	**1'213**	**8**	**5'595**	2'147	3'282	1'756	8	7'193

14 Fixed assets

CHF 1'000	**2010**	2009
Switzerland	23'380	24'590
Germany	16'444	21'580
Other countries	1'908	1'649
Total	**41'732**	47'819

15 Financial liabilities

CHF 1'000	**31.12.2010**	31.12.2009
Current financial liabilities	412	1'003
Non-current financial liabilities	690	611
Total financial liabilities	**1'102**	1'614
Thereof in:		
→ CHF	–	458
→ EUR	1'102	1'156
Market value	1'102	1'614
Contractual Cash flows	**1'323**	1'778
Thereof:		
→ due within 1 year	457	1'035
→ due within 2 to 5 years	866	743
→ due thereafter	–	–
Average interest rate	0.9 %	1.4 %
Unused credit lines	61'487	67'539

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 are maintained.

16 Operating liabilities

CHF 1'000	**31.12.2010**	31.12.2009
Trade liabilities	8'338	6'971
Other operating liabilities	3'708	3'578
Other operating liabilities	**12'046**	10'549
Thereof:		
→ due within 6 months	12'046	10'549

17 Accrued expenses and deferred income

	CHF 1'000	**31.12.2010**	31.12.2009
Construction contracts	21	10'947	11'837
Project costs		10'007	8'862
Personnel expenses		3'985	4'672
Commissions		977	1'710
Other		6'502	6'432
Total accrued expenses and deferred income		**32'418**	33'513

18 Provisions

	2010		
CHF 1'000	Warranty	Other Provisions	**Total**
Value at beginning of year	8'273	2'308	10'581
Increase	3'968	324	4'292
Decrease	–	-679	-679
Use	-4'638	-708	-5'346
Currency translation	-690	-230	-920
Value year end	**6'913**	**1'015**	**7'928**
Thereof:			
→ Current	4'598	1'015	5'613
→ Non-current	2'315	–	2'315

Provisions are split into the categories warranty for products sold and other provisions. Other provisions include provisions for onerous contracts, personnel expenditure and project risks. On average, it is assumed that a cash flow in warranties will occur within 6 to 24 months and in other provisions within 6 to 12 months.

19 Share capital

CHF 1'000	**31.12.2010**	31.12.2009
Issued and fully paid-in capital:		
→ 252'000 registered shares at nominal value of CHF 85 each	21'420	–
→ 252'000 registered shares at nominal value of CHF 100 each	–	25'200
Conditional capital not issued:		
→ 50'400 registered shares at nominal value of CHF 85 each	4'284	–
→ 50'400 registered shares at nominal value of CHF 100 each	–	5'040
Authorized capital not issued:		
→ 126'000 registered shares at nominal value of CHF 85 each	10'710	–
→ 126'000 registered shares at nominal value of CHF 100 each	–	12'600

The following registered shareholders have voting rights of more then 5 percent at 31.12.2010:

→ Walter Fust	54.9 %	54.8 %
→ Eduard Stürm AG	13.0 %	13.0 %

	Number of shares 31.12.2010		Number of shares 31.12.2009	
Participations of Board of Directors and Management Board:	Shares	Options	Shares	Options
Walter Fust	138'288	–	138'147	–
Dr. Hanspeter Geiser	210	–	225	–
Valentin Vogt	200	–	200	–
Prof. Dr. Christian Belz	100	–	100	–
Adrian Stürm	150	–	145	–
Total Board of Directors	138'948	–	138'817	–
Dr. Frank Brinken	210	7'500	210	7'500
Gerold Brütsch	10	–	10	–
Günther Eller	20	–	20	–
Stefan Knellwolf	41	–	41	–
Total Management Board	281	7'500	281	7'500

20 Own Shares

CHF 1'000	**31.12.2010**	31.12.2009
Amount	2'801	2'874
Number	4'895	4'895

In 2009, a total of 20 shares have been purchased at an average price of CHF 488 per share.

OTHER NOTES

21 Construction contracts

CHF 1'000	2010	2009
Revenue from construction contracts	165'287	210'544

CHF 1'000	31.12.2010	31.12.2009
Accrued contract costs and recognized profit	103'435	127'050
Advance payments received	-83'280	-94'228
Net value from construction contracts	**20'155**	32'822
Thereof:		
→ Receivables from construction contracts	31'102	44'659
→ Accrued expenses and deferred income	-10'947	-11'837

22 Research and development

Expenditure for research and development amounts to CHF 16.8 million or 8.4 % of sales revenue (prior year CHF 19.9 million or 7.9 %). After consideration of government grants as well as capitalization and depreciation of development projects, the income statement was charged with CHF 17.0 million net or 8.6 % of sales revenue (prior year net CHF 20.3 million or 8.1 % of sales revenue).

23 Pension benefits

CHF 1'000		2010	2009
Current service cost		3'602	3'568
Interest cost		1'741	1'675
Anticipated return on plan assets		-2'117	-1'957
Employers' contributions		-1'650	-1'650
Plan curtailment		63	–
Actuarial profits (-) / losses (+)		11	14
Expenses for defined benefit plans		1'650	1'650
Expenses for defined contribution plans		138	182
Pension benefit expenses	3	**1'788**	1'832

CHF 1'000	31.12.2010	31.12.2009
Plan assets at market value	54'908	57'501
Defined benefit obligation	-59'382	-53'609
Overfunding	–	3'892
Underfunding	-4'474	–
Actuarial profits (-) / losses (+)	4'763	-366
Amount booked in the balance sheet	**289**	3'526
Thereof:		
→ Other operating liabilities	–	–
→ Deferred expenses	289	3'526

CHF 1'000	2010	2009
Present value of defined benefit obligation, beginning of year	53'609	51'544
Current service cost	3'602	3'568
Interest cost	1'741	1'675
Benefits paid	-4'853	-5'425
Contributions	656	1'301
Plan curtailment	63	–
Actuarial profits (-) / losses (+)	4'564	946
Present value of defined benefit obligation, end of year	**59'382**	53'609

CHF 1'000	2010	2009
Plan assets, beginning of year	57'501	52'182
Contributions	646	8'023
Benefits paid	-4'853	-5'425
Anticipated return on plan assets	2'117	1'957
Actuarial profits (+) / losses (-)	-503	764
Plan assets, end of year	**54'908**	57'501
Thereof:		
→ Surrender value of insurance contracts	50'194	49'679
→ Equity funds	2'900	3'048
→ Bond funds	1'238	1'083
→ Other investments	576	3'691

CHF 1'000	2010	2009
Actuarial assumptions:		
Discount rate	2.50 %	3.25 %
Salary increase	1.00 %	1.00 %
Pension increase	0.00 %	0.50 %
Return on plan assets	3.25 %	3.75 %
Exit probability	BVG 2005	BVG 2005
Mortality	BVG 2005	BVG 2005
Early retirement	keine	keine
Average remaining service time	9.7	9.0

CHF 1'000	2010	2009	2008	2007	2006
Plan assets at market value	54'908	57'501	52'182	48'515	48'142
Defined benefit obligation	-59'382	-53'609	-51'544	-45'330	-47'119
Overfunding	–	3'892	638	3'185	1'023
Underfunding	-4'474	–	–	–	–
Experience adjustments plan assets	-492	240	1'395	-59	–
Experience adjustments defined benefit obligations	4'519	909	-2'325	-856	–

The expected return on plan assets will be defined by the achievable return of the existing assets according to the current investment policy. The expected long-term return for the surrender value of the insurance contract amounts to 3.25 % (prior year 3.75 %).
The estimated contributions for the actual business year of CHF 3.4 million were prepaid in 2009. The estimated contributions for 2011 are CHF 3.6 million.

24 Income tax

CHF 1'000	**2010**	2009
Earnings before income tax	11'100	16'012
Tax expenses at anticipated tax rate of 17 %	-1'888	-2'722
Tax expenses at other tax rates	-695	-334
Debits /credits from prior reporting periods	-14	-66
Use of non-capitalized tax loss carry forward	38	45
Non-deductable expenses / non-taxable income	-95	-313
Non-capitalized tax loss carry forward	-359	-153
Recognized income tax	**-3'013**	-3'543
Thereof:		
→ Current income tax expenses	-3'085	-4'865
→ Deferred income tax expenses	72	1'322

The anticipated tax rate is the applicable tax rate at the company's domicile.

CHF 1'000	**31.12.2010**	31.12.2009
Temporary differences in:		
Receivables	3'629	4'293
Fixed assets	-7	231
Other	1'195	461
Tax loss carry forward	-860	-751
Value adjustment	528	381
Total deferred income tax	**4'485**	4'615

On 31 December 2010 there are off balance sheet tax losses carried forward of CHF 3.1 million (prior year CHF 2.0 million), whereof CHF 2.9 million expire within three to seven years (prior year CHF 1.5 million) and CHF 0.2 million do not expire (year prior CHF 0.5 million). Deferred tax assets on tax loss carry-forward of CHF 0.5 million (prior year CHF 0.4 million) have not been capitalised.

CHF 1'000	**2010**	2009
Deferred taxes at beginning of year	4'615	5'970
Expense for deferred taxes	72	-1'322
Deferred taxes on fair-value changes of Cash wFlow Hedges recognized in equity	-9	-83
Currency translation	-193	50
Deferred taxes at end of year	**4'485**	4'615

25 Derivative financial instruments

CHF 1'000	**31.12.2010**	31.12.2009
Forward currency exchange contracts: Contract value	17'968	29'021
Replacement value:		
→ positive	1'736	1'286
→ negative	–	-18
Foreign currency option contracts: Contract value	–	1'943
Replacement value:		
→ positive	–	133

26 Sensitivity analysis for changes in foreign currencies and interest rates
Assumed that the Euro compared to the Swiss Franc at 31.12.2010 would have been listed 5 % lower, while all other parameters would have been constant, the profit after tax would be CHF 0.1 million lower (prior year CHF 0.4 million). In the reverse case, the profit after tax would be CHF 0.1 million higher (prior year CHF 0.4 million).

Assumed that the U.S. Dollar compared to the Swiss Franc at 31.12.2010 would have been listed 5 % lower, while all other parameters would have been constant, the profit after tax would be unchanged (prior year unchanged), the equity would be CHF 0.6 million higher (prior year CHF 0.7 million). In the reversed case, the profit after tax would be unchanged too (prior year unchanged), the equity would be CHF 0.7 million lower (prior year CHF 0.7 million).

Assumed that the interest rates would have been 25 basis points higher while all other parameters would have been constant, the profit after tax and the equity would be unchanged (prior year CHF 0.1 million lower). In the reversed case, the profit after tax would be unchanged too (prior year CHF 0.1 million higher).

27 Operating lease liabilities

CHF 1'000	31.12.2010	31.12.2009
→ Due within 1 year	1'774	1'756
→ Due within 2 to 5 years	2'631	4'291
Total operating lease liabilities	**4'405**	6'047

CHF 1'000	2010	2009
Expenses for operating lease liabilities debiting the income statement amount to	1'888	1'823

The leasing liabilities are for premises, cars and office equipment.

28 Other commitments

CHF 1'000	31.12.2010	31.12.2009
Purchase commitment towards suppliers	34'647	46'888
Contractual commitments for capital expenditure	880	38
Guarantees	312	562

From time to time, StarragHeckert is confronted with claims which have to be considered as normal side effects of the operating business. These concern especially warranty obligations, property damage and financial loss as well as product liability. For these liabilities, provisions and sureties exist, which StarragHeckert believes to be sufficient for any foreseeable risks.

29 Remunerations to the Board of Directors and the Management Board
The current remunerations paid to non-executive members of the Board of Directors amount to kCHF 230 (prior year kCHF 293). The current remunerations for the Management Board in the reporting year added up to kCHF 1’869 (prior year kCHF 2’130). There have been no payments or other benefits and remunerations after termination of employment contracts.

	Remunerations (CHF 1'000) 2010					Remunerations (CHF 1'000) 2009				
CHF 1’000	Fixed	Variable	Options	Pension and other	**Total**	Fixed	Variable	Options	Pension and other	**Total**
Walter Fust	61	2	–	3	66	69	10	–	6	85
Dr. Hanspeter Geiser	36	2	–	3	41	36	10	–	6	52
Valentin Vogt	36	2	–	3	41	36	10	–	6	52
Prof. Dr. Christian Belz	36	2	–	3	41	36	10	–	6	52
Adrian Stürm	36	2	–	3	41	36	10	–	6	52
Total amount Board of Directors	205	10	–	15	230	213	50	–	30	293
Total amount Management Board (6 persons)	1’553	72	26	218	1’869	1’573	301	26	230	2’130
Thereof:										
→ Dr. Frank Brinken	365	24	26	59	474	365	100	26	64	555

Legal advice services in the total amount of kCHF 19 (prior year kCHF 13) have been purchased from a member of the Board of Directors.

30 Exchange rates

CHF 1'000	2010	2009
Average rates (for income statement and cash flow statement)		
1 EUR	1.4027	1.5276
1 USD	1.0563	1.0997
1 GBP	1.6322	1.7132
1 CNY	0.1581	0.1655

CHF 1'000	2010	2009
Year end rates (for balance sheet)		
1 EUR	1.2587	1.5059
1 USD	0.9470	1.0483
1 GBP	1.4625	1.6851
1 CNY	0.1435	0.1577

31 Events after balance sheet date

The consolidated financial statement was approved and released for publishing by the Board of Directors on 1 March 2011. Furthermore, it is subject to the shareholders' acceptance at the annual general meeting which will take place on 9 May 2011.

On 19 January 2011, StarragHeckert acquired 100 % of the shares of Dörries Scharmann Technology GmbH, a group of companies which is specialized in the production of machine tools. The purchase price of EUR 70 million has been financed by own liquid assets and a bridge loan in the amount of EUR 50 million from the majority shareholder Walter Fust. The loan is planned to be refinanced by an increase of the shareholder capital within the next few months. The assessment of the assets, debts and contingent liabilities taken over has not been concluded by 1 March 2011, therefore the current values, the net book values and the goodwill resulting from the merger cannot be numeralized.

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING

OF STARRAGHECKERT HOLDING AG, RORSCHACHERBERG

As statutory auditor, we have audited the consolidated financial statements of StarragHeckert Holding AG, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes (pages 46 to 78), for the year ended 31 December 2010.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as the International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment ofthe risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

Urs Honegger
Audit expert
Auditor in charge

Martin Graf
Audit expert

St. Gallen, 1 March 2011

INCOME STATEMENT

CHF 1'000	**2010**	2009
Revenue from group companies	4'778	4'270
Financial income	1'653	2'080
Revenue	**6'431**	6'350
Personnel expenses	-231	-307
Administrative expenses	-335	-342
Depreciation and amortization	-1'608	-3'095
Financial expenses	-2'320	-10
Tax	-5	2
Net result	**1'932**	2'598

BALANCE SHEET

CHF 1'000	31.12.2010	31.12.2009
Cash and cash equivalents	421	3
Own shares	2'801	2'697
Receivables – third parties	2	35
Receivables – group companies	7'344	13'493
Deferred expenses	32	–
Total current assets	**10'600**	16'228
Loans – group companies	21'535	20'199
Investments	40'072	39'252
Total fixed assets	**61'607**	59'451
Total assets	**72'207**	75'679

CHF 1'000	31.12.2010	31.12.2009
Liabilities - group companies	600	2'145
Other liabilities	11	1
Accrued expenses and deferred income	238	326
Total current liabilities	**849**	2'472
Total liabilities	**849**	2'472
Share capital	21'420	25'200
Legal reserve from capital contributions since 1997	34'020	–
Other legal reserve	1'222	35'242
Reserves for own shares	2'801	2'874
Retained earnings from prior years	9'963	7'293
Net result	1'932	2'598
(Total retained earnings)	(11'895)	(9'891)
Total shareholders' equity	**71'358**	73'207
Total liabilities and shareholders' equity	**72'207**	75'679

CHF 1'000	**31.12.2010**	31.12.2009
Sureties, guarantees and pledges		
Sureties	146'817	159'918
Guarantees	2'993	4'089

Investments

- → **Starrag-Heckert Holding GmbH, Chemnitz, Germany**
  (Business: Holding company, nominal capital TEUR 4'500, interest 100 %)
- → **Machine Tool Holdings Ltd., Haddenham, UK**
  (Business: Holding company, nominal capital TGBP 50, interest 100 %)
- → **StarragHeckert AG, Rorschacherberg, Switzerland**
  (Business: Production, nominal capital TCHF 10'000, interest 100 %)
- → **SIP Société d'Instruments de Précision SA, Satigny, Switzerland**
  (Business: Production, nominal capital TCHF 1'500; interest 100 %)
- → **Starrag-Heckert Inc., Hebron, USA**
  (Business: Sales, nominal capital TUSD 30, interest 100 %)
- → **StarragHeckert (Shanghai) Co. Ltd., Shanghai, China**
  (Business: Sales, nominal capital TUSD 200, interest 100 %)
- → **Starrag Heckert Finance Limited, St. Peter Port, Guernsey**
  (Business: Finance, nominal capital TGBP 10, interest 100 %)
- → **StarragHeckert Ibérica S.L., Castelldefels (Barcelona), Spain**
  (Business: Sales; nominal capital TEUR 3; interest 100 %)
- → **StarragHeckert Makina Ticaret ve Servis Limited Sirketi, Izmir, Turkey**
  (Business: Sales; nominal capital TTRY 5; interest 100 %)
- → **OOO StarragHeckert, Moskau, Russia**
  (Business: Sales; nominal capital TRUB 2'000; interest 100 %)
- → **StarragHeckert France SARL, Laperche, France**
  (Business: Sales; nominal capital TEUR 8; interest 100 %)
- → **StarragHeckert Machine Tools Private Limited, Bangalore, India**
  (Business: Production; nominal capital TINR 10'500; interest 100 %)

Risk assessment: This information is disclosed in the notes of the consolidated financial statements on page 53 of the annual report.

Authorized and conditional capital increase, major shareholders, participations of the Board of Directors and the Management Board: This information is disclosed under note 19 of the consolidated financial statements on page 69 of the annual report.

Purchase, sale and number of own shares: This information is disclosed under note 20 of the consolidated financial statements on page 69 of the annual report.

Remunerations: This information is disclosed under note 29 of the consolidated financial statements on page 77 of the annual report.

PROPOSED APPROPRIATION OF RETAINED EARNINGS

Proposed appropriation of retained earnings

CHF 1'000	2010
Retained earnings from prior year	9'963
Net income	1'932
To be carried forward	**11'895**

Proposed appropriation of legal reserve from capital contribution

CHF 1'000	2010
Legal reserve from capital contributions since 1997	34'020
Withholding tax free distribution of CHF 10.00 per share	-2'520
To be carried forward	**31'500**

REPORT OF THE STATUTORY AUDITOR TO THE GENERAL MEETING

OF STARRAGHECKERT HOLDING AG, RORSCHACHERBERG

As statutory auditor, we have audited the financial statements of StarragHeckert Holding AG, which comprise the income statement, balance sheet and notes (pages 81 to 84), for the year ended 31 December 2010.

Board of Directors' Responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2010 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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 complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Urs Honegger Audit expert Auditor in charge	Martin Graf Audit expert

St. Gallen, 1 March 2011

KEY FIGURES

Mio. CHF	**2010**	2009	2008	2007	2006
Order intake	188.3	187.7	341.2	327.5	206.2
Order backlog at year end	103.9	124.3	187.8	164.5	81.1
Sales revenue	199.2	252.5	306.9	244.1	190.0
Earnings before interest, taxes, depreciation and amortization (EBITDA)	16.3	21.9	40.4	27.8	16.6
Earnings before interest and taxes (EBIT)	10.1	15.4	35.1	22.8	10.9
Net income	8.1	11.5	24.8	18.0	7.5
EBIT as percentage of sales revenue	5.1%	6.1%	11.4%	9.3%	5.7%
EBIT in % of net operating assets	12.0%	13.7%	26.9%	22.0%	12.9%
Cash flow from operating activities	32.2	34.1	9.2	13.4	22.1
Capital expenditure	4.2	5.0	12.1	9.3	9.4
Employees at year end	739	783	782	682	594
Net operating assets	84.8	112.7	130.6	103.9	84.8
Total assets	169.4	179.4	223.7	191.0	153.2
Net cash	31.1	10.4	-13.7	-1.2	-2.1
Shareholders' equity	108.5	114.7	108.0	96.8	79.6
Equity ratio	64.1%	63.9%	48.3%	50.7%	52.0%
Return on equity (ROE)	7.5%	10.0%	23.0%	18.6%	9.4%
Share price at year end (in CHF)	32.66	46.09	98.64	71.57	30.64
Earnings per share (in CHF)	690.00	551.00	515.00	756.00	475.00
Profit distribution per share (in CHF)	[1] 10.00	15.00	20.00	18.00	10.00
Total shareholder return (TSR)	27.9%	10.9%	-29.5%	33.4%	27.6%

[1] Proposal of the Board of Directors to the annual general meeting on 9 April 2011 in form of a par value repayment

StarragHeckert Holding AG
Seebleichestrasse 61
9404 Rorschacherberg
Switzerland
Phone +41 71 858 81 11
Fax +41 71 858 81 22
investor@starragheckert.com
www.starragheckert.com

StarragHeckert AG
Seebleichestrasse 61
9404 Rorschacherberg
Switzerland
Phone +41 71 858 81 11
Fax +41 71 858 89 88
sales@starragheckert.com
www.starragheckert.com

StarragHeckert GmbH
Otto-Schmerbach-Strasse 15/17
09117 Chemnitz
Germany
Phone +49 371 836 22 88
Fax +49 371 836 23 98
marketing@starragheckert.com
www.starragheckert.com

Dörries Scharmann Technologie GmbH
Hugo-Junkers-Strasse 12
41236 Mönchengladbach
Germany
Phone +49 21 66 454-0
Fax +49 21 66 454-300
service@ds-technologie.de
www.ds-technologie.de

SIP
Société d'Instruments de Précision
Rue du Pré-de-la-Fontaine 19
1217 Meyrin / Geneva
Switzerland
Phone +41 22 719 02 00
Fax +41 22 719 02 02
sipinfo@starragheckert.com
www.starragheckert.com

TTL
Units 1a & 1b
Haddenham Business Park
Thame Road
Haddenham, Bucks HP17 8LJ
UK
Phone +44 1844 296650
Fax +44 1844 296651
enquiries@ttl-solutions.com
www.ttl-solutions.com

This annual report is also available in German. The German version is legally binding.

www.starragheckert.com