Mid-year report 2010

Keeping positive results / Significant increase in quote backlog

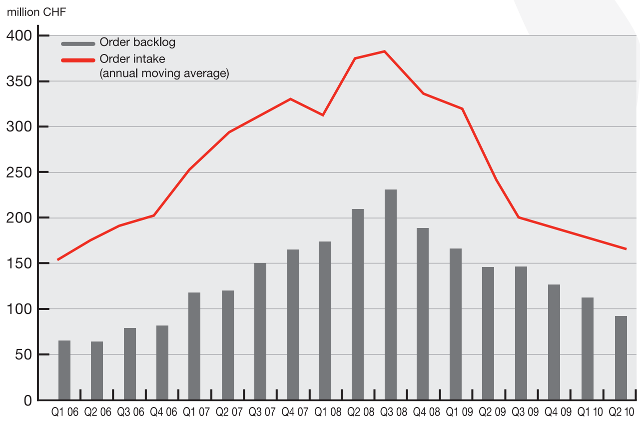
Dear shareholders,

Today, we present to you a mid-year report informing you about the StarragHeckert-Group in the third year of the worst recession of the machine tool industry since 1945. From the Heckert archives we know, that a similar break-down had to be recorded in the Great Depression starting in 1929 when machine tool sales of the former Wanderer-Werke fell by 60%. The same frightening figure is now published by the major industry organisations for the year 2009 in Europe, USA and Japan. With few exceptions, the big machine tool manufacturers went into the red already in 2009 or at the beginning of 2010.

However, StarragHeckert succeeded in the first half-year 2010 to generate a positive operating result and a net profit of CHF 3.0 million. Due to sales revenue declining to CHF 96 million, earnings before interest and taxes EBIT decreased to CHF 3.8 million, currently representing a good EBIT margin of 4.0% in comparison with the industry peers.

Despite the weaker Euro, order intake has stabilized for three quarters on a low level, amounting to CHF 68 million in the first half-year 2010. Order backlog decreased to CHF 93 million, what leaves plant capacity still underutilized.

Order situation



Thanks to the strict management of receivables and inventories, a high cash flow from operating activities of CHF 15 million could be achieved. Despite adverse conditions net cash increased accordingly to CHF 22 million.

The high equity ratio of 64% underlines the solid financial basis of StarragHeckert.

In the first half-year 2010, CHF 2.1 million were invested mainly to create the pre-conditions for an even more efficient assembly of large machining centres. In view of the emerging economic revival in the machine tool industry, research and development expenditures are held on prior year's level, keeping the pipeline well filled with new products.

Key figures

million CHF	01.01. to 30.06.2010	01.01. to 30.06.2009
Order intake	67.9	92.5
Order backlog	92.5	145.2
Sales revenue	96.1	138.8
Earnings before interest and taxes EBIT	3.8	11.7
Net income	3.0	8.3
Total assets	173.2	217.5
Shareholders' equity	110.6	113.3
Net cash	21.7	-13.8
Headcount	746	809

Since the first quarter of the year, StarragHeckert observes a positive development of the service business and increasing requests for quotes, resulting in a higher quote backlog. Nevertheless, it remains uncertain, when and whether necessary investment decisions are taken. Based on industry statistics, StarragHeckert expects that order intake will pick up again in the second half-year 2010.

During the past months, some projects could be realised on very short notice. In several cases, these projects were in fact relocations from low-wage countries back to European manufacturing sites. Here, the necessary manufacturing capacities could be activated on time thanks to the flexible short-time work regulations, representing a clear competitive advantage for manufacturers in Switzerland and Germany.

The Asian markets and the aerospace industry are still supporting our order intake while the European and North-American markets do not yet show a recovery. Unsecure financing and currently not known cost saving programs of industrialized countries which actually intended to push their wind energy generation have an adverse effect on the development of the renewable energy sector.

Prices for standard machines remain under pressure. Mainly Asian and German mass manufacturers of standard machines are trying desperately to use their production capacity by applying a cutthroat pricing policy.

The satisfying results could be achieved only by sticking to a tight cost management. Special attention was also paid to optimal management of the net current assets. IT tools were developed to steer and optimize working hours and stocks, enabling us to timely plan the availability of our resources. Reviewing and optimizing our locations, we decided to close down our sales office in Barcelona/ Spain.

As a result of the lower order backlog at mid-year, a further decrease of sales revenue and operating margin are expected in the second half-year 2010. Nevertheless, we still expect a net profit for the full financial year 2010.

In June 2010, we organized with considerable success for the first time the Titanium Technology Days at our Rorschach plant. Around 200 customers from all over the world were convinced with practical demonstrations that StarragHeckert is the leading company for high performance chipping of carbides. Besides the “world record” in the chip removal rate of aircraft titanium, the new large two-spindle horizontal precision machining centre BTP 5000 with a weight of 212 tons found great interest among the participants. The machining centre enables our customers to mill complex titanium structures at moderate cost and with a high precision not known so far.

The setup of our new manufacturing plant in India has been accelerated thanks to our recently appointed new management. In the second half-year 2010 we will be opening our technology centre in Bangalore. Most of the necessary local workforce could be appointed in the meantime. Negotiations regarding the land purchase for the construction of the manufacturing plant have progressed considerably and should be concluded by the end of the year.

All our staffs have continually done their utmost to fulfil the needs of our demanding industrial customers. Thanks to their high dedication and personal commitment, they help to ensure the future of our company. The Board of Directors and the Management Board express their thanks to each employee.

As financially solid company, our targets remain to provide our loyal customers with highly innovative products and services as well as a first-class after-sales-service, offering them competitive advantages. With an equity ratio of 64% and high net current assets of CHF 22 million, StarragHeckert is a long-term, trustworthy partner for our technologically demanding customers, our reliable suppliers, our employees and our shareholders.

We are well prepared for the soon to be expected economical recovery and will be able to finance it with our own resources.

Sincerely yours,

Walter Fust Chairman of the Board of Directors	Dr. Frank Brinken Chief Executive Officer

Rorschacherberg, 6 August 2010

Income statement

million CHF	01.01. to 30.06.2010	01.01. to 30.06.2009	01.01. to 31.12.2009
Sales revenue	**96.1**	**138.8**	**252.5**
Change in self-manufactured products	-0.9	-0.2	-4.6
Material expenses	-42.8	-65.5	-117.1
Personnel expenses	-30.2	-37.7	-69.7
Operating expenses	-16.1	-21.9	-41.5
Other operating income	0.8	1.4	2.3
Depreciation and amortization	-3.1	-3.2	-6.5
Earnings before interest and taxes EBIT	**3.8**	**11.7**	**15.4**
Financial income	0.8	0.3	0.5
Financial expenses	-0.4	-0.6	-0.9
Earnings before tax	**4.2**	**11.4**	**15.0**
Income tax	-1.2	-3.1	-3.5
Net income	**3.0**	**8.3**	**11.5**
Thereof:			
- Shareholders of company	3.0	8.3	11.4
- Minority shareholders	-	-	0.1
Earnings per share in CHF	12.06	33.23	46.09
Diluted earnings per share in CHF	12.06	33.23	46.09

Abbreviated statement of comprehensive income

million CHF	01.01. to 30.06.2010	01.01. to 30.06.2009	01.01. to 31.12.2009
Net income	**3.0**	**8.3**	**11.5**
Changes in fair value (after income taxes)	-0.9	-0.3	-0.3
Currency translation	-6.1	2.3	0.4
Other comprehensive income	**-7.0**	**2.0**	**0.1**
Total comprehensive income	**-4.0**	**10.3**	**11.6**
Thereof:			
- Shareholders of company	-4.1	10.1	11.5
- Minority shareholders	0.1	0.2	0.1

Abbreviated balance sheet

million CHF	30.06.2010	30.06.2009	31.12.2009
Cash and cash equivalents	24.4	12.7	12.0
Receivables	57.0	77.2	61.8
Other financial assets	7.6	7.7	8.8
Inventories	40.1	69.2	48.9
Current assets	**129.1**	**166.8**	**131.5**
Fixed assets	**44.1**	**50.7**	**47.8**
Total assets	**173.2**	**217.5**	**179.4**
Financial liabilities	2.0	23.2	1.0
Other current liabilities	53.6	67.8	55.5
Current liabilities	**55.6**	**91.0**	**56.5**
Financial liabilities	0.6	3.3	0.6
Other non-current liabilities	6.4	9.9	7.6
Non-current liabilities	**7.0**	**13.2**	**8.2**
Shareholders' equity	**110.6**	**113.3**	**114.6**
Total liabilities	**173.2**	**217.5**	**179.4**

Abbreviated cash flow statement

million CHF	01.01. to 30.06.2010	01.01. to 30.06.2009	01.01. to 31.12.2009
Earnings before tax	4.2	11.4	15.0
Non-cash items	1.1	4.3	7.5
Change in inventories	6.2	1.9	21.2
Change in other non-cash net current assets	5.0	-6.8	-5.5
Income tax paid	-1.4	-2.0	-4.1
Cash flow from operating activities	**15.1**	**8.8**	**34.1**
Cash flow from investing activities	**-2.1**	**-4.4**	**-5.0**
Change in financial liabilities	1.1	2.4	-22.6
Interest	–	-0.2	-0.1
Dividend payment	–	-5.0	-5.0
Cash flow from financing activities	**1.1**	**-2.8**	**-27.7**
Currency translation	-1.7	0.9	0.3
Change in cash and cash equivalents	**12.4**	**2.5**	**1.8**
Cash and cash equivalents at 1 January	12.0	10.2	10.2
Cash and cash equivalents at 30 June	24.4	12.7	
Cash and cash equivalents at 31 December			12.0

Abbreviated statement of shareholders' equity

million CHF	01.01. to 30.06.2010	01.01. to 30.06.2009	01.01. to 31.12.2009
Shareholders' equity at 1 January	**114.6**	**108.0**	**108.0**
Total comprehensive income	**-4.0**	**10.3**	**11.6**
Dividend payment	–	-5.0	-5.0
Shareholders' equity at 30 June	**110.6**	**113.3**	
Shareholders' equity at 31 December			**114.6**

Notes to interim financial statements Mid-year report 2010

Accounting principles

This unaudited mid-year report 2010 was prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated interim financial statements are prepared in accordance with IAS 34 Interim Financial Reporting.

The report includes estimations and assumptions which influence the reported figures and associated disclosures. Actual results may differ significantly from these estimations.

The accounting principles correspond with those applied in the annual report 2009 (see pages 31 to 36 of the annual report 2009).

Segment information

million CHF	01.01. to 30.06.2010	01.01. to 30.06.2009
Business Unit 1	52.0	67.8
Business Unit 2	44.0	70.6
Other and consolidation	0.1	0.4
Sales revenue	**96.1**	**138.8**
Business Unit 1	3.1	5.7
Business Unit 2	0.2	4.2
Other and consolidation	0.5	1.8
Earnings before interest and taxes EBIT	**3.8**	**11.7**

Financial review

In the first half-year, order intake amounts to CHF 67.9 million compared to CHF 92.5 million in the prior year period. This decrease, currency adjusted -23.8%, is due to an insufficient capacity utilization at our customers caused by the general worldwide recession. Order backlog decreased from CHF 124.3 million at the previous year's end to CHF 92.5 million by 30 June 2010.

Due to the reduced order backlog sales revenue decreased, currency adjusted -28.8%, to CHF 96.1 million. Material expenses decreased from 47.2% to 44.5% of sales revenue. This is mainly due to prior's year advance work (changes in self-manufactured products) for current orders.

Personnel expenses were reduced by CHF 7.5 million to CHF 30.2 million. These savings could be achieved thanks to capacity adjustment adapted in 2009 and a planning of short-time work based on plant utilization. Due to the lower sales volume, operating expenses decreased by CHF 5.8 million to CHF 16.1 million. That results in earnings before interest and taxes EBIT of CHF 3.8 million or 4.0% on sales revenue (prior year period 8.4%). Due to lower capital employed and to a better foreign currency result, a positive financial result of CHF 0.4 million could be achieved. As a result of the reduced result, income tax expense is CHF 1.9 million under prior year period. Accordingly, net income decreased from CHF 8.3 million to CHF 3.0 million.

Compared to 31 December 2009, total assets decreased by CHF 6.2 million to CHF 173.2 million. This results mainly from lower receivables and inventories. Net cash could be increased by CHF 11.3 million to CHF 21.7 million compared with the prior year end.

Shareholders' equity amounts to CHF 110.6 million which corresponds to an equity ratio of 63.9%, thus confirming StarragHeckert Group as a solid and in comparison with the industry very well financed company.

Operating cash flow (before change in net current assets) amounts to CHF 5.3 million. After consideration of the change in net current assets and payment of income tax, cash flow from operating activities was CHF 15.1 million. CHF 2.1 million have been expended for capital assets.

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, transport and precision machine 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 (Beijing and Shanghai), USA (Cincinnati, Dallas and Los Angeles), Canada, France, the United Kingdom, India, Russia and Turkey. The shares of StarragHeckert are listed on the Swiss Stock Exchange SIX (symbol: STGN).

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