starrag

Starrag Group

Annual Report
2011

Starrag Group

When nine strong brands come together beneath a common banner, it strengthens the innovative capabilities of each individual brand and enhances the overall potential for success.

Welcome to Starrag Group

Nine brands – one company.

Berthiez
Dörries
Droop+Rein
Heckert
Scharmann
SIP
Starrag
TTL
WMW

Annual Report 2011

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High-precision machine tools for greater productivity

Starrag Group is a global technology leader in manufacturing high-precision machining tools for milling turning, boring and grinding of mid-sized to large workpieces of metallic and composite materials. Principle customers are internationally active companies in the aerospace, energy, transport and industrial engineering sectors. In addition to its portfolio of machine tools, Starrag Group provides integrated technology and maintenance services that significantly enhance customer productivity.

Starrag Group products are marketed under the following strategic brands: Berthiez, Dörries, Droop+Rein, Heckert, Scharmann, SIP, Starrag, TTL, WMW. Headquartered in Rorschach/Switzerland, the Starrag Group operates manufacturing plants in Switzerland, Germany, France, the UK and India and has established a network of sales and service subsidiaries in numerous other countries.

Starrag Group is listed on the SIX Swiss Exchange (STGN).

Dear shareholders

Strategic milestone

Headline event of the 2011 financial year was the acquisition of the Dörries Scharmann Group in Germany. This transaction marked a milestone in the history of our company, both from a strategic standpoint and in terms of sheer size. Consolidated sales volumes have nearly doubled, placing us in the forefront of the European machine tool manufacturing industry.

Of greater significance, however, is the industrial logic behind the acquisition. Both companies address the same markets but their product portfolios fit together perfectly and both are focused on the high end of the market. We were pleased to conclude the integration process during the same year, thanks to the near-identical corporate cultures in many key areas.

The acquisition of Dörries Scharmann induced us to re-examine our brand concept and our corporate identity. As a result of this process, we are now operating under the new name of Starrag Group but we will continue to market our products using the same, well established and well recognized nine brands. The new Group logo stands for our cutting-edge technology, which we are constantly honing and developing: A cut above the rest.

Pleasing results

Our results for the 2011 financial year compare well to the industry. Starrag Group is proud to be one of the few machine tool manufacturers in Europe that has paid out a dividend every year during the recent crisis. Our high equity ratio, particularly compared to our sector peers, and substantial net cash position bolster our confidence as we look toward the future.

The acquisition of Dörries Scharmann Group had a material impact on consolidated sales and order intake. Uncertainty stemming from the insolvency of its former owner in October 2010 had a negative effect on order inflow in 2010 and the first half of 2011 but, after the acquisition was concluded, customer confidence in Dörries Scharmann Group returned in the second half of 2011. Consolidated sales revenues and order volumes were also influenced by the appreciation of the Swiss franc. At constant exchange rates and on a pro forma basis, sales rose by 2 % in 2011 and orders received rose by 18 %.

Operating results were negatively affected by imbalances in procurement markets for components. Apparently so much capacity had been removed from the marketplace during the crisis of 2008/2009 that the suppliers who remained were later able to raise their prices by sometimes exorbitant amounts in the subsequent upswing. Starrag Group was only marginally affected by these price mark-ups, however, thanks to the increase in its procurement volumes. Operating profit (EBIT) amounted to CHF 19.1 million, or 5.4 % of sales. Net profit amounted to CHF 10.9 million, or CHF 3.52 per share.

Asia – the market of the future

Starrag Group's geographic focus during the year under review was on Asia. After the inauguration of a technology center in Bangalore, India in 2010, we began to build a new plant at the same site in 2011 that will manufacture machining centers for the Indian market.

This is the first manufacturing plant we will be operating outside Europe and it underscores the growing importance of Asia as a future source of sales and as a production base. We are also building up a local workforce of professionals in customer service, application technology and sales positions in response to the growing importance of Asian markets, especially China.

Committed to sustainability

Starrag Group engages in open dialogue with all stakeholder groups and addresses their needs in a balanced manner, paying due attention to the economic, ecological and social dimension. Our main thrust in ecological terms will be to maximize the energy efficiency of our products, as energy consumption in production is a crucial cost factor for our customers. That is why we are focusing our efforts on that aspect.

Starrag Group joined the VDW Blue Competence initiative early on and actively pursues its goals. Energy efficiency both in the production and marketing of our machine tools has become a key benchmark in the development process. Our high-performance products help our customers to use resources more efficiently during the manufacturing process by shortening cycle times.

Management change

After 12 years on the Group Executive Board as Head of Business Unit 1 (Starrag, SIP, TTL), Stefan Knellwolf decided to step down from his position with Starrag Group on 1 January 2012 to pursue other career opportunities. Stefan Knellwolf was a driving force behind the company's development into a leading supplier to the aerospace and turbine manufacturing industries. The Board of Directors and the Executive Board thank him for his many achievements and wish him every success in his future endeavors.

His successor is Walter Börsch, who joined Starrag Group in 2007 as a member of Executive Management and Head of Operations, a position he successfully held up to his current reassignment. Operations is now headed by Georg Hanrath. Mr. Hanrath previously served as technical managing director of Droop+Rein since 2006, one of the business segments of Dörries Scharmann Group, which was acquired by Starrag Group in 2011. We are pleased that we were able to fill these two positions with highly qualified internal candidates in such a short period.

We are also pleased that we were able to welcome Professors Dr. Reimund Neugebauer (TU Dresden) and Dr. Christian Brecher (RWTH Aachen), two internationally renowned academics in the world of production engineering, to the Supervisory Board of Dörries Scharmann during the year under review.

Looking to the future with confidence

Economic uncertainty in our major markets will continue to overshadow business activity in our industry. Our high order backlog of CHF 238 million at the end of 2011, full project pipeline and the strong course of business in civil aircraft manufacturing, an important market for Starrag Group, make us confident that we will be able to report higher sales, orders and operating profits in 2012.

The acquisition of Dörries Scharmann will generate significant synergies in 2012 thanks to lower cost of materials and the merger of the sales and marketing organizations in the USA and the UK.

Dividend proposal

In view of the positive Group results, the Board of Directors will propose a dividend of CHF 1.20 per share at the Annual General Meeting, to be paid from capital contribution reserves, which are not subject to Swiss withholding tax. The payout ratio of 37 % is at the upper end of the targeted 25 % to 33 % range. Based on the closing share price of CHF 49.55 on December 31, 2011, this corresponds to a dividend yield of 2.4 %.

A word of thanks

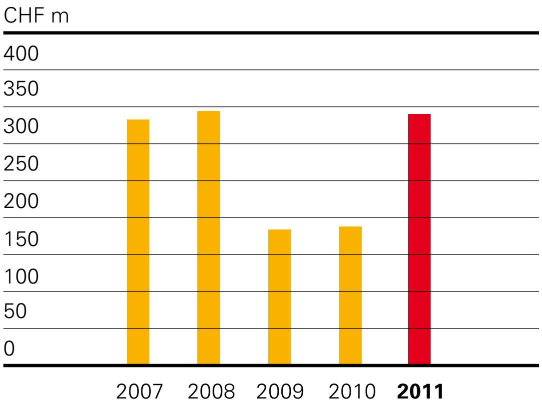
The Board of Directors and the Executive Board thank our highly motivated staff for their untiring efforts in the past year as they overcame a number of additional challenges. A willingness to embrace the new and to continually strive for improvement is a solid basis for a successful shared future. We also thank our customers and suppliers for their trust and loyalty and not least, we thank you, our shareholders, for the confidence you have placed in our company time and again.

Walter Fust
Chairman

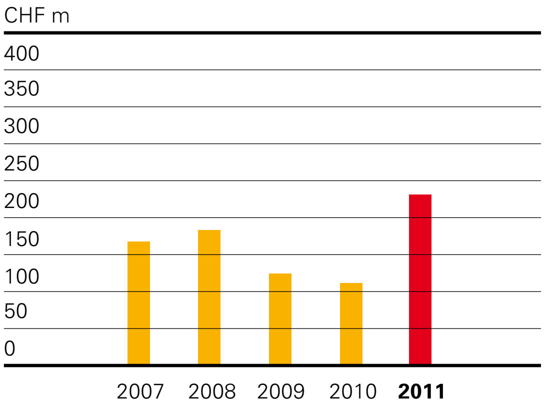
Dr. Frank Brinken
CEO

At a glance

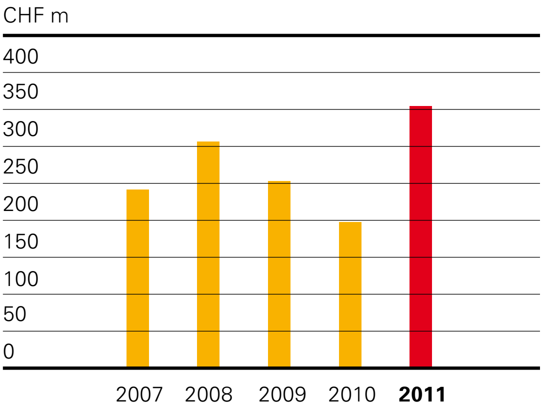
Order intake



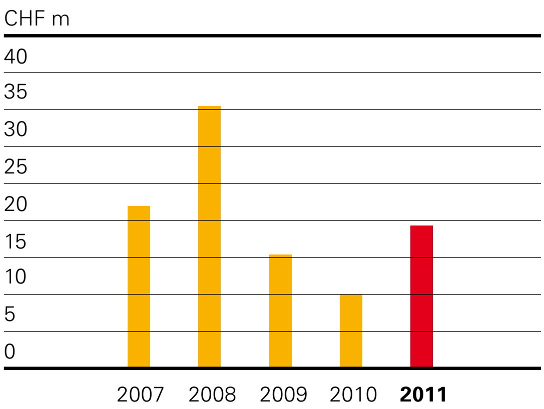
Order backlog



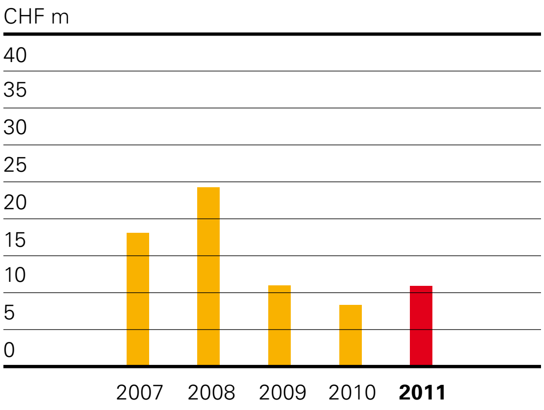
Sales revenue



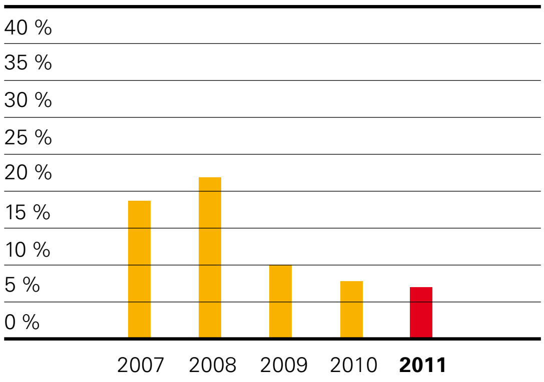
Operating profit EBIT



Net income

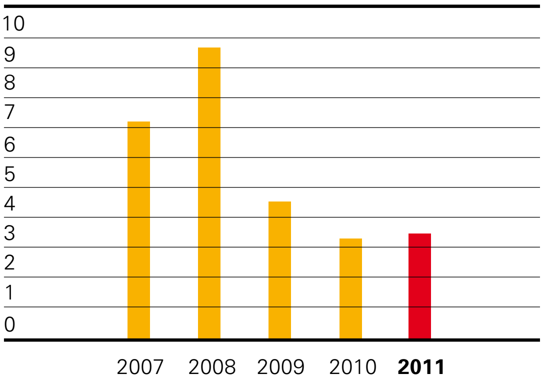


Return on equity

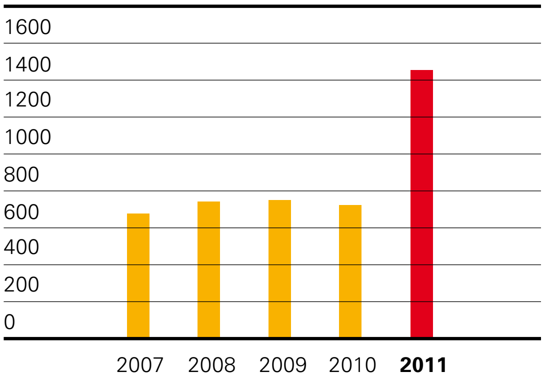


Earnings per share

CHF



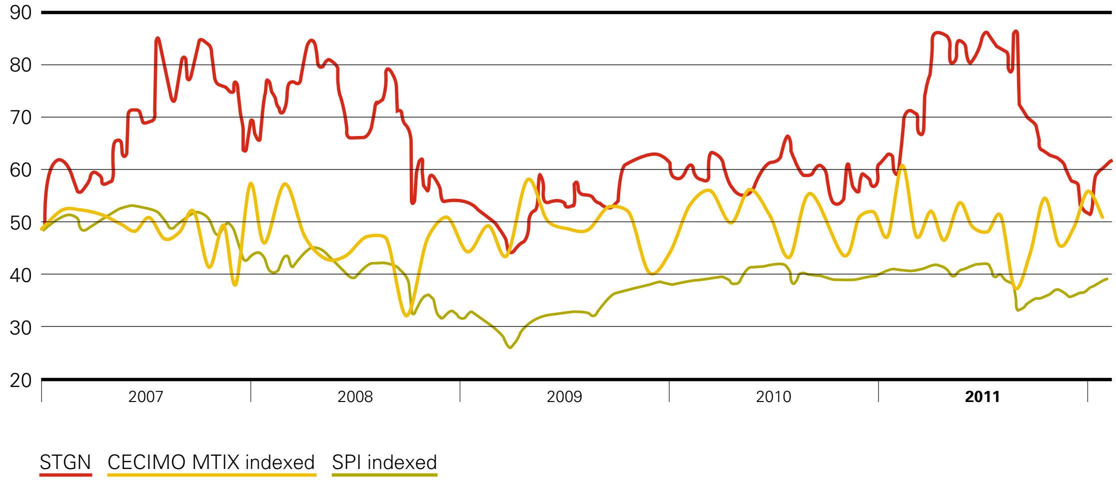
Employees at year end



Significant increase in order intake and profitability, balance sheet strength sustained

- Net profit of CHF 10.9 million, EPS of CHF 3.52 (+8 %)
- Acquisition of Dörries Scharmann Group for CHF 85.7 million in January 2011
- Order intake of CHF 348 million corresponds to organic growth of 18 % (in local currency and inclusion of Dörries Scharmann on a pro forma basis)
- Operating margin widens to 5.4 %, return on equity of 7.1 %
- Share capital increased to refinance the acquisition of Dörries Scharmann, maintaining a sound capital base with an equity ratio of 54.1 %
- Dividend of CHF 1.20 per share paid from capital contribution reserves and therefore not subject to Swiss withholding tax

Share price



CHF m	2011	2010	Change
Order intake	348.3	188.3	+85 %
Order backlog	237.5	103.9	+129 %
Sales revenue	354.4	199.2	+78 %
Operating profit EBIT	19.1	10.1	+89 %
Net income	10.9	8.1	+34 %
Return on equity	7.1 %	7.5 %	+21 %
Earnings per share (in CHF)	3.52	3.27	+8 %
Employees at year end	1’420	739	+92 %
Share price at year end	49.55	69.00	-28 %

Highlights

Strategic acquisition leads to a new dimension

In January we announced that we were acquiring the Dörries Scharmann Group in Germany. This acquisition nearly doubled the company's sales but it was driven more by industrial logic than growth arguments. Both companies address the same markets but their product portfolios are ideally complementary and focused on the high-end of the quality spectrum.

The integration into Starrag Group has in essence been completed. This transaction was initially financed with a bridge loan from the company's majority shareholder that was later paid back through a successful rights issue.

‣ More information is available on page 33

Dörries Scharmann in Mönchengladbach, Germany

New look, new image

We revised our brand concept during the year under review in the context of the strategic acquisition of Dörries Scharmann and adjusted our branding to address the new circumstances. The company as a group now presents itself under the Starrag Group name while the products themselves are sold under the same strong, established brands as before: Berthiez, Dörries, Droop+Rein, Heckert, Scharmann, SIP, Starrag, TTL, WMW.

The updated brand concept creates better clarity at all levels. The catchy new overarching corporate logo symbolizes the precision and reliability to which all nine well-established brands have always been committed: A cut above the rest.

‣ More information is available on page 16

Taking off in Asia

We inaugurated a technology center in Bangalore, India in 2010 to provide engineering support to customers in the region as well as a range of services to boost productivity. In the year under review, construction work on a new production plant for the manufacture of machining centers for the Indian market began at a location near Bangalore International Airport – Starrag Group's first production site located outside Europe.

Our commitment in 2011 and 2012 totals approximately CHF10 million as part of an ongoing strategy of investment in promising Asian markets. The first machine deliveries are scheduled for 2013.

DBF: Scharmann-Heckert symbiosis

Scharmann and Heckert pursued similarly ambitious product development goals in the past. The engineers of both companies operated according to the same principles and applied the same technological standards to strength calculation for new machinery.

An initial outcome of collaboration – and a typical example – is the DBF series, which cleverly combines the strengths of the two companies. The core machining unit originated from Scharmann and achieves high productivity through turning, drilling and milling (in German: Drehen, Bohren and Fräsen = DBF), coupled with high-precision machining because only one clamping operation is involved. Machine design for the new series is a Heckert achievement that draws upon longstanding experience in large-scale production.

A cut above the rest

Under this motto we presented innovative and energy-efficient new machinery at the EMO 2011 in Hannover, which also marked the debut of Starrag Group's new corporate identity. In congruence with the company's corporate development strategy, the new machines offer customers substantial productivity gains.

Visitor feedback at our stand was very positive. Two of the company's latest products, the HEC 800 MT, a machining center for efficient milling, turning and boring, and the LX 451, a machining center for turbine blades capable of handling workpiece lengths of up to 2.4 meters, attracted considerable interest. EMO is the leading biannual international trade fair for the machine tool industry.

Swiss Equity Award received

In September we won the Swiss Equity Award for our third-place ranking among the more than 150 companies in the SIX Swiss Exchange's small and mid-cap segment.

The scoring system was based on stock performance during the period from September 2010 to August 2011, when Starrag Group clearly beat the SPI Extra benchmark index with a gain of nearly 30 %, as well as on a survey of 300 professional investors and financial analysts who are specialized in Swiss small and mid-cap stocks.

New service solutions and opportunities

We continued to develop and refine our modular service packages and added CBM (Condition-Based Monitoring) to our offering. The assessments of current status and trend reports made possible through CBM enable preventive maintenance to be carried out in a more selective and efficient manner. For the first time a large HEC machine in China was assembled and commissioned by local service technicians alone – an important step forward in enhancing the skills and capabilities of our regional service centers.

A Dörries Scharmann center of competence for the complete reconditioning and refurbishment of machine tool systems and equipment, including a dedicated team of engineering and project management specialists, was established, creating new business opportunities in retrofitting for every brand in the Group.

Company profile

History

The original company Starrag was founded in 1885 in Rorschach, Switzerland, as a manufacturer of threading machines for the textile industry. Following the textile crisis in the wake of World War I, the company switched to manufacture milling machines from 1920 onward. It was renamed Starrfräsmaschinen AG five years later. Production of copy milling machinery for turbine, aircraft, and mold and die manufacture began in the mid-1930s.

Starrfräsmaschinen AG established a name for itself in the post-WW2 years with the world's first CNC 5-axis milling machine. The company went public in 1998, when it was listed on the Swiss stock exchange. That same year Chemnitz-Germany based Heckert Werkzeugmaschinen GmbH, the successor company of the famous Wanderer Werke was acquired. Heckert was the first company ever to develop a highly automated flexible manufacturing system as early as the 1970s, to international acclaim.

Following the merger, the company changed its name to StarragHeckert. The organization assumed a holding structure in 2000, calling itself StarragHeckert Holding AG. In the course of the past 10 years, the company acquired UK-based Toolroom Technology Limited (TTL), a supplier of adaptive machining solutions for gas turbine and aircraft engine repair, as well as Geneva-based SIP (Société d'Instruments de Précision SA), which is the reference worldwide for its ultra-high precision jig boring systems.

In January 2011, StarragHeckert acquired the German Dörries Scharmann Group, including its prestigious Berthiez (1916), Dörries (1884), Droop+Rein (1890) and Scharmann brands. As a consequence the group switches to a new brand strategy in 2012: The organization in the future trades under the name Starrag Group.

Vision

Starrag Group is the preferred partner of international players in aerospace, energy, transport and industrial engineering industries in Europe, North America and emerging industrial Asian markets. The company's comprehensive range of high-end precision machinery is continuously updated and comes with expert engineering and other related services, helping customers to boost productivity significantly and sustainably.

Business model close to the market, 9 leading brands under one strong roof

In the last 10 years, the Starrag Group has evolved into a group with a unique technologically advanced portfolio of precision machining solutions for middle and large sized components. It has achieved its globally recognized market position through organic growth and as a result of various strategic acquisitions. The various expansion stages have always followed the logic that any new acquisition must be a useful synergistic addition to the existing base in order to strengthen the group's competitiveness and market position as a whole.

The range of products and services covers the complete production from simple cubical parts up to extremely geometrically complex components out of difficult to machine materials. Starrag Group's skills and technology portfolio is a unique attractive proposition for leading international companies.

Customer focus is our guiding principle

All brands of Starrag Group provide dedicated customer specific solutions to meet and satisfy individual manufacturing needs. In addition to stand-alone installations, we satisfy the increasing demand for complex system solutions involving the integration of diverse machines into automated flexible autonomous production systems.

The product range is built on nine strong, globally recognized brands, each recognized for excellence and leadership in its chosen application field.

The group's marketing strategy is mainly based on direct market presence, with local engineering competence and short communication channels between customers and the plants. Our international customers appreciate these short, direct communication channels, facilitated by our presence in key centers of industrial activity across the globe. This allows a swift response to customer needs with experienced local, marketing, applications and customer service specialists who are familiar with local languages, cultures and customs.
The competitive position is based on a cohesive integrated organizational structure in order to capture synergies along the value chain, in sales and in customer service. One example is sharing of quality peripheral components out of own manufacturing across the group.
Our employees in the regions are material for to build and maintain close, enduring customer relationships based on trust and technical competence. Knowledge sharing meeting and product- and application trainings are an integral part of our strive for excellence.

Joint product development with our customers

In order to sustain and enhance our technology leadership, the group regularly invests an above-average percentage of sales in the development of new products, services and technology. Innovation is understood to be the undisputed definitive driver of future business success. Starrag Group operates an international network of research and development groups in Switzerland, Germany, France, the UK and India. Applications engineers assigned to the local sales organizations work hand in hand with customers and feed back improvement needs to the R&D centers.

This strategy accelerates the innovation process, generating added value for our customers.
Starrag Group protects its technological developments with an extensive patent portfolio. Technology trends throughout the industry and the chosen application fields are monitored and analyzed systematically, and the results are used in the harmonized development processes. Development of new products is driven by actively monitoring product life cycles and listening closely to day to day operating experience from key customers.
The group's development efforts are supported by close cooperation with leading technical universities and research institutes. Two leading university professors in machine tool sciences, Professor Reimund Neugebauer (TU Dresden) and Prof. Christian Brecher (RWTH Aachen), serve on the Supervisory Board of Dörries Scharmann and help understand the global research activities in the machine tool sector.

Top-end customer base with growth potential

Starrag Group focuses on specific applications in four target markets with uncompromising quality standards: Aerospace, energy, transport and industrial engineering.

Aerospace

Larger airplanes, rising kerosene prices and growing environmental awareness call for lighter, quieter, more cost-effective and economical aircraft with lower emissions rates. For modern aircraft manufacturers and their suppliers, the resultant trend goes toward increasingly precise more complex and larger parts. These call for reliable manufacturing processes leading to narrower tolerances under continuous process monitoring. Demand is increasing for parts with complex geometries requiring cost efficient 5-axis machining technologies.
Starrag Group's product spectrum ranges from heavy-duty machining of high-strength titanium alloys and high-speed aluminum cutting to ultra-precise processing of large drive train components made from lightweight metal alloys.

Precise machining CRP (carbon fiber reinforced polymer) composite components is another key technology in our field of demanding aerospace applications. High-load landing gear components, critical primary structural components in fuselage, and wings, jet engine components such as turbine blades, blisks and casings or helicopter gear box parts are examples of aviation safety products manufactured on our machines 24 hours per day on virtually every aviation program in the world.

Energy

Starrag Group has an unmatched track record of experience in conventional power generation sector including high-precision turbine and compressor blade machining as well as complex large casings for steam and gas turbines. The combined use of multiple machining technologies in a single machine is a growing trend in this sector. The parts meeting ever higher quality requirements; machining larger, more complex components in one set-up are today's challenges answered by our technology portfolio.

In the renewable energies sector, Starrag Group is a very important supplier for critical drive train components for the wind power industry. High precision, large gearbox casings and components boost life cycle cost efficiency of the installations due to lower maintenance during their service life. In oil and gas exploration, our machines are used to manufacture safety critical parts like large ball valves for gas and oil pipelines, as well as complex drill heads

Transport

Starrag Group machining centers are geared for small to middle batch sizes for power train components as well as the machining of large diesel engines and gear boxes. In the road transport segment the group focuses on agricultural vehicles, construction machinery, trucks and buses. Starrag Group activities in the passenger car segment are mainly devoted to exclusive cars with high-performance engines. The high-precision manufacturing of prismatic workpieces with narrow tolerances in the automotive and transport industry – engine mounts, cylinder heads and gearbox casings in lightweight metal, die casting and steel versions – leads to world class parts with optimum equipment uptime and allows its customers to approach a zero defect production result.

In marine and railway applications, we are the specialist for large diesel engines and complex production of high-precision ship propulsion systems.

Industrial Engineering

The trend in precision mechanical engineering – machine tools, packaging machinery, printing presses and plastics processing machinery, as well as technical components in hydraulics, pneumatics and propulsion engineering – is also moving more and more toward increasingly complex workpieces.
Engineers developping optimized machine components demand innovative new production concepts that simplify the production process, boost cost-efficiency and are extremely versatile, while guaranteeing the utmost precision and quality.
Starrag Group accommodates these demands with machining centers that can be adapted to meet individual customer requirements.

Clear strategic priorities

The acquisition of Dörries Scharmann is completely in line with our previously communicated strategy. It also reinforces the fundamentals for continuation of Starrag Group's success: Concentration on the upper quality segment, technological leadership, a focus on clearly defined target markets, a solid financial base, high internal flexibility in the work force and innovative, customer focused technology solutions.

Although our group did not emerge unscathed from the latest recession, this strategy clearly demonstrated its merits across the last business cycle. The Starrag Group is the only listed machine tool industry player that consistently reported positive results and paid its shareholders a dividend throughout the recent recession.

In the interest of securing its long-term viability, Starrag Group is determined to maintain its profitable growth with an across-cycle average EBIT margin of 8%. While growth in the recent past has mainly been acquisition-driven, organic growth is to take priority in the coming years based on systematic exploitation of group-wide synergy potential. This strategy does not rule out individual acquisitions, meeting the basic requirements of strategic fit, attractive market and product portfolio, and cultural fit. Starrag Group relies in identifying opportunities on a tried and tested stringent system of analysis during the acquisition screening process.

Internal and external flexibility needed

Higher volatility and more pronounced market fluctuations are likely to occur in future. This calls for higher flexibility and more agile set-up of the industry.

Internally, it means a relentless pursuit of continuous process improvement as a never-ending task to increase productivity and install leaner processes on an ongoing basis. A balanced distribution of revenue volumes among the various markets and regions helps the company to maintain a solid financial structure assuring the company's future growth and innovation investments.

Our group has already established strong market positions in Europe, Asia and North America.Geographically, markets will continue to shift toward Asia, which will probably be the final destination of more than half of the top end global machine tool output within the next years. Starrag Group intends to capture this growth trend by investing in local production assets in India and also by continuing to expand its marketing and service activities in the other leading industrial nations of Asia. Various major trends underline the further organic growth of our group in that part of the world: A growing need for mobility, increasing demand for renewable and conventional energy, the necessity to invest in infrastructure and the mechanization of agriculture, and booming demand for consumer goods.

Starrag Group expects that the growth of the Asian market will exceed that of the entire European machine tool industry consumption in the medium term. Its basic strategy of leadership in all four of its target markets, i.e. aerospace, energy, transport and industrial engineering, will be maintained going forward.

Strategically sound portfolio of brands

The nine strong brands under which the group sells its products cover the entire range of technologies in the areas of milling, turning, boring and grinding of medium to large-sized workpieces of metallic and composite materials in the top quality segment.
Each brand has built up a high level of customer confidence in its specific areas of application over the years and has consistently delivered what it promises: total customer satisfaction.

berthiez

High precision cylindrical grinding

Berthiez offers outstanding solutions incorporating specialized vertical lathes and grinding machines for aircraft engine and rolling bearings manufacturers. The machines impress with their ability to deliver a maximum in precision and productivity in the machining of large rolling bearings and jet engine components made from high temperature titanium and nickel base alloys.

droop+rein

Maximum precision for large workpieces

Machine tools from Droop+Rein are used for machining large to ultra large workpieces (up to 250 tonnes), such as diesel engines, power plant equipment and large components used in aircraft landing gear. It offers a vast portfolio of tried-and-tested technologies that enable every machine to be configured to meet customer and application- specific requirements. Its product line ranges from multi-functional gantry-type machining centers to high-speed centers in a high-gantry design to the largest gantry-type milling machines.

Synonymous with high performance lathes

The Dörries name is synonymous with high-performance vertical lathes with impressively high precision even after many years of use. The product line ranges from single column machines with a turning diameter greater than 1.6 meters up to large gantry-type machines with a turning diameter of 12 meters, a turning height of 10 meters and the capacity to machine components weighing up to 450 tonnes. Thanks to the extensive modular system, the machines can easily be tailored to customer requirements. The range comprises high precision lathes as well as complete machining solutions and automated production lines.

Long-lasting precision and productivity in perfect balance

There are few manufacturers offering such a well-balanced combination of high precision and highly productive horizontal machining centers for milling, turning and boring medium and large components as Heckert. Heckert is the technology leader in cubic components machining, particularly for applications in the transport industry, wind power, and in precision mechanical engineering. The spectrum of components ranges from small cubic parts made of aluminum to steel and cast-iron workpieces weighing up to 25 tonnes. Customers place great trust in Heckert's line of products thanks in particular to the high degree of accuracy, precision and reliability throughout their typically long useful lives.

scharmann

Complete machining solutions with shortest possible cycle times

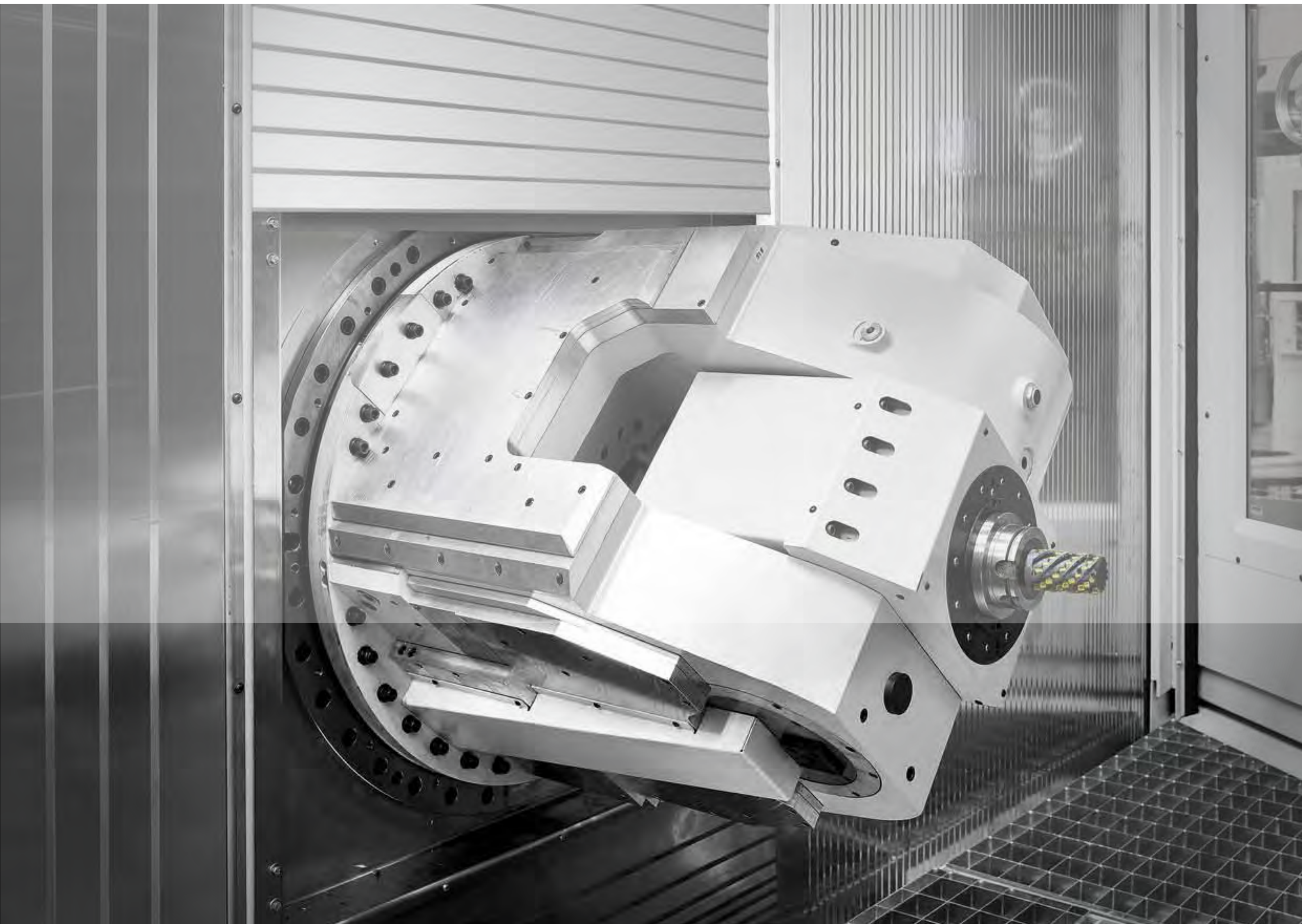
Scharmann complements the Heckert range of horizontal machining centers with special solutions for heavy and complete machining of very large workpieces. High-performance automatically interchangeable head attachments form the basis of its technical solutions. The ECOSPEED series features a patented parallel kinematic Z3 head, which, combined with a high performance spindle and a highly dynamic machine concept, ensures superior levels of productivity when machining large aluminum structural components for the aerospace industry.

Total commitment to precision

When research institutions, the aerospace industry, aircraft manufacturers or leading precision engineering firms require components produced to the highest standards of accuracy, a jig boring machine or machining center from SIP is their tool of choice. For decades the SIP name has been synonymous with the reference in ultra-precision in component manufacturing. SIP machines retain their high precision and performance capabilities for decades.

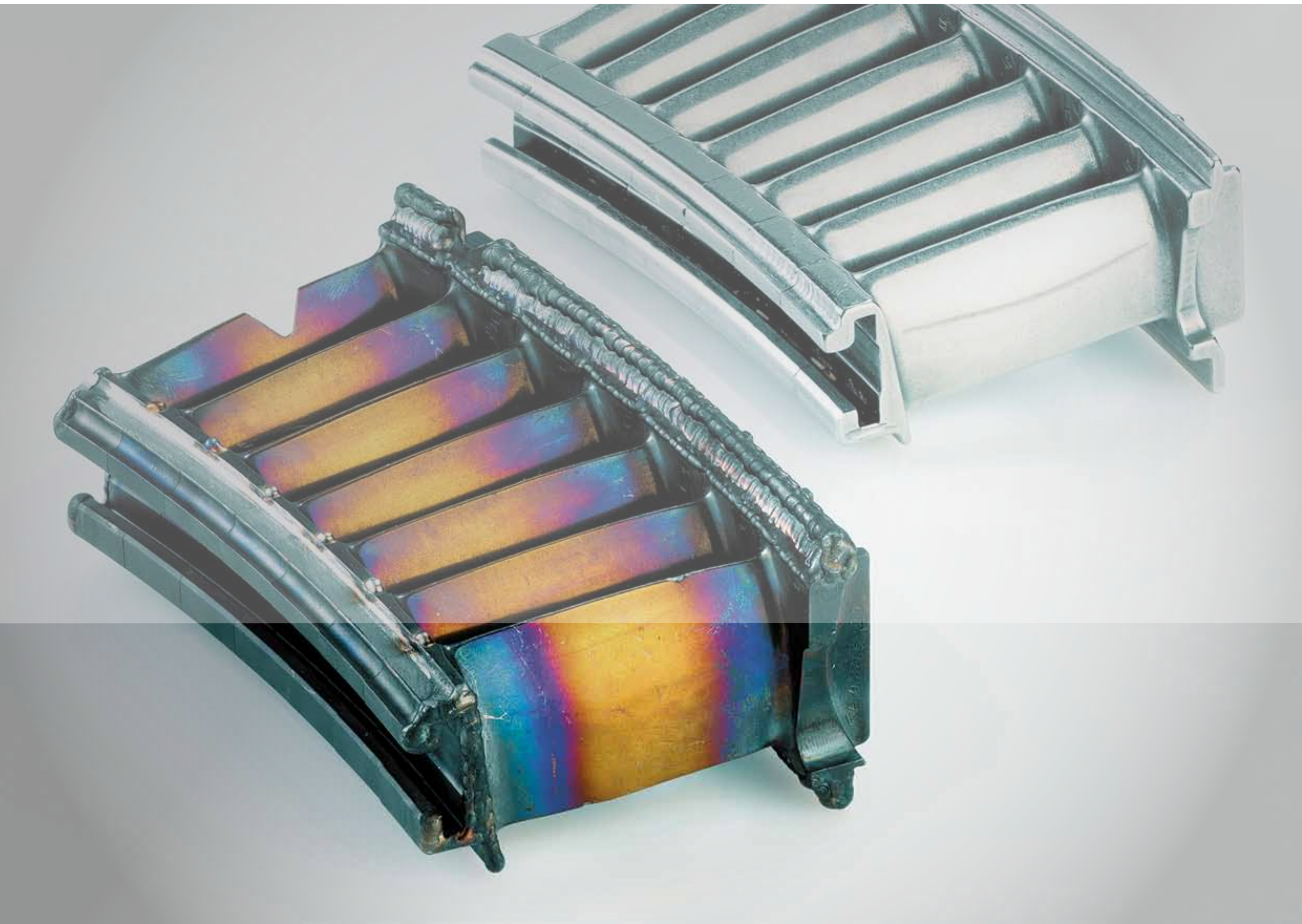
Productive precision for complex parts

Turbines, compressor blades, impellers, blisks and complex structural components are produced using Starrag machines. Starrag offers integrated solutions for highly productive 5-axis precision machining of components out of difficult to machine advanced material. All production steps are developed in-house, from the 3D model right up to the finished component, to ensure a perfect reproducible match between the drawing and the finished component. Besides leading hardware, Starrag also offers own software solutions. Starrag stands for durable and rigid 5-axis machines with globally leading high metal removal rates leading to shorter cycle times. Titanium, forged workpieces, and other difficult-to-machine materials are the main areas of specialization for Starrag machines, which in English-speaking markets were once marketed under the name Rigid.



The home of adaptive machining

With its computer-aided manufacturing solutions for machining and repairing components used in gas turbines and aircraft jet engines, TTL has garnered recognition around the world. Among its customers are leading airlines and companies specialized in jet engine maintenance. The company's core business revolves around a processing technology known as "adaptive machining" which enables sophisticated three-dimensional work-pieces with highly complex geometric structures to be machined automatically.



Machining centers for emerging markets

The Starrag Group's first manufacturing site outside Europe is under construction in Bangalore. Beginning in 2013 it will be producing horizontal machining centers for industrial companies across the subcontinent under the WMW brand, a well-known name in India that goes back to the 1970s. Tried-and-tested modules combined with the latest control technology ensure high levels of productivity coupled with simple machine operation. Low-cost solutions are achieved by concentrating on the functions necessary for the typical range of tools used in the field of general mechanical engineering and in the automotive industry. Further characteristics of this range of machinery are its high levels of performance, precision and power as well as its ease of maintenance and servicing.

Business and outlook

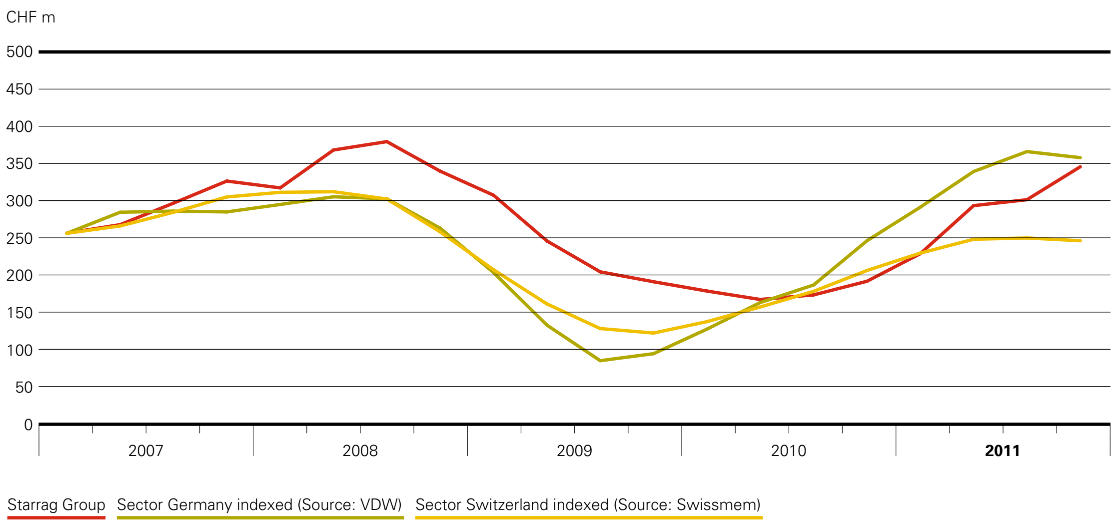
The global machine tool market experienced an upswing during the 2011 financial year, marking an end to the recessionary period from 2008 to 2010. Manufacturers of small machines for consumer-related applications were the first to notice the upturn at the end of 2010 and Starrag Group profited as well a short time later.

The merger with the renowned Dörries Scharmann Group gave our business an additional boost in the marketplace, notwithstanding the negative effect on order inflow after the insolvency of its former owner in 2010. Uncertainty about the company's longer-term future caused some Dörries Scharmann customers to hold off on ordering top-of-the-line capital goods well into the first half of 2011.

Good results in a challenging environment

Considering the general environment Starrag Group achieved a respectable set of results, although bidding for projects remained highly competitive in 2011; in fact, a number of competitors struggled with inadequate profitability levels or were even forced to declare bankruptcy. Exchange-rate and volume effects left their mark on the operating results reported by mass market manufacturers in Asia. The appreciation of the Swiss franc during the past year had an only minor impact on Starrag Group's financial results. Starrag Group generates most of its sales in the eurozone and most of its supplies and materials are sourced in this region as well. Only 20 % of total costs and about 10 % of sales revenues are generated in Swiss francs, so Starrag Group is less exposed to CHF/EUR exchange-rate fluctuations than other comparable Swiss companies.

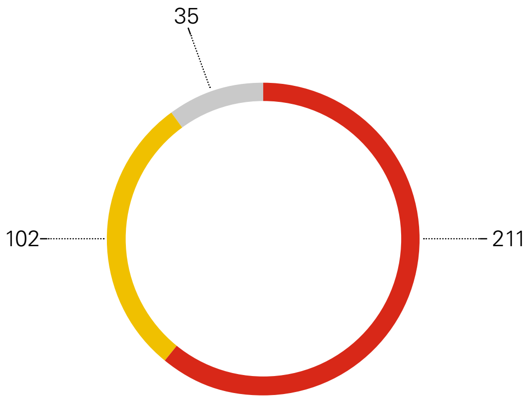
Order intake: Starrag Group vs. sector



The newly formed Starrag Group will continue to focus on made-to-order machines at the high end of the market that deliver tangible benefits to the customer. It will also concentrate on the four markets of aerospace, energy, transport and industrial engineering. With this business model we have clearly set ourselves apart from other machine manufacturers who are focused exclusively on high volumes and low prices.

The increase in order intake was primarily fuelled by the European market. Positive sentiment throughout the machine tool sector induced many companies to reactivate replacement and modernization plans that they had postponed during the recession. The increase in orders received in the USA is attributed to series production runs with new civil aircraft designs, which triggered investment activity downstream in the supplier chain.

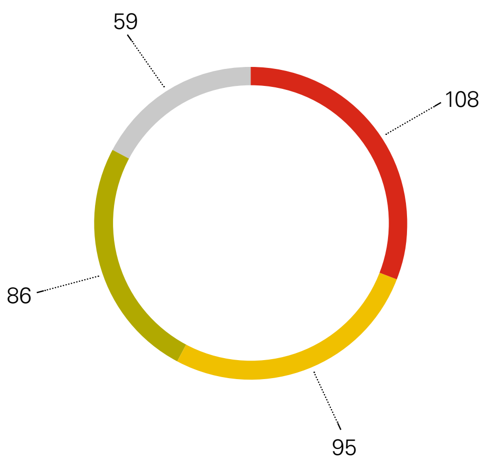
Order intake by region



CHF m	2011		2010 pro forma[2]
Europe	211	61 %	69 %
Asia	102	29 %	28 %
North America	35	10 %	3 %

[2] Pro forma, as if the acquisition of Dörries Scharmann had already taken place on December 31, 2009.

Order intake by market segment



CHF m	2011		2010 pro forma[3]
Aerospace	108	31 %	29 %
Industrial engineering	95	27 %	30 %
Transport applications	86	25 %	27 %
Energy	59	17 %	14 %

[3] Pro forma, as if the acquisition of Dörries Scharmann had already taken place on December 31, 2009.

In the aerospace sector the improving economic outlook led to an increase in orders from the civil aircraft manufacturing industry. Announcements that the major aircraft manufacturers planned to increase their monthly output triggered a wave of capital spending throughout the value chain during the past year. Manufacturing activity for military aircraft, on the other hand, showed a decline compared to preceding years.

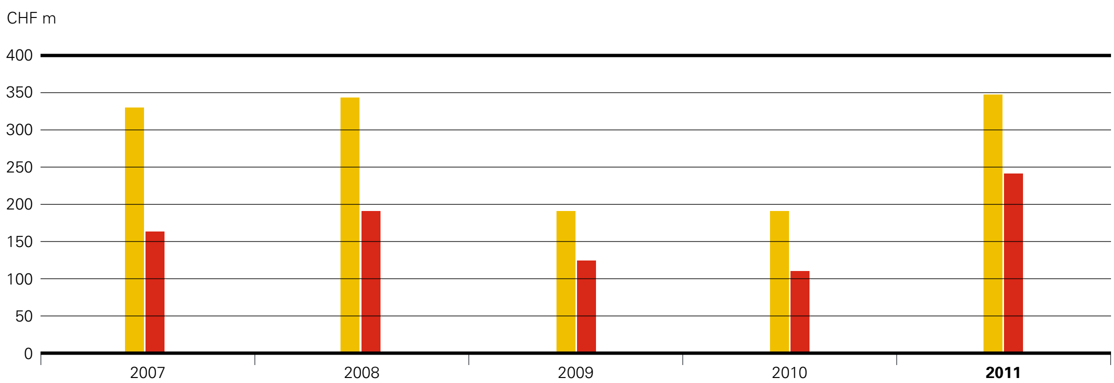
The increase in new orders from the energy sector was primarily driven by replacement and expansion expenditure on conventional energy assets in BRIC countries. Capital spending on wind power in Europe and Asia was very subdued but a good increase in spending on plant and equipment was observed in the industrial engineering and transport sectors in Europe and in China.

High organic growth

Order intake remained at low levels during the first half of 2011, primarily because of the uncertainty among Dörries Scharmann customers, but confidence returned in the second quarter when it became clear that the combined entity operating under the name of Starrag Group was a solidly financed manufacturer with a viable and compelling strategy. Business activity in our services and spare parts operations rose as well, reaching a level last seen in 2008 – a clear indication that utilization rates across our installed base have picked up.

The positive trend continued throughout the second half of the year, also with regard to the new machine business in Europe, the USA and Asia. At CHF 348 million, full-year order intake

Order intake and order backlog



CHF m	2007	2008	2009	2010	**2011**
Order intake	328	341	188	188	348
Order backlog	165	188	124	104	238

was roughly unchanged from the previous year; including the January 2011 acquisition of Dörries Scharmann Group, new orders on a pro forma basis and at constant exchange rates were up 18 %. We began the current financial year with a solid order backlog of CHF 238 million.

Solid earnings power

Sales revenue rose to CHF 354 million, an increase of 2 % at constant exchange rates and including Dörries Scharmann on a pro forma basis. The broad market recovery led to tighter procurement markets for precision components and high-quality casting products. Suppliers had obviously reduced their capacity during the recession and the subsequent upturn allowed some of them to demand sharply higher prices for their components. Tighter supply also increased the occurrence of late deliveries and led to longer delivery times.

The increase in sales revenues during the second half of the year was mainly driven by our service business. Sharply higher parts procurement volumes were largely offset by strict cost management and the EBIT margin improved to 5.4 % (5.1 % in the previous year), which is well above the average sector margin. Operating profit (EBIT) rose from CHF 10.1 million in the previous year to CHF 19.1 million and net profit amounted to CHF 10.9 million, or CHF 3.52 per share, 34 % above the previous-year figure owing to the higher business volumes. StarragHeckert and Dörries Scharmann are proud to rank among the few machine tool manufacturers that were able to navigate the recent economic crisis from 2008 to 2010 without reporting a loss.

Dörries Scharmann: Synergies now being realized after smooth and rapid integration process

Immediately after the takeover of Dörries Scharmann Group, a number of joint task forces were created to identify and secure short-term wins on the cost side and in procurement and to explore deeper synergies between the two companies and map out the corresponding realization projects. These task forces are being managed by a lean steering committee consisting of senior group executives.

A key initiative resulting from the task force efforts entailed the merger of the two companies' sales and service organizations into strong local teams that can competently advise and serve customers around the world, in their own environment, culture and language. To fully leverage all of the advantages of the combined entity, we also introduced a new organizational structure for the sales activities, established uniform management tools as well as new guidelines for contract documents and we adopted a code of conduct that employees must follow. Sales processes were also standardized, sales staff received instruction on the combined range of products and services offered, and new sales and marketing material was created. These projects were largely concluded in the first quarter of 2012. A new global, IT tool for customer relationship management will be rolled out in the current fiscal year.

At the EMO, the international trade fair for the machine tool industry held in September 2011, we presented the entire spectrum of the new group's technological potential for the very first time, under the motto "One team, one company." Customer feedback regarding the greater depth and breadth of the products and services offered was positive. Starrag Group's regional sales forces secured new orders for Dörries Scharmann already during the second half of 2011.

On the product side, the main challenge was optimally combining the formerly separate offerings of machine systems and making the necessary adjustments and realizing standardization benefits with regard to peripheral components. Among the results that were quickly achieved by the task force assigned to this area were optimal alignment of capacity at the various production centers and the exchange of best practices in programming systems, tool management and logistics. Due to our long manufacturing throughput times, the synergies resulting from these projects will feed through to our operating results beginning in 2012 and 2013.

In the service and maintenance business, where about 280 specialists or 20 % of our workforce are engaged, we now have an organization with a stronger local presence than most of our direct competitors. Service technicians are attending systematic training programs to ensure proficiency and qualifications across the enlarged range of products. A number of best practice solutions that had been developed by individual service units have been rolled out to the entire organization. The increased number of service centers in the various market regions following the acquisition of Dörries Scharmann creates new opportunities for expanding our offering of teleservice solutions, technical consulting services and spare parts services. We can also offer better, more comprehensive solutions in terms of preventive maintenance, technician reaction time, operational availability and continual improvement programs.

The supply chain task force realized initial cost-savings by benchmarking procurement terms and introduced uniform delivery and payment terms and conditions. The anticipated savings arising from the increase in procurement volumes were partially offset by price markups in the tight procurement markets for components. A group-wide central procurement organization with a uniform sourcing strategy will be created in the first half of 2012 with the help of an external specialist.

A decision was also made to migrate the two SAP systems to a common SAP system during the course of 2012 in order to enhance financial management and better support factory and sourcing organizations.

Significant cost-savings will be achieved from 2012 on with regard to financial expense after having renegotiated Dörries Scharmann's previous credit lines for advance payment and performance guarantees and adjusted Starrag Group's financial structure.

Collaboration between the two companies was extremely constructive and fruitful throughout the integration process. Both the Group as a whole and the individual Group units clearly sharpened their competitive edge during the past year.

Expansion into Indian market on track

Our expansion into the Indian market is proceeding according to schedule. Our technology center is operating at full utilization and has proven to be a key sales driver. In July the cornerstone of the new manufacturing plant near the Bangalore airport was laid and it is expected to come on-stream at the end of 2012.

Innovation, capital expenditure and process improvements

Besides entering new markets, Starrag Group is also setting a fast pace on the product development front and investing more resources in new products relative to the sector average. In the year under review, development focused on more energy-efficient machinery, on the expansion of the portfolio of machines for machining large workpieces, on increasing machining precision, and on multifunctional machines that combine turning and milling technologies in a single machine.

At our European factories we invested CHF 6.8 million in component production and machine assembly infrastructure in order to optimize flexibility, precision and throughput. Furthermore, process improvements were made in the area of machine assembly, resulting, for instance, in a reduction in throughput times. We also introduced structured processes in production and assembly management. In our service and maintenance operations we broadened the monthly surveys of customer satisfaction to include regions outside Europe.

Together with an external consultant we initiated a multi-year program to improve employee qualifications in which top-level executives will be actively involved. The primary objective of this program is to prepare younger talents for greater management and business responsibilities. Dörries Scharmann Group is involved in the program as well. Systematic employee health and safety policies were also implemented during the past year.

Confident outlook for 2012

The ongoing uncertainty on financial markets and its potential knock-on effect on the real economy have impacted our customers' long-term capital spending plans. A crucial factor for the machine tool market is the state of the economy in the major Asian markets – China and India. We are establishing offices in Mexico and Brazil to address the growing importance of Latin American markets. On the product front, four new machine concepts that will deliver lasting productivity gains to our customers will be introduced. Therefore, assuming a stable economy, we expect to report higher order intake, sales and operating profits in fiscal 2012 and we continue to maintain our long-term target of an average EBIT margin of 8 % over the machine tool manufacturing cycle.

Holistic sustainable development

Starrag Group's industrial and social commitment is based on a long-term view. We nurture open dialog with all stakeholder groups and accommodate their needs in a balanced fashion. Sustainability measures address economic, social and ecological concerns. Economic sustainability is based on a results-oriented corporate culture that aims to add value in the long term to the benefit of all stakeholder groups.

Employee-oriented human resources policy

Starrag Group's success is essentially driven by the hard work and dedication of its employees. They are high achievers motivated by the pleasure and satisfaction of working in an open and modern working environment. That's why the basic elements of our leadership culture are mutual trust, respect, regular information sharing, cooperation, appreciation and promotion of personal development.

Starrag Group boosts employee commitment to corporate goals through a variety of efforts. Employees at all sites receive regular updates on business performance and ongoing topics and projects from their managers and from the CEO in person at least twice a year at staff meetings. Site-specific and market information is also shared in "together", a twice-yearly global employee newsletter.

A corporate survey was launched in 2011 as a basis for improving the working climate and motivation of our employees, which enabled comparison of the various Starrag Group units with a large number of other companies. Starrag Group received exceptionally high ratings in the areas of job content, customer focus and teamwork. The survey also showed that measures already implemented in various areas are bearing fruit. Another important result was the identification of specific areas with room for improvements, which are now under way.

We devote special attention to nurturing the expertise of our employees. An annual formalized performance review identifies training requirements and triggers appropriate educational measures. The year under review saw the establishment of the Starrag Leadership Academy, a group-wide training program for all executives with the aim of building up a coherent and consistent approach to leadership. Due to the inter-site and inter-function mix of participants in these courses, this training has contributed significantly to strengthening cooperation among all managers throughout the corporation. Other development priorities included technical training and coaching in the efficient use of IT tools.

Our own professional training program plays a key role in our efforts to acquire qualified experts. We are currently (end-of-2011 figures) training 146 apprentices and students in more than 10 occupations. All the sites where our apprentices are introduced to the basics of their profession are equipped with state-of-the-art training facilities. High-achieving apprentices are hired in permanent positions wherever possible after completing their apprenticeship. In India, we are involved in the Swiss VET program in collaboration with other Swiss companies. The program aims to train young Indian talents to a level that is in accordance with Swiss vocational training standards.

Work safety and employee health take top priority in a systematic health and safety program. Our aim is to improve the working environment to a level above and beyond applicable work safety standards. We collect information on key health indicators at production sites at monthly intervals, evaluate the findings and identify site-specific measures on the basis of the information obtained. Despite an increased workload, accident statistics in 2011 were low, with no serious incidents on record. Measures rolled out in the year under review included training in work safety and health management, improved working conditions through modernized lighting, measuring noise levels, office refurbishment, enhanced workplace ergonomics, physiotherapy, massage and back exercise programs, and encouragement of participation in various company sports activities.

Energy efficiency of products: A key starting point

The main starting point for a greener approach in our corporate group is the energy consumption of the machines we supply to our customers for long decades of service. Energy consumption has been accorded insufficient attention in the past, especially in geographical areas with low energy prices. We expect energy consumption will account for a greater share of total production cost in the future. Energy efficiency in machine tools may soon become a key factor in cost effectiveness analyses across the life cycle of a machine system.

That's why Starrag Group decided early on to join in the "Blue Competence" energy efficiency campaign of the two national machine tool industry associations of Germany and Switzerland, Verein deutscher Werkzeugmaschinenfabriken VDW and Swissmem, and to incorporate the relevant recommendations in the development of new products. The main driver of energy efficiency in workpiece machining is cycle time, however. Since the entire Starrag Group machinery portfolio stands out from the competition through higher cutting performance and, hence, shorter production times, capital expenditure on our machinery makes even more sense from the point of view of saving energy.

The entire machine system product range was made more energy efficient through eeMC (Energy Efficient Machining Center), the name given to the company's own system. The measures range from energy efficient engines to minimization of base load losses to the use of frequency-controlled pumps. Another important factor is a machine's ability to meet the high precision specifications at all times over an extensive range of temperatures, which in turn reduces our customers' energy consumption as a result of less stringent requirements for temperature stability in a factory building.

Our involvement in research projects in a variety of countries to raise the energy efficiency of machine tools enables us to put new insights and technologies into practice in record time.

Improved environmental footprint at production sites

Starrag Group implements measures to improve the environmental footprint at all of our corporate sites on an ongoing basis. Energy-lowering building refurbishment schemes contributed to a further reduction in energy consumption in 2011. The paint shop uses environmentally compatible water-based coatings instead of solvent-based coatings wherever it is possible to do so. Materials and waste such as oil, grease and shavings are systematically recycled and reused. Waste treatment plants for metalworking lubricants ensure that these are properly disposed of or recycled depending on type.

Corporate Governance

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Group structure and shareholders

Management organisation

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
Walter Börsch (till 31.12.2011 Stefan Knellwolf)
- SIP
- Starrag
- TTL

Business Unit 2
Dr. Eberhard Schoppe
- Heckert
- WMW

Business Unit 3
Dr. Norbert Hennes
- Berthiez
- Dörries
- Droop+Rein
- Scharmann

Operations
Dr. Georg Hanrath (till 31.12.2011 Walter Börsch)

Customer Service
Günther Eller

Regional Sales
Dr. Frank Brinken

CFO / Corporate Center
Gerold Brütsch

Post-Merger Integration
Daniel Rosenthal

Participation structure

- **StarragHeckert Holding AG** Rorschacherberg / CH
  - **StarragHeckert AG** Rorschacherberg / CH
  - **StarragHeckert Technology AG** Rorschacherberg / CH
  - **StarragHeckert Holding GmbH** Chemnitz / DE
    - **StarragHeckert GmbH** Chemnitz / DE
    - **StarragHeckert Technology AG** Chemnitz / DE
    - **Dörries Scharmann Technologie GmbH** Mönchengladbach/DE
      - **Berthiez SAS** Saint Etienne / FR
      - **Dörries Scharmann Technologie Service Center GmbH & Co. KG** Ichtershausen / DE
      - **DS Technology (USA) Inc.** Cincinnati / US
      - **DS Technology Limited** Birmingham / UK
      - **Dörries Scharmann Grundstücks-Vermietungsgesellschaft GmbH & Co. KG** Mönchengladbach / DE
      - **FIRMUS Grundstücks-Vermietungs-gesellschaft GmbH & Co. KG** Mönchengladbach / DE
      - **Scharmann GmbH** Mönchengladbach / DE
  - **SIP Société d'Instruments de Précision SA** Satigny / CH
  - **StarragHeckert Machine Tools Private Limited** Bangalore / IN
  - **StarragHeckert Inc.** Hebron / USA
  - **Machine Tool Holdings Ltd.** Haddenham / UK
    - **StarragHeckert UK Ltd.** Haddenham / UK
    - **StarragHeckert Holdings Ltd.** Haddenham / UK
      - **Toolroom Technology Ltd.** Haddenham / UK
  - **StarragHeckert (Shanghai) Co. Ltd.** Shanghai / PRC
  - **StarragHeckert Makina Ticaret ve Servis limited sirketi** Izmir / TR
  - **OOO StarragHeckert** Moscow RU
  - **Sàrl StarragHeckert France** Laperche / FR
  - **StarragHeckert Iberica S.L.** Barcelona / ES
  - **StarragHeckert Finance Ltd.** St. Peter Port / UK
  - **Starrag Italia Srl** Rivoli / IT

Details of share capital and the equity interest held are given in the consolidated financial statements.

The registered shares of StarragHeckert Holding AG (hereafter referred to as the "company") are traded at the SIX Swiss Exchange (securities number 236106, ISIN CH0002361068, ticker STGN). The market capitalisation on 31 December 2011 was CHF 166.5 million.

Shareholders

There were 700 shareholders registered in the company's share register on 31 December 2011. Distribution by number of shares held was as follows:

More than 100'000 shares	3 shareholders
10'001 to 100'000 shares	17 shareholders
1'001 to 10'000 shares	74 shareholders
1 to 1'000 shares	606 shareholders

The following registered shareholders each held more than 3 percent of voting rights:

- Walter Fust, Freienbach, Switzerland 1'843'830 shares, 54.88 %
- Eduard Stürm AG, Goldach, Switzerland 315'840 shares, 9.40 %
- Max Rössler / Parmino Holding AG, Goldach, Switzerland, 177'403 shares, 5.28 %

The following disclosure notifications were made during the 2011 financial year in accordance with Art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading:

- 22.12.2011: Eduard Stürm, Engelburg, Switzerland, 1.27 %
- 29.09.2011: Max Rössler, Goldach, Switzerland 5.25 %
- 28.09.2011: BlackRock Inc., New York, USA 2.82 %
- 10.05.2011: BlackRock Inc., New York, USA 3.37 %
- 04.05.2011: Eduard Stürm AG, Goldach, Switzerland, 9.73 %
- 04.05.2011: Walter Fust, Freienbach, Switzerland, 54.88 %

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

- 27.12.2007: Frank Brinken, Rotkreuz, Switzerland, 3.04 % (registered shares 0.06 %, rights of purchase 2.98 %)

Further information about the respective disclosure notifications is published on the website of the Disclosure Office of the SIX Swiss Exchange AG: http://www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html?fromDate=19980101&issuer=10365

The company is not aware of any agreements between shareholders regarding the exercise of their rights as shareholders.

Cross-shareholdings

There are no cross-shareholdings.

Capital structure

Issued share capital

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

Authorized share capital

The Board of Directors is authorized to increase the share capital up to CHF 10'710'000 by issuing 1'260'000 fully paid-in registered shares with a nominal value of CHF 8.50 at any time until 16 April 2012. A partial increase is permitted. Subscription and purchase of new registered shares as well as any subsequent transfers are subject to § 5 of the Articles of Incorporation.

The Board of Directors specifies the date of issue, the amount of issue, the kind of payment, the execution of the pre-emptive rights and the date of entitlement for receiving a dividend. The Board of Directors is able to issue new registered shares by a fixed acceptance of a bank or a financial syndicate and subsequent offer to the present shareholders. The Board of Directors is entitled to fix the amount of issue of the new registered shares as close as possible to the market value of the registered shares. In such case, the Board of Directors is authorized to restrict or bar trading in pre-emptive rights. The Board of Directors may allow unexercised pre-emptive rights to lapse. Additionally, the Board of Directors is allowed to use such rights and the registered shares for which pre-emptive rights have been with issued but not exercised in the company's interests or place them at market conditions.

Furthermore, the Board of Directors is authorized to restrict or abrogate shareholders' pre-emptive rights and allocate them to third parties in the event the registered shares are to be used as a means of payment in the acquisition of companies in whole or part, or for mergers, or for the exchange of shareholdings or the placement of shares as a means of financing such transactions.

Conditional share capital

The ordinary general meeting of shareholders voted to rescind without replacement § 3b of the Articles of Incorporation regarding the company's conditional share capital, hence abolishing the company's conditional capital. Therefore, the company has no conditional share capital outstanding.

Changes in capital

Changes in Starrag Group's consolidated equity as well as in unconsolidated equity are stated in the consolidated financial statements of the corresponding years.

In 2011 Starrag Group paid a withholding-tax-free dividend of CHF 10 per share from capital contribution reserves for the 2010 financial year. A capital increase was conducted in the 2011 financial year to finance the acquisition of Dörries Scharmann Technologie GmbH. Share capital was increased by CHF 7'140'000 from CHF 21'420'000 to CHF 28'560'000, consisting of 336'000 registered shares with a par value of CHF 85.00 each. These shares were then split on a 10-for-1 basis, creating 3'360'000 new registered shares with a par value of CHF 8.50 each.

Shares

Shareholder rights are stipulated in the Swiss Code of Obligations as well as in the company's Articles of Incorporation. Each registered share with a nominal value of CHF 8.50 has one vote at the annual general meeting. The right to vote can only be exercised if the shareholder is registered in the company's share register as a shareholder with voting rights.

Distribution of profit can be decided upon by act of law by the general meeting and can be carried out in relation to the amount of shares. The company's Articles of Incorporation are published on www.starrag.com. It is possible to obtain hard copies from the company at any time.

Participation and profit sharing certificates

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

Limitations on transferability and nominee registrations

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

- if the acquirer does not explicitly confirm that he acquired and is holding the shares on his own behalf, in his own interests and for his own account;
- if and as long as the registration of the acquirer may, based on the available information, prevent the company from complying with Swiss law requiring proof of Swiss control of the company.

Nominee entries are permitted (without voting rights).

Convertible bonds and options

There are no outstanding convertible bonds or issued option rights.

Board of Directors

Walter Fust (1941, Swiss) has been a member of StarragHeckert Holding AG's Board of Directors since 1988 and its Chairman since 1992.

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

Valentin Vogt (1960, Swiss) has been a member of the Board of Directors of StarragHeckert Holding AG since 2005 and Vice Chairman since 2008.

From left to right: Walter Fust, Adrian Stürm, Dr. Hanspeter Geiser, Prof. Dr. Christian Belz, Valentin Vogt

He was elected Chairman of the Board of Directors of Burckhardt Compression Holding AG in 2011, having previously served as CEO and Delegate of the Board of Directors of Burckhardt Compression from 2000 to 2011.

After an assignment as CFO in the USA, Mr. Vogt held various positions with Sulzer beginning in 1989, ultimately serving on the Group Executive Board as head of the Sulzer Burckhardt division. In 2002 this division was separated from Sulzer Group in a management buyout. Burckhardt Compression was listed on the SIX Swiss Exchange in 2006.

Besides serving as a director for Starrag Group, Mr. Valentin Vogt is a member of the Board of Directors of Kistler Holding AG (Schweiz) and the Ernst Göhner Stiftung Beteiligungen AG (Schweiz). Mr. Valentin Vogt is President of the Swiss Employers' Association, a member of the Committee of the Board of Directors of economiesuisse and a regional economic representative of the Swiss National Bank. Mr. Valentin Vogt earned an MBA from the University of St. Gallen (HSG).
He has never held an executive management position with Starrag Group and he does not have any significant business relationships with the Group.

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

He has been a tenured professor of economics at the University of St. Gallen since 1989 with a special focus on marketing and has headed the Institute of Marketing at the University of St. Gallen since 1992. He has never held an executive management position with Starrag Group and he does not have any significant business relationships with the Group.

Dr. Hanspeter Geiser (1947, Swiss) has been a member of the Board of Directors of StarragHeckert Holding AG since 1994.

He is a practicing lawyer and partner in the law firm Brunner & Geiser in St. Gallen. Mr. Hanspeter Geiser holds a Ph.D. in corporate law from the University of St. Gallen. As a non-executive director, he has never held an executive management position with Starrag Group and he does not have any significant business relationships with the Group.

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

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

Elections and term of office

The members of the Board of Directors were elected to a term of office of three years at the AGM in 2011. They may be re-elected. The term of office of members who are elected during a running term of office will finish at the same time as that of the other members. The term of office of the current members of the Board of Directors ends on the date of the general meeting in 2014.

Internal organizational structure

The Board of Directors constitutes itself. Meetings of the Board of Directors are called by the Chairman, as often as business requires or upon written demand. Usually, six board meetings are held per annum with a duration of approximately five hours each. If requested, executive management is asked to take part in these meetings. Resolutions and elections are passed and carried out in board meetings by the majority of the votes. The Chairman has the casting vote. Resolutions can be achieved by way of circulation, unless one of the members requests a meeting. In the 2011 financial year, nine board meetings with an average duration of four hours were held.

In accordance to the Swiss Code of Best Practice for Corporate Governance, the Board of Directors has not appointed further committees. In our medium sized company, the duties in question are executed by the Board of Directors. Additionally, when dealing with important matters, the management consults the Chairman of the Board of Directors and single members of the Board of Directors in an informal way.

Definition of areas of responsibility

The Board of Directors has the overall responsibility for the management of the company as well as the supervision of the executive management. According to an organisation directive and the accompanying functions chart, the Board of Directors has delegated most of the responsibility for daily business to the CEO. The Board of Directors though, remains responsible for duties that legally cannot be delegated and other important business. These include in particular matters such as business strategy, approval of the budget, decisions with regard to acquisitions and important personnel matters.

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

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

- monthly and quarterly financial reports including commentary on the corresponding key figures (order intake, sales revenues, margins, profits, capex, liquidity, working capital);
- information about market and business developments as well as major projects;
- detailed information about market and business developments at every Board meeting, which are occasionally attended by the CEO and CFO and by other members of the Executive Board as required.

In addition, the Chairman regularly attends the Executive Board meetings. A diligent handling of all strategic, financial and operational risks is a top priority for the Board of Directors and the Executive Board. Starrag Group has a comprehensive process for the risk management, which is reviewed by the Executive Board and the Board of Directors on an annual basis. The Executive Board appointed a risk management representative for the moderation and implementation of the risk management and assigned one responsible member of the Executive 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 Executive 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.

Executive Board

Members of the Executive Board

The Board of Directors has appointed an Executive Board and has specified its authorities and duties in the organizational guidelines and the accompanying functions diagram:

Dr. Frank Brinken (1948, Swiss) assumed office as CEO of Starrag Group in 2005.

He previously served as president and delegate to the Board of Directors of Maag Pump Systems Textron AG in Zurich. After holding a position in research and industrial consulting at the Plastics Processing Institute (IKV) in Aachen, he joined Georg Fischer as Product Manager and then served as a Business Unit Head at Alusuisse-Lonza before accepting the position of CEO at Maag Pump Systems AG in 1995.

Frank Brinken has been a member of the Board of Directors of Tornos Holding AG in Moutier, Switzerland since April 2011. He earned a degree in mechanical engineering at the University of Aachen and later completed a marketing program at the University of St. Gallen and an international management program at the Wharton Business School of the University of Pennsylvania.

Gerold Brütsch (1966, Swiss) has been Chief Financial Officer (CFO) of Starrag Group since 2000 and since 2005 Deputy CEO and Head of Corporate Center.

Mr. Brütsch previously served as Chief Financial Officer of an international machine manufacturing company and as an auditor with KPMG in Zurich and San Francisco.

Gerold Brütsch is a graduate of the School of Economics and Business Administration in St. Gallen and earned his degree in business administration in 1990. He is a Swiss Certified Accountant and U.S. Certified Public Accountant.

Walter Börsch (1959, German) has been Head of Business Unit 1 since January 2012 with responsibility for the Starrag brand in Rorschacherberg (Switzerland) and the SIP brand in Geneva (Switzerland) as well as for the TTL subsidiary in Haddenham (UK).

He previously held the position of Head of Operations at Starrag Group up to the year 2007. From 2005 to 2007 Mr. Walter Börsch was Head of Sales and Engineering at an internationally active machine tool manufacturer. From 2000 until 2004, he headed a business unit of Hüller Hille GmbH. Prior to that he held various management functions in that company's development, sales, customer service and sales departments beginning in 1987.

Walter Börsch holds a Master's degree in mechanical engineering from Aachen University and also completed a marketing program at the University of St. Gallen.

Günther Eller (1960, Swiss) has been Head of Customer Service at Starrag Group since 2007.

He previously held various management positions at OC Oerlikon's sales and customer service units beginning in 1986. From 2001 to 2006 he was Managing Director of the Business Unit Customer Service of the company's Data Storage Division. He was appointed Managing Director of a sales and service subsidiary for OC Oerlikon's engineering business in 1995 and he also held various sales and key account management positions.

Günther Eller has a degree in engineering physics.

Dr. Georg Hanrath (1965, German) has been Head of Operations at Starrag Group since 2012.

He had previously served as managing director of Droop+Rein since 2006, one of the business segments of Dörries Scharmann Group, which was acquired by Starrag in 2011. From 2003 to 2006 he was Head of Construction and Development at Deckel Maho and prior to that he coordinated the research activities of Thyssen Krupp Metal Cutting Group from 1997 to 1999 and was Senior Manager Engineering at Giddings and Lewis in Wisconsin (USA) from 2000-2003.

Georg Hanrath has a degree in mechanical engineering from Aachen University and a Master of Science in Organizational Leadership and Quality from Marian University, WI, USA.

Dr. Norbert Hennes (1964, German) has been Head of Business Unit 3 in Mönchengladbach since January 2011.

In 2002 he was appointed head of engineering at Dörries Scharmann since 2002, from 2005 with responsibility for production and sales, and in 2006 he assumed the position of CEO. From 1999 to 2002 he held various management positions with Dörries Scharmann in development and construction.

Norbert Hennes studied machine tool engineering at Aachen University, earning a post-graduate degree from the Laboratory for Machine Tools and Production Engineering (WZL).

Stefan Knellwolf (1964, Swiss) was Head of Business Unit 1 in Rorschacherberg from 2000 to the end of 2011.

Before that, he was Head of Production and Logistics and a member of the Executive Board of StarragHeckert AG as well as Director of Development/Construction & Production and member of the Executive Board of StarragHeckert GmbH.

Mr Knellwolf holds a degree in mechanical engineering from the Swiss Federal Institute of Technology Zurich (ETHZ) and majored in industrial management.

Daniel Rosenthal (1970, German) has been CFO of Business Unit 3 since January 2011 and has overseen the post-merger integration process since February 2011.

He previously served as CFO of Dörries Scharmann from 2006 and as financial manager from 2005. From 2000 to 2004 he was CFO of a software company and before that he was in investment banking from 1997 to 2000.

Daniel Rosenthal has a degree in mathematics from the University of Münster and an MBA from Simon School at the University of Rochester in New York, USA.

Dr. Eberhard Schoppe (1955, German) has been Head of Business Unit 2 in Chemnitz since 2004.

He has been on the local executive management board as Head of Engineering and Production since 1999. From 1994 to 1999 he was responsible for production planning and export sales. Prior to that, he was head of engineering at an internationally active machine tool manufacturer.

Dr. Eberhard Schoppe has a degree in mechanical engineering from the Chemnitz University of Technology.

Management contracts

There are no management contracts with companies outside Starrag Group.

Compensation, shareholdings and loans

Content and method of determining compensation and share-ownership programmes

The compensation system at Starrag Group is based on the principles of value based management. The compensation paid to the Board of Directors comprises a fixed component and a profit-based component, which is proportional to the net profit reduced by a certain minimum return on equity (31 % of the total compensation in the reporting period). Payment is effected in cash.

The Executive Board is remunerated with a fixed salary and a profit-based component, which is proportional to the net profit reduced by a certain minimum return on equity (41 % of the total compensation in the reporting period). Payment is effected in cash.

Since 2004 there is an option agreement between the majority shareholder and the CEO. The majority shareholder grants the CEO the right to purchase 101'010 registered shares at a price of CHF 36.00 per share at his retirement in 2013 unless the CEO quits his employment by unilateral notice.

Compensation of the Directors and the CEO is periodically reviewed and revised as necessary by the Board of Directors. Compensation of the other members of the Executive Board is determined by the Chairman of the Board of Directors at periodic intervals. Compensation for the Board of Directors, the CEO and the other Executive Board members is based on Group net income less a minimum return on equity in accordance with the parameters set by the Board of Directors at the beginning of each planning period.

The parameters for the 2011 financial year were set at the beginning of 2011; at the end of 2011 the parameters for the 2012 and 2013 financial years were set.

The Board of Directors is informed of the compensation paid to members of the Executive Board on an annual basis. Duties, responsibilities, personal and corporate performance, market developments and comparative salary analyses are considered as deemed appropriate when setting compensation levels.

There are no payments and benefits in favour of the Board of Directors and/or of the Executive Board in connection with their departure. The company does not dispose of any shareholding programmes.

Compensation paid to the Board of Directors and to the Executive Board is disclosed in the consolidated financial statements on page 87 (note 30).

Shareholders' participation and protection rights

Shareholders of Swiss corporations have extensive participation and protective rights. The participation rights include, in particular, the right to participate in general meetings, the right to express opinions and the right to vote. The protective rights include, among others, the right for inspection and information, the right for a special audit, the right to convene a general meeting, the right to add topics to the agenda, the right to challenge resolutions and the right to raise claims regarding responsibility.

Voting rights restrictions and representation

There are no restrictions on the voting right for all shareholders whose right to vote is registered in the share register. Every shareholder is entitled to be represented by another shareholder whose power to do so is proven in writing.

Statutory quorum

There is no statutory quorum.

Convocation of the annual general meeting of shareholders

There are no statutory rules on the convocation of the general meeting which differ from the legal provisions. A general meeting is convened at least 20 days before the date of the meeting by letter to those shareholders, whose addresses are registered in the share register. Shareholders disposing of at least 5 percent of the share capital are able to request convocation of a general meeting upon indication of the items and the motions.

Agenda

The convocation consists of the agenda provided by the Board of Directors and the motions. Shareholders disposing of shares with a nominal value of at least CHF 1 million may request items to be added to the agenda.

Registration in the share register

The Board of Directors keeps a share register in which the shareholders and beneficiaries are entered with their names and addresses. Shareholders and beneficiaries are only recognized as such if they are registered in the share register. Any entry requires the approval of the Board of Directors, a committee determined by the Board of Directors or a single person determined by the Board of Directors. The Board of Directors has the right to demand from the applicant all information which might be useful for the assessment of the application for registration. The entry in the share register of a shareholder with the right to vote or a beneficiary can be denied for the following reasons:

- if, on request of the company, the acquirer does not explicitly confirm that he did not obtain the shares in his name, in his own interest and on his own account and that he will hold them;
- if and as long as the registration of the acquirer may, based on the available information, prevent the company from complying with Swiss acts which ask for Swiss control.

Acquirers who are not yet recognized by the company are to be registered in the share register as shareholders without voting rights. The corresponding shares are deemed not to be represented at the general meeting. After hearing the person in question, the Board of Directors can delete the registration if it resulted from invalid information. The acquirer has to be informed immediately of the deleting. 10 days before and until the day of the general meeting no entries in the share register are being made.

Changes of control and defence measures

Duty to make an offer

There are no statutory rules regarding “opting-out“and “opting-up“ which differ from law.

Clauses on changes of control

There are no clauses on changes of control.

Auditors

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

PricewaterhouseCoopers AG, St. Gallen, has been the statutory and group auditor since 1981. It is elected for a term of office of three years by the general meeting. The current term of office will continue until the general meeting in 2014. Mr Urs Honegger was first responsible for the audit as auditor in charge in 2006.

Audit fees

Audit fees paid to PricewaterhouseCoopers AG during the 2011 financial year and charged to the consolidated financial statements for 2011 amounted to CHF 299'000.

Additional fees

Additional non-audit fees paid to Pricewaterhouse-Coopers AG and charged to the consolidated financial statements for 2011 amounted to CHF 155'000.

These fees were primarily for services related to the Dörries Scharmann Technologie GmbH acquisition and the company’s rights issue.

Supervisory and control instruments pertaining to the auditors

The external audit is supervised by the Board of Directors. The Board of Directors assesses the audit plan, the audit scope, the execution and the results of the audit. The auditors report directly to the Board of Directors. In the reporting year, the auditor in charge participated in two Board meetings. At those meetings, the audit schedule, scope, and results as well as other important elements of auditing were discussed.

Information policy

The company informs its shareholders and the capital market in an open and timely way and with as much transparency as possible. The most important information instruments are the annual and financial report, the website www.starrag.com, the media releases, the presentation of annual results for the media and analysts, and the general meeting.

As a listed company, StarragHeckert Holding AG is obliged to publish information that is relevant to the stock price (ad hoc-publicity, art. 72 of the Listing Rules). The Listing Rules can be found on www.six-exchange-regulation.com/regulation/listing_rules_de.html

Corporate calendar:

- **20.04.2012**
  Annual general meeting in Rorschacherberg
  (5 p.m. in the Mehrzweckhalle Rorschacherberg)

- **04.05.2012**
  Information on first-quarter 2012 results

- **27.07.2012**
  Letter to shareholders on 1H 2012 results

- **02.11.2012**
  Information on third-quarter 2012 results

- **25.01.2013**
  Initial information on full-year 2012 results

- **08.03.2013**
  Presentation of 2012 results for analysts and the media in Zurich

- **12.04.2013**
  Annual general meeting in Rorschacherberg

Related information and documents will be published on our website www.starrag.com to the extent possible.

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

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Financial Commentary

Significant increase in order intake and profitability, balance sheet strength sustained

- Net profit of CHF 10.9 million, EPS of CHF 3.52 (+8 %)
- Acquisition of Dörries Scharmann Group for CHF 85.7 million in January 2011
- Order intake of CHF 348 million corresponds to organic growth of 18 % (in local currency and inclusion of Dörries Scharmann on a pro forma basis)
- Operating margin widens to 5.4 %, return on equity of 7.1 %
- Share capital increased to refinance the acquisition of Dörries Scharmann, maintaining a sound capital base with an equity ratio of 54.1 %
- Dividend of CHF 1.20 per share paid from capital contribution reserves and therefore not subject to Swiss withholding tax

CHF m	**2011**	2010	Change
Order intake	348.3	188.3	+85 %
Order backlog	237.5	103.9	+129 %
Sales revenue	354.4	199.2	+78 %
Operating profit EBIT	19.1	10.1	+89 %
Net income	10.9	8.1	+34 %
Return on equity	7.1 %	7.5 %	+21 %
Earnings per share (in CHF)	3.52	3.27	+8 %
Employees at year end	1’420	739	+92 %
Share price at year end	49.55	69.00	-28 %

Starrag Group increased its net profit in fiscal 2011 by 34% to CHF 10.9 million and raised the EBIT margin from 5.1% to 5.4% of sales revenues. Orders received amounted to CHF 348 million, an increase of 18% in organic terms based on local currency and including the Dörries Scharmann Group acquired in January 2011 on a pro forma basis.

The Board of Directors will propose a withholding-tax-free distribution of CHF 1.20 per share paid from capital contribution reserves at the general meeting of shareholders on 20 April 2012. This corresponds to a payout ratio of 37%.

High organic growth in orders received

Orders received in 2011 increased to CHF 348 million. On a comparable basis in local currency and including the acquisition of Dörries Scharmann on a pro forma basis, new orders were up by 17.5 % or CHF 58 million in organic terms. This growth was primarily fueled by rising order activity in the Europe region. Positive sentiment throughout the machine tool sector induced many companies to reactivate replacement and modernization plans that had been postponed during the recession.

The book-to-bill ratio for 2011 stood at 0.98. This can be traced to the uncertainty surrounding Dörries Scharmann Group after its former owner declared bankruptcy in October 2010, which had a negative impact on order inflow up into the first half of 2011.

Currency translation had a negative impact of CHF 35 million on order intake because of the strong Swiss franc. The order backlog on 31 December 2011 was CHF 238 million, 1.7 % less than the corresponding figure at the end of 2010 in local currency and including Dörries Scharmann.

Sales in line with expectations

Starrag Group generated sales revenues of CHF 354 million in 2011. In local currency and including Dörries Scharmann, this corresponded to organic growth of 2.2 %. As expected, sales revenues did not increase at the same pace as orders received. This is primarily attributable to uncertainty regarding the ownership structure of Dörries Scharmann Group up until January 2011, which had a negative impact on order intake in 2010 and in the first half of 2011.

Exchange-rate movements reduced sales revenues in 2011 by 9.5 % or CHF 37 million.

Strict cost management

Total personnel costs increased from CHF 58.1 million in 2010 to CHF 120.7 million in the year under review. The acquisition of Dörries Scharmann accounted for CHF 60.3 million of the increase while exchange-rate movements had an impact of CHF -4.0 million.

Personnel costs as a percentage of sales revenues increased slightly from 33.1 % in the previous year to 34.1 % in the year under review due to the higher level of internal value added. This was offset by an increase in the gross profit margin from 57.1 % to 57.8 %. Operating expenses were stable at 15.4 % of sales revenues and they included costs of CHF 1.0 million related to the acquisition and integration of Dörries Scharmann Group.

Operating profit (EBIT): Sustained earnings power

Earnings before interest, tax, depreciation and amortization EBITDA amounted to CHF 31.1 million (8.8 % of sales revenues) compared to CHF 16.3 million or 8.2 % of sales revenues in the previous year. Depreciation and amortization amounted to CHF 11.9 million in 2011. Operating profit (EBIT) increased from CHF 10.1 million to CHF 19.1 million and the EBIT margin rose from 5.1 % to 5.4 % of sales revenues.

On a comparable basis, EBIT was expectedly CHF 0.6 million lower, having reached 5.7 % of sales revenues in 2010 including Dörries Scharmann on a pro forma basis. This decrease was caused by lower capacity utilization at Dörries Scharmann due to the slowdown in order intake in 2010 and the first half of 2011.

Net profit and earnings per share increased

The increase in operating profit led to significantly higher Group net profit of CHF 10.9 million (34 %). Earnings per share (EPS) rose by 7.6 % to CHF 3.52. Currency translation reduced EPS by CHF 0.50 or 14.3 %. Net profit growth was diminished by an increase in net financial expense resulting from the rescheduling of Dörries Scharmann Group's previous credit lines in the fourth quarter of 2011, as well as by the higher tax rate of 37 % (27 % in the previous year). The latter can be traced to the significantly higher percentage of profits generated in countries with a higher tax burden and, to a lesser extent, to non-deductible tax loss carryforwards.

Balance sheet remains strong: Acquisition of Dörries Scharmann refinanced through rights issue

Total assets at 31 December 2011 amounted to CHF 327 million, an increase of CHF 157 million or 93 % compared to the previous year. The acquisition of Dörries Scharmann Group accounted for CHF 157 million of this increase.

Current assets increased CHF 81 million to CHF 209 million. The purchase of Dörries Scharmann led to an increase in current assets of CHF 76 million and the remaining CHF 12 million resulted from the free cash flow generated by the higher level of current assets.

Fixed assets at the end of December 2011 amounted to CHF 118 million, a largely acquisition-induced increase of CHF 76 million from the previous year. There was a material change in goodwill (CHF 16 million increase) and other intangible assets (CHF 27 million increase) as a result of the acquisition.

Working capital requirements as expressed by net operating assets showed an increase of CHF 78 million to CHF 163 million, mainly because of the acquisition of Dörries Scharmann Group. Measured as a percentage of sales revenues, working capital increased to 46.0 % (42.7 % in the previous year including Dörries Scharmann). This is attributable to an inventory buildup in response to the tighter supply situation in procurement markets and to currency translation effects.

Cash holdings at 31 December 2011 were sharply higher at CHF 44 million (previous year CHF 32 million), buoyed by the high operating cash flow, and the company's net cash position (cash and cash equivalents minus debt) including the acquisition of Dörries Scharmann grew from CHF 31 million at the end of 2010 to CHF 37 million at the end of 2011.

Starrag Group's capital base remains strong and stable. Thanks to the rights issue conducted to refinance the acquisition of Dörries Scharmann Group, the equity ratio remained at a high level of 54.1 % (2010: 64.1 %).

Cash flow

Cash flow (excluding changes in net current assets) was significantly higher in fiscal 2011, rising from CHF 16.0 million in 2010 to CHF 27.8 million at year-end 2011. Including the CHF 12.3 million increase in inventories in response to tight procurement markets as well as movements in other net current assets, operating cash flow amounted to CHF 19.2 million (previous year CHF 32.2 million).

A total of CHF 10.2 million was invested in fixed assets, of which CHF 6.8 million was spent on upgrading European plants and on expanding and integrating IT platforms and CHF 3.4 million was spent on expanding capacity by building a new factory in Bangalore, India.

Free cash flow, defined as operating cash flow minus capital expenditure, amounted to CHF 9.3 million or 2.6 % of sales revenues (previous year CHF 28.0 million or 14.0 %). The decline is attributed to the greater amount of capital tied up in inventory and the capacity expansion in India.

The acquisition of the Dörries Scharmann Group for a cash consideration of CHF 85.7 million resulted in a net cash outflow of CHF 60.0 million after taking into account the CHF 25.7 million in cash and cash equivalents acquired through this transaction. The acquisition of Dörries Scharmann Group was refinanced by means of a capital increase conducted in May 2011. Including the sale of treasury shares and transaction costs of CHF 1.6 million (2.4 % of transaction volume), the net proceeds of the capital increase amounted to CHF 67.0 million.

Based on the net profit reported for 2010, a withholding-tax-free distribution from capital contribution reserves in the amount of CHF 2.5 million was paid in April 2011, which corresponded to a payout ratio of 31 %.

Consolidated income statement

CHF 1'000		2011	2010
Sales revenue	2,3	354'430	199'192
Change in self-manufactured products		4'036	-824
Material expenses		-153'716	-91'695
Gross profit		**204'750**	106'673
Personnel expenses	4	-120'722	-58'096
Operating expenses	5	-54'770	-34'133
Other operating income	6	1'835	1'845
Earnings before interest, taxes, depreciation and amortization EBITDA		**31'093**	**16'289**
Depreciation and amortization	1,7	-11'949	-6'152
Earnings before interest and taxes EBIT		**19'144**	10'137
Financial income	8	1'190	1'693
Financial expenses	8	-3'017	-730
Earnings before tax		**17'317**	11'100
Income tax	25	-6'462	-3'013
Net income		**10'855**	8'087
Thereof:			
‣ Shareholders of company		10'793	8'071
‣ Minority shareholders		62	16
Earnings per share (in CHF)	9	3.52	3.27
Diluted earnings per share (in CHF)	9	3.52	3.27

Consolidated statement of comprehensive income

CHF 1'000	2011	2010
Net income	**10'855**	8'087
Change in fair value Cash Flow Hedges	-2'907	572
Income taxes on change in fair value Cash Flow Hedges	177	-9
Currency translation	-4'355	-11'123
Other comprehensive income	-7'085	**-10'560**
Total comprehensive income	**3'770**	-2'473
Thereof:		
‣ Shareholders of company	3'725	-2'413
‣ Minority shareholders	45	-60

The enclosed notes are part of the financial statements.

Consolidated balance sheet

CHF 1'000		**31.12.2011**	31.12.2010
Cash and cash equivalents		43'728	32'210
Receivables	10	93'498	49'273
Other financial assets	11	4'357	6'094
Inventories	12	67'420	40'066
Total current assets		**209'003**	127'643
Tangible fixed assets	13	72'709	36'137
Intangible assets	14	44'906	5'595
Total fixed assets	15	**117'615**	41'732
Total assets		**326'618**	169'375

CHF 1'000		**31.12.2011**	31.12.2010
Financial liabilities	16	527	412
Operating liabilities	17	32'654	12'046
Accrued expenses and deferred income	18	70'237	32'418
Current income tax		8'210	2'910
Provisions	19	8'515	5'613
Total current liabilities		**120'143**	**53'399**
Financial liabilities	16	6'217	690
Deferred income tax	25	19'621	4'485
Provisions	19	4'001	2'315
Total non-current liabilities		**29'839**	**7'490**
Total liabilities		**149'982**	60'889
Share capital	20	28'560	21'420
Treasury shares	21	–	-2'801
Additional paid-in capital		89'851	35'445
Cash flow hedges		-889	1'841
Retained earnings		79'485	68'667
Currency translation		-21'139	-16'801
Total shareholders' equity of company		**175'868**	**107'771**
Minority shareholders		768	715
Total shareholders' equity		**176'636**	108'486
Total liabilities		**326'618**	169'375

The enclosed notes are part of the consolidated financial statements.

Consolidated cash flow statement

CHF 1'000		31.12.2011	31.12.2010
Net income		10'855	8'087
Income tax expenses	25	6'462	3'013
Interest expenses	8	756	32
Interest income	8	-347	-171
Depreciation and amortization	7	11'949	6'152
Change in non-current provisions		164	-440
Other non-cash items		-2'042	-739
Change in inventory		-12'270	3'998
Change in other non-cash net current assets		2'966	15'864
Income tax paid		658	-3'619
Cash flow from operating activities, net		**19'151**	32'177
Capital expenditure for:			
‣ Business combination	32	-59'982	–
‣ Tangible fixed assets		-8'338	-3'512
‣ Intangible fixed assets		-1'904	-821
Disposals of fixed assets		362	108
Cash flow from investing activities, net		**-69'862**	-4'225
Change in current financial liabilities		-127	-306
Repayment of non-current financial liabilities		-274	–
Interest paid		-756	-35
Interest received		347	173
Dividend payment	9	-2'524	-3'733
Purchase of treasury shares	21	-166	–
Sale of treasury shares	21	3'925	–
Capital increase		63'059	–
Cash flow from financing activities, net		**63'484**	-3'901
Currency translation		-1'255	-3'826
Net change in cash and cash equivalents		11'518	20'225
Cash and cash equivalents at beginning of year		32'210	11'985
Cash and cash equivalents at year end		**43'728**	32'210

The enclosed notes are part of the consolidated financial statements.

Consolidated statement of shareholders' equity

CHF 1'000	Share capital	Treasury shares	Additional paid-in capital	Cash flow hedges	Retained earnings	Currency translation	Shareholders' equity of the company	Minority shareholders	**Total shareholders' equity**
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 9	-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
Net income	–	–	–	–	10'793	–	10'793	62	10'855
Other comprehensive income	–	–	–	-2'730	–	-4'338	-7'068	-17	-7'025
Total comprehensive income	–	–	–	**-2'730**	**10'793**	**-4'338**	**3'725**	**45**	**3'770**
Share-based payment	–	–	–	–	25	–	25	–	25
Change in consolidated companies	–	–	–	–	–	–	–	61	61
Dividend payment 9	–	–	-2'471	–	–	–	-2'471	-53	-2'524
Purchase of treasury	–	-166	–	–	–	–	-166	–	-166
Sale of treasury shares	–	2'967	958	–	–	–	3'925	–	3'925
Capital increase	7'140	–	55'919	–	–	–	63'059	–	63'059
31.12.2011	28'560	–	89'851	-889	79'485	-21'139	175'868	768	**176'636**

The enclosed notes are part of the consolidated financial statements.

Starrag Group

High-precision machine tools for greater productivity
Starrag Group is a global technology leader in manufacturing high-precision machining tools for milling, turning, boring and grinding of mid-sized to large workpieces of metallic and composite material. Principle customers are internationally active companies in the aerospace, energy, transport and engineering sectors. In addition to its portfolio of machine tools, Starrag Group provides integrated technology and maintenance services that significantly enhance customer productivity.

Starrag Group products are marketed under the following strategic brands: Berthiez, Dörries, Droop+Rein, Heckert, Scharmann, SIP, Starrag, TTL, WMW. Headquartered in Rorschach/Switzerland, Starrag Group operates manufacturing plants in Switzerland, Germany, France, the UK and India and has established a network of service and sales subsidiaries in numerous other countries.

Starrag Group is listed on the SIX Swiss Exchange (STGN).

The StarragHeckert Holding AG (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 %)
- SIP Société d'Instruments de Précision SA, Satigny, Switzerland
  (Business: Production, nominal capital TCHF 1'500; interest 100 %)
- StarragHeckert AG, Rorschacherberg, Switzerland
  (Business: Production; nominal capital TCHF 10'000; interest 100 %)
- Toolroom Technology Limited, Haddenham, UK
  (Business: Engineering; nominal capital TGBP 20; interest 76 % indirectly)
- StarragHeckert GmbH, Chemnitz, Germany
  (Business: Production; nominal capital TEUR 5'113; interest 100 %)
- StarragHeckert Machine Tools Private Limited, Bangalore, India
  (Business: Production, nominal capital TINR 10'500, interest 100 %)
- Berthiéz SAS, Saint Etienne, France
  (Business: Production, nominal capital TEUR 1'300, interest 100 %
  first-time consolidation due to acquisition in January 2011)
- Dörries Scharmann Technologie GmbH, Mönchengladbach, Germany
  (Business: Production, nominal capital TEUR 21'986, interest 100 %
  first-time consolidation due to acquisition in January 2011)
- Dörries Scharmann Grundstücks-Vermietungsgesellschaft GmbH & Co. KG, Mönchengladbach, Germany (Business: Financing, nominal capital TEUR 10'980, interest 100 %
  first-time consolidation due to acquisition in January 2011)
- FIRMUS Grundstücks-Vermietungsgesellschaft GmbH & Co. KG, Mönchengladbach, Germany
  (Business: Financing, nominal capital TEUR 9, interest 94 %
  first-time consolidation due to acquisition in January 2011)

- **Dörries Scharmann Technolgie Service Center GmbH & Co. KG, Ichtershausen, Germany**
  (Business: Production, nominal capital TEUR 77, interest 80 %
  first-time consolidation due to acquisition in January 2011)
- **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 %)
- **Starrag Heckert 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, Moscow, Russia**
  (Business: Sales, nominal capital TRUB 2'000; interest 100 %
  first-time consolidation due to foundation in May 2009)
- **Sàrl StarragHeckert France, Laperche, France**
  (Business: Sales; nominal capital TEUR 8; interest 100 %
  first-time consolidation due to foundation in October 2009)
- **Starrag Italia Srl, Rivoli, Italy**
  (Business: Sales, nominal capital TEUR 10, interest 100 %
  first-time consolidation due to foundation in November 2011)

The scope of consolidation was significantly enlarged on 19 January 2011 by the acquisition of the German company Dörries Scharmann Technologie GmbH and its subsidiaries. For more information about this acquisition see note 32 on page 86.

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 periodically reviewed and adjusted as appropriate, taking into consideration economic conditions and loan agreements (compare note 16). Resolutions on the distribution of profit and thus the dividend payment must be put to the vote at the annual general meeting of shareholders.

Business performance is measured using internal statements of operating results. Operating results can then be classified and analyzed in various ways. 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 is accord to the existing organisation structure (Business Units). Business Unit 1 is in charge of the SIP, Starrag and TTL brands, Business Unit 2 for the Heckert and WMW brands and Business Unit 3 for the Berthiez, Dörries, Droop+Rein and Scharmann brands. Approximately half of the work force in the various locations and regions performs central tasks on behalf of all Business Units and brands.

The operating activities of these Business Units have comparable economic characteristics and exhibit a similar long-term financial performance.

All Business Units manufacture machine tools and offer related services. Production at all company locations is made-to-order. Our customers are manufacturing companies that use our products to make capital goods for their customers. Product sales and marketing at all company locations is preferably conducted directly by the regional sales and marketing organizations and the technical sales officers for the respective factories. All Business Units will also engage the services of independent sales representatives as required to ensure more effective global coverage.

The Starrag Group thus has one reportable segment machine tools; segment data corresponds to the data in the consolidated financial statements.

Risk management

A diligent handling of all strategic, financial and operational risks is a top priority for the Board of Directors and the Executive Board. Starrag Group has a comprehensive process for the risk management, which is reviewed by the Executive 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 Executive 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 Executive 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.

Counterparty risk

The Starrag Group mainly holds its cash and cash equivalents as deposits or current account deposits with major creditworthy banks. Generally these deposits have durations of less than three months. Transactions with derivative financial instruments are only concluded with major financial institutes.

Foreign currency risk

The Starrag 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

Interest rate risk results primarily from floating interest rates for bank loans. In some cases, 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 reports.

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 12 (work in progress and finished products) and 22 (percentage of completion valued contracts).

Business combinations: The net assets of acquired entities are revalued in accordance with uniform Group accounting principles and methods as of the date of acquisition. Intangible assets such as proprietary technology, brands and customer relationships are also recognized in the balance sheet (see also note 14). Any residual amount will be allocated to goodwill. Assumptions regarding future market and business developments must be made at the initial measurement and for the subsequent impairment tests. A divergence between actual outcomes and these assumptions can have a significant impact on the valuation of intangible assets and on the results.

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 might require recognition of an adjustment in provisions in the income statement (see note 19).

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, mainly 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 Starrag 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 carried to the statement of comprehensive income.

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 an 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 provided 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 recognized in 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). Impairment tests are based on the current three-year business plans, which take into consideration both past developments and expectations regarding future market and business developments. The discount rates applied are pre-tax interest rates and they reflect market- and country-specific risks.
If an impairment test indicates that the carrying value of an asset exceeds the value in use, an impairment loss covering the excess of the carrying amount over the value in use will be recorded.
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., technology assets 5 to 20 years, brands 5 to 20 years, customer relationships 2 to 20 years and 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 Starrag Group 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 the Starrag Group 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 are 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.

Employer contributions paid or owed for pension funds with defined contribution plans are recognized in the income statement.

Share-based payment

There has been an option agreement between the majority shareholder and the CEO since 2004. The majority shareholder grants the CEO the right to purchase 101'010 registered shares at a price of CHF 36.00 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.

Derivative foreign exchange hedge instruments are used in reaction to short-term currency fluctuations. These are valued at market based on quoted market values at the balance sheet date.

Changes in market value arising from foreign exchange hedge transactions ("Cash Flow Hedges") closed for hedging orders in foreign currencies are included in other comprehensive income, as far as standards regarding documentation, validity and assessment are met. Changes in market value accumulated in other comprehensive income are recorded in the income statement when the scheduled transaction is 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 net 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

The following new standards and interpretations as well as amendments to existing standards apply for the first time for annual periods beginning on or after 31 December 2010:

- **IAS 24 (revised)** Related Party Disclosures
- **IAS 32 (revised)** Financial Instruments: Presentation
- **IFRIC 14 IAS 19** The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction
- **IFRIC 19** Extinguishing Financial Liabilities with Equity Instruments
- **IASB** Annual Improvement Project 2010

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 1 (revised)** Presentation of Financial Statements (for business years starting from 1 July 2012)
- **IAS 12 (revised)** Deferred Tax (for business years starting from 1 January 2012)
- **IAS 19 (revised)** Employee Benefits (for business year starting from 1 January 2012)
- **IAS 27 (revised)** Consolidated and Separate Financial Statements (for business years starting from 1 January 2013)
- **IAS 28 (revised)** Investments in Associates (for business years starting from 1 January 2013)
- **IFRS 7 (revised)** Transfer of Financial Assets (for business years starting from 1 July 2011)
- **IFRS 9** Financial Instruments (for business year starting from 1 January 2015)
- **IFRS 10** Consolidated Financial Statements (for business years starting from 1 January 2013)
- **IFRS 11** Joint Arrangements (for business years starting from 1 January 2013)
- **IFRS 12** Disclosure of Interests in Other Entities (for business years starting from 1 January 2013)
- **IFRS 13** Fair Value Measurement (for business years starting from 1 January 2013)
- **IASB** Annual Improvement Project 2011

Although a systematic analysis has not yet been made, an initial evaluation indicates that, with the exception of the revised IAS 19, the above changes will have an only marginal influence on the consolidated financial statements, while leading to additional disclosure. In accordance with the amended version of IAS 19, the difference between the fair value of plan assets and the present value of the defined benefit obligation will be written to other comprehensive income and recognized in the consolidated statement of shareholders' equity in the future. This practice would have reduced reported equity in the consolidated financial statements for 2011 by CHF 4.5 million.

Segment information

1. Reporting by business segment

	Machine Tools	
CHF 1'000	**2011**	2010
Sales revenues	**354'430**	199'192
Earnings before interest, taxes, depreciation and amortization EBITDA	31'093	16'289
Depreciation and amortization	-11'949	-6'152
Operating profit EBIT	**19'144**	10'137
Operating assets on 31 December	278'533	137'165
Operating liabilities on 31 December	-115'407	-52'392
Net operating on 31 December	**163'126**	84'773
Goodwill	16'978	1'822
Capital expenditure	69'862	4'225
Non-cash income	-2'042	-739

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

2. Sales revenue by product

CHF 1'000	**2011**	2010
New machines	270'540	141'776
Customer services	83'890	57'416
Total	**354'430**	199'192

3. Sales revenue by geographical segment

CHF 1'000	**2011**	2010
Switzerland	70'322	92'496
Germany	256'810	96'607
Other countries	27'298	10'089
Total	**354'430**	199'192

Additional segment information is disclosed in note 15.

Notes to the income statement

4. Personnel expenses

CHF 1'000		2011	2010
Wages and salaries		99'477	48'422
Pension benefits	24	1'819	1'788
Social benefits		15'902	7'215
Other personnel expenses		3'524	671
Total personnel expenses		**120'722**	58'096

5. Operating expenses

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

6. Other operating income

CHF 1'000	2011	2010
Sublease income	607	746
Government grants	156	368
Profit from sales of fixed assets	30	53
Other operating income	1'042	678
Total other operating income	**1'835**	1'845

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.

7. Depreciation and amortization

CHF 1'000	2011	2010
Buildings	2'176	1'265
Machinery and equipment	4'789	2'688
Other tangible assets	1'101	387
Total depreciation tangible fixed assets	**8'066**	4'340
Brands and customer relations	565	–
Technology	2'390	938
IT software	928	874
Total amortization of intangible assets	**3'883**	1'812
Total depreciation and amortization	**11'949**	6'152

8. Financial result

CHF 1'000	2011	2010
Interest income	347	171
Interest expenses	-756	-32
Currency gains	843	1'522
Other financial expenses	-2'261	-698
Total financial result, net	**1'827**	963
Thereof:		
‣ Financial income	1'190	1'693
‣ Financial expenses	-3'017	-730
Result from available-for-sale financial instruments	298	226

9. Data per share

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 treasury shares). In 2011, the number of shares was 3'064'466 (prior year 247'113). Based on the net result attributable to the shareholders of the company of CHF 10.8 million (prior year CHF 8.1 million) net earnings per share after the split amount to CHF 3.52 (prior year CHF 3.27). As the company has not issued any stock options or convertible bonds, earnings per share were not diluted.

At the general meeting on 20 April 2012, the Board of Directors will propose the distribution of a dividend of CHF 1.20 per share from reserves from capital contributions. On a post-split basis, a dividend of CHF 1.00 from reserves from capital contributions was paid for the 2010 financial year.

Notes to the balance sheet

10. Receivables

	CHF 1'000	**31.12.2011**	31.12.2010
Trade receivables		30'429	12'909
Receivables from construction contracts	22	57'576	31'102
Other receivables		5'493	5'262
Total receivables		**93'498**	49'273
Thereof:			
‣ not due		83'724	43'027
‣ past due < 90 days, not impaired		3'613	3'648
‣ past due ≥ 90 days, not impaired		2'936	450
‣ impaired		3'225	2'148
Therof:			
‣ CHF		12'465	26'093
‣ EUR		75'141	20'153
‣ USD		1'962	1'477
‣ other		3'930	1'550

Trade receivables include no receivables that are due only upon fulfillment of certain contractual conditions. In view of the number and the geographical spread of accounts receivable, there is no material concentration of risk.

	CHF 1'000	**2011**	2010
Allowance for doubtful accounts at beginning of year		2'147	2'243
Change in consolidated companies	32	1'321	–
Increase		566	488
Decrease		-20	-36
Use		-215	-419
Currency translation		-102	-129
Allowance for doubtful accounts at end of year		**3'697**	**2'147**

11. Other financial assets

CHF 1'000	**2011**	2010
Prepayments to suppliers	2'635	2'594
Deferred expenses	1'664	1'774
Cash Flow Hedges	58	1'726
Total other financial assets	**4'357**	6'094

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

12. Inventories

CHF 1'000	**31.12.2011**	31.12.2010
Raw materials and components	39'669	24'421
Work in progress	21'484	11'293
Finished products	6'267	4'352
Total inventories	**67'420**	40'066

In 2011 a charge of CHF 1.4 million resulting from an inventory valuation adjustment was recorded (prior year CHF 2.0 million).

13. Tangible fixed assets

		2011				2010			
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		39'706	34'204	3'717	77'627	41'707	39'004	4'101	84'812
Change in consolidated companies	32	27'553	8'224	2'701	38'478	–	–	–	–
Additions		3'927	3'791	943	8'661	673	2'105	623	3'401
Government grants		–	-323	–	-323	–	-488	–	-488
Disposals		-9	-1'527	-653	-2'189	–	-3'477	-586	-4'063
Reclassification		–	–	–	–	–	223	-223	–
Currency translation		-1'559	-584	-185	-2'328	-2'674	-3'163	-198	-6'035
Gross value at year end		**69'618**	**43'785**	**6'523**	**119'926**	39'706	34'204	3'717	77'627
Accumulated depreciation at beginning of year		15'521	23'212	2'757	41'490	15'502	25'522	3'162	44'186
Depreciation	7	2'176	4'789	1'101	8'066	1'265	2'688	387	4'340
Disposals		-9	-1'386	-545	-1'940	–	-3'450	-558	-4'008
Currency translation		-191	-340	133	-398	-1'246	-1'548	-234	-3'028
Accumulated depreciation at year end		**17'497**	**26'274**	**3'446**	**47'217**	15'521	23'212	2'757	41'490
Net book value at beginning of year		24'185	10'992	960	36'137	26'205	13'482	939	40'626
Net book value at year end		**52'121**	**17'511**	**3'077**	**72'709**	24'185	10'992	960	36'137
Fire insurance value at year end		145'939	125'304		271'243	95'206	52'180		147'386

14. Intangible assets

CHF 1'000		2011 Goodwill	2011 Brands and customer relations	2011 Technologies	2011 IT Software	2011 Total	2010 Goodwill	2010 Technologies	2010 IT Software	2010 Total
Gross value at beginning of year		1'822	–	9'595	8'723	20'140	2'147	10'240	9'386	21'773
Change in consolidated companies	32	15'730	12'382	14'153	562	42'827	–	–	–	–
Additions		–	–	1'241	663	1'904	–	362	459	821
Disposals		–	–	–	-427	-427	–	–	-336	-336
Currency translation		-574	-433	-617	-114	1'738	-325	-1'007	-786	-2'118
Gross value at year end		**16'978**	**11'949**	**24'372**	**9'407**	**62'706**	1'822	9'595	8'723	20'140
Accumulated depreciation at beginning of year		–	–	7'035	7'510	14'545	–	6'950	7'630	14'580
Depreciation	7	–	565	2'390	928	3'883	–	938	874	1'812
Disposals		–	–	–	-415	-415	–	–	-336	-336
Currency translation		–	-8	-121	-84	-213	–	-853	-658	-1'511
Accumulated amortization at year end		–	**557**	**9'304**	**7'939**	**-17'800**	–	7'035	7'510	14'545
Net book value at beginning of year		1'822	–	2'560	1'213	5'595	2'147	3'290	1'756	7'193
Net book value at year end		**16'978**	**11'392**	**15'068**	**1'468**	**44'906**	1'822	2'560	1'213	5'595

The goodwill impairment test was conducted using the following parameters:

CHF 1'000	31.12.2011 Carrying amount of goodwill	31.12.2011 Residual growth rate	31.12.2011 Discount rate, pre-tax	31.12.2010 Carrying amount of goodwill	31.12.2010 Residual growth rate	31.12.2010 Discount rate, pre-tax
Business Unit 1	755	1 %	12.0 %	755	–	10.0 %
Business Unit 2	1'043	1 %	11.5 %	1'067	–	10.0 %
Business Unit 3	15'180	1 %	11.5 %	–	–	–
Total	**16'978**			1'822		

Based on the results of the sensitivity analyses performed by varying the key parameters for the impairment tests (growth and discount rate), there was no reason to revise the initial assessment of the impairment test.

15. Fixed assets

CHF 1'000	2011	2010
Switzerland	23'109	23'380
Germany	88'514	16'444
Other countries	5'992	1'908
Total	**117'615**	41'732

16. Financial liabilities

CHF 1'000	**31.12.2011**	31.12.2010
Current financial liabilities	527	412
Non-current financial liabilities	6'217	690
Total financial liabilities	**6'744**	1'102
Thereof in:		
‣ EUR	6'744	1'102
Market value	6'744	1'102
Contractual Cash flows	**9'172**	1'323
Thereof:		
‣ due within 1 year	1'131	457
‣ due within 2 to 5 years	3'059	866
‣ due thereafter	4'982	–
Average interest rate	2.6 %	0.9 %
Unused credit lines	68'664	61'487

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 have been satisfied.

17. Operating liabilities

CHF 1'000	**31.12.2011**	31.12.2010
Trade liabilities	17'081	8'338
Other operating liabilities	9'992	3'048
Advance payments received	5'581	660
Other operating liabilities	**32'654**	12'046
Thereof:		
‣ due within 6 months	27'974	12'046
‣ due thereafter	4'680	–

18. Accrued expenses and deferred income

CHF 1'000		**31.12.2011**	31.12.2010
Construction contracts	22	32'644	10'947
Project costs		18'651	10'007
Personnel expenses		11'145	3'985
Commissions		506	977
Other		7'291	6'502
Total accrued expenses and deferred income		**70'237**	32'418

19. Provisions

		2011		
CHF 1'000		Warrenty	Other Provisions	**Total**
Value at beginning of year		6'913	1'015	7'928
Change in consolidated companies	32	5'264	–	5'264
Increase		7'040	652	7'692
Decrease		-240	-524	-764
Use		-7'105	-252	-7'357
Currency translation		-238	-9	-247
Value year end		**11'634**	**882**	**12'516**
Thereof:				
‣ Current		7'959	556	8'515
‣ Non-current		3'675	326	4'001

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.

20. Share capital

CHF 1'000	31.12.2011	31.12.2010
Issued and fully paid-in capital:		
‣ 3'360'000 registered shares at nominal value of CHF 8.50 each	28'560	–
‣ 252'000 registered shares at nominal value of CHF 85 each	–	21'420
Conditional capital not issued:		
‣ 50'400 registered shares at nominal value of CHF 85 each	–	4'284
Authorized capital not issued:		
‣ 1'260'000 registered shares at nominal value of CHF 8.50 each	10'710	–
‣ 126'000 registered shares at nominal value of CHF 85 each	–	10'710

The following registered shareholders held more than 3 % of voting rights as of 31.12.2011:

‣ Walter Fust	54.9 %	54.9 %
‣ Eduard Stürm AG	9.4 %	13.0 %
‣ Max Rössler / Parmino Holding AG	5.3 %	–

	Number of shares 31.12.2011		Number of shares 31.12.2010	
Participations of Board of Directors and Management Board:	Shares	Options	Shares	Options
Walter Fust	1'843'830	–	138'288	–
Dr. Hanspeter Geiser	2'050	–	210	–
Valentin Vogt	2'660	–	200	–
Prof. Dr. Christian Belz	1'330	–	100	–
Adrian Stürm	26'680	–	150	–
Total Board of Directors	1'876'550	–	138'948	–
Dr. Frank Brinken	2'800	101'010	210	7'576
Gerold Brütsch	300	–	10	–
Günther Eller	200	–	20	–
Stefan Knellwolf	410	–	41	–
Total Management Board	3'710	101'010	281	7'576

21. Treasury Shares

CHF 1'000	31.12.2011	31.12.2010
Amount	–	2'801
Number	–	4'895

In 2011, a total of 212 shares were purchased at an average price of CHF 784 per share and 5'107 shares were sold at an average price of CHF 770 per share.

Other notes

22. Construction contracts

CHF 1'000	**2011**	2010
Revenue from construction contracts	284'264	165'287

CHF 1'000		**31.12.2011**	31.12.2010
Accrued contract costs and recognized profit		173'043	103'435
Advance payments received		-148'111	-83'280
Net value from construction contracts		**24'932**	20'155
Thereof:			
‣ Receivables	10	57'576	31'102
‣ Accrued expenses and deferred income	18	-32'644	-10'947

23. Research and development

Expenditure for research and development amounts to CHF 26.9 million or 7.5 % of sales revenue (prior year CHF 16.8 million or 8.4 %). After consideration of government grants as well as capitalization and depreciation of development projects, the income statement was charged with CHF 26.1 million net or 7.3 % of sales revenue (prior year net CHF 17.0 million or 8.6 % of sales revenue).

24. Pension benefits

CHF 1'000		2011	2010
Current service cost		3'553	3'602
Interest cost		1'484	1'741
Anticipated return on plan assets		-1'773	-2'117
Employers' contributions		-1'637	-1'650
Plan curtailment		–	63
Actuarial profits (-) / losses (+)		10	11
Expenses for defined benefit plans		1'637	1'650
Expenses for defined contribution plans		182	138
Pension benefit expenses	4	**1'819**	1'788

CHF 1'000	31.12.2011	31.12.2010
Plan assets at market value	54'217	54'908
Defined benefit obligation	-59'414	-59'382
Underfunding	-5'197	-4'474
Actuarial profits (-) / losses (+)	5'358	4'763
Amount booked in the balance sheet	**161**	289
Thereof:		
‣ Deferred expenses	161	289

CHF 1'000	2011	2010
Present value of defined benefit obligation, beginning of	59'382	53'609
Current service cost	3'553	3'602
Interest cost	1'484	1'741
Benefits paid	-4'610	-4'853
Contributions	678	656
Plan curtailment	–	63
Actuarial profits (-) / losses (+)	1'073	4'564
Present value of defined benefit obligation, end of year	**59'414**	59'382

CHF 1'000	2011	2010
Plan assets, beginning of year	54'908	57'501
Contributions	3'942	646
Benefits paid	-4'610	-4'853
Anticipated return on plan assets	1'773	2'117
Actuarial profits (+) / losses (-)	-1'796	-503
Plan assets, end of year	**54'217**	54'908
Thereof:		
‣ Surrender value of insurance contracts	50'201	50'194
‣ Equity funds	2'444	2'900
‣ Bond funds	1'181	1'238
‣ Other investments	391	576

CHF 1'000	2011	2010
Actuarial assumptions:		
Discount rate	2.25 %	2.50 %
Salary increase	1.00 %	1.00 %
Pension increase	0.00 %	0.00 %
Return on plan assets	3.00 %	3.25 %
Exit probability	BVG 2010 GT	BVG 2005
Mortality	BVG 2010 GT	BVG 2005
Early retirement	–	–
Average remaining service time	9.9	9.7

CHF 1'000	2011	2010	2009	2008	2007
Plan assets at market value	54'217	54'908	57'501	52'182	48'515
Defined benefit obligation	-59'414	59'382	-53'609	-51'544	-45'330
Overfunding	–	–	3'892	638	3'185
Underfunding	-5'197	-4'474	–	–	–
Experience adjustments plan assets	-1'131	-492	240	1'395	-59
Experience adjustments defined benefit obligations	1'507	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 3.00 % (prior year 3.25 %). The estimated contributions for the business year 2010 of CHF 3.4 million were prepaid in 2009. The estimated contributions for 2012 are CHF 3.4 million.

25. Income tax

CHF 1'000	2011	2010
Earnings before income tax	17'317	11'100
Tax expenses at anticipated tax rate of 17 %	-2'813	-1'888
Tax expenses at other tax rates	-2'757	-695
Debits /credits from prior reporting periods	-12	-14
Use of non-capitalized tax loss carry forward	49	38
Non-deductable expenses/ non-taxable income	-320	-95
Non-capitalized tax loss carry forward	-608	-359
Recognized income tax	**-6'462**	-3'013
Thereof:		
‣ Current income tax expenses	-8'515	-3'085
‣ Deferred income tax expenses	2'053	72

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

CHF 1'000	31.12.2011	31.12.2010
Receivables	9'639	3'629
Fixed assets	10'538	-7
Other	-377	1'195
Tax loss carry forward	-885	-860
Value adjustment	706	528
Total deferred income tax	**19'621**	4'485

On 31 December 2011 there are off balance sheet tax losses carried forward of CHF 5.6 million (prior year CHF 3.1 million), whereof CHF 4.5 million expire within three to seven years (prior year CHF 2.9 million) and CHF 1.1 million do not expire (year prior CHF 0.2 million). Deferred tax assets on tax loss carry-forward of CHF 0.7 million (prior year CHF 0.5 million) have not been capitalized.

CHF 1'000		2011	2010
Deferred taxes at beginning of year		4'485	4'615
Change in consolidated companies	32	18'433	–
Income/Expense for deferred taxes		-2'053	72
Deferred taxes on fair-value changes of Cash Flow Hedges recognized in equity		-180	-9
Currency translation		-1'064	-193
Deferred taxes at end of year		**19'621**	4'485

26. Derivative financial instruments

CHF 1'000	31.12.2011	31.12.2010
Forward currency exchange contracts: Contract value	54'221	17'968
Replacement value:		
‣ positive	193	1'736
‣ negative	-1'501	–

27. Sensitivity analysis for changes in foreign currencies and interest rates

Assuming the euro was 5 % weaker vs. the Swiss franc at 31.12.2011, and all other parameters being equal, the profit after tax would have been CHF 0.2 million lower (prior year CHF 0.1 million). Conversely, in the opposite case, the profit after tax would have been CHF 0.2 million higher (prior year CHF 0.1 million).
Assuming the U.S. dollar was 5 % weaker vs. the Swiss franc at 31.12.2011, and all other parameters being equal, the profit after tax would have been CHF 0.1 million lower (prior year unchanged). Conversely, in the opposite case, the profit after tax would have been CHF 0.1 million higher.

Equity would have increased by CHF 3.8 million (prior year CHF 0.6 million) or, in the opposite case, would have been CHF 3.8 million lower.

28. Operating lease liabilities

CHF 1'000	31.12.2011	31.12.2010
‣ Due within 1 year	3'484	1'774
‣ Due to 2 to 5 years	1'994	2'631
Total operating lease liabilities	5'478	4'405

CHF 1'000	2011	2010
Expenses for operating lease liabilities debiting to the income statement amount to	3'471	1'888

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

29. Other commitments

CHF 1'000	**31.12.2011**	31.12.2010
Purchase commitment towards suppliers	58'401	34'647
Contractual commitments for capital expenditure	–	880
Guarantees	137	312

From time to time, the Starrag Group 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 the Starrag Group believes to be sufficient for any foreseeable risks.

30. Remunerations to the Board of Directors and the Executive Board

The current remunerations paid to non-executive members of the Board of Directors amount to kCHF 375 (prior year kCHF 230). The current remunerations for the Executive Board in the reporting year added up to kCHF 3'703 (prior year kCHF 1'869). There were no payments or other benefits and remunerations after termination of employment contracts.

CHF 1'000	**2011**					2010				
	Fixed	Variable	Options	Pension and other	**Total**	Fixed	Variable	Optionen	Pension and other	**Total**
Walter Fust	90	22	–	4	116	61	2	–	3	66
Dr. Hanspeter Geiser	36	22	–	4	62	36	2	–	3	41
Valentin Vogt	36	22	–	4	62	36	2	–	3	41
Prof. Dr. Christian Belz	36	22	–	4	62	36	2	–	3	41
Adrian Stürm	47	22	–	4	73	36	2	–	3	41
Total Board of Directors	245	110	–	20	375	205	10	–	15	230
Total Executive Board (2011: 8 persons, 2010: 6 persons)	2'008	1'379	26	290	3'703	1'553	72	26	218	1'869
Thereof:										
‣ Dr. Frank Brinken	365	317	26	80	788	365	24	26	59	474

Walter Fust, majority shareholder and Chairman of StarragHeckert Holding AG, provided a bridge loan amounting to the equivalent of CHF 64 million in January 2011 to help finance the acquisition of Dörries Scharmann Technologie GmbH. After the capital increase in May 2011 this loan was paid back in full together with interest of CHF 0.3 million based on the going market rates.

31. Exchange rates

CHF 1'000	**2011**	2010
Average rates (for income statement and cash flow statement)		
1 EUR	1.2469	1.4027
1 USD	0.8968	1.0563
1 GBP	1.4370	1.6322
1 CNY	0.1387	0.1581

CHF 1'000	**31.12.2011**	31.12.2010
Year end rates (for balance sheet)		
1 EUR	1.2303	1.2587
1 USD	0.9509	0.9470
1 GBP	1.4652	1.4625
1 CNY	0.1508	0.1435

32. Acquisition of Dörries Scharmann Technologie GmbH

On January 19, 2011 StarragHeckert Holding AG acquired 100 % of the shares of Dörries Scharmann Technologie GmbH based in Mönchengladbach, Germany, for a cash consideration of CHF 85.6 million. An additional CHF 3.6 million receivable due from the seller to Dörries Scharmann Technologie GmbH was also satisfied.

During the period from the date of acquisition to 31 December 2011 Dörries Scharmann Technologie GmbH generated sales revenues of CHF 151.5 million and a net profit of CHF 2.6 million. If the company had already been consolidated as of 1 January 2011, Starrag Group's sales revenues would have been CHF 9.0 million higher and net profit CHF 0.4 million lower.

Dörries Scharmann Technologie GmbH produces machining tools under the renowned brands Dörries, Droop+Rein, Ecospeed, Scharmann and Berthiez that are used for boring, turning, milling and grinding of mid-sized to large workpieces and it ranks among the industry's technology leaders. This acquisition represents an ideal add-on to Starrag Group's product portfolio. Thanks to the complementary product lines, Dörries Scharmann Technologie GmbH clearly strengthens Starrag Group's position in its target markets of aerospace, energy, transport and industrial engineering.

Net assets and goodwill arising from the transaction and included in these consolidated financial statements are listed in the following table:

CHF 1'000	Fair value
Cash and cash equivalents	25'719
Receivables	40'768
Other financial assets	13'901
Current income tax	4'705
Inventories	16'545
Tangible fixed assets	38'478
Intangible assets	27'097
Current financial liabilities	-256
Other current liabilities	-67'468
Provisions	-5'264
Non-current financial liabilities	-5'821
Deferred income tax	-18'433
Acquired net assets	**69'971**
Goodwill	15'730
Cash consideration	**85'701**
Less cash and cash equivalents acquired	-25'719
Net cash drain	**59'982**

The reported goodwill that is not assigned to any asset category represents strategic advantages resulting from the business combination. These include complementary product portfolios, potential market growth, anticipated synergies and the acquired know-how. It is assumed that the recognized goodwill will not be tax-deductible. The fair value of the receivables consists of the gross contractual receivables of CHF 42.1 million less valuation impairments of CHF 1.3 million. The transaction costs amounted to CHF 0.5 million and are stated under administrative costs.

33. Events after balance sheet date

The consolidated financial statement was approved and released for publishing by the Board of Directors on 6 March 2012. Furthermore, it is subject to the shareholders' acceptance at the annual general meeting which will take place on 20 April 2012.

Report of the statutory auditor

Report of the statutory auditor
to the general meeting of
StarragHeckert Holding AG
Rorschacherberg

Report of the statutory auditor on the consolidated financial statements

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 61 to 89), for the year ended 31 December 2011.

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 of the 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 2011 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.

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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, 6 March 2012

Income statement

CHF 1'000	2011	2010
Revenue from group companies	12'241	4'778
Financial income	3'838	1'653
Revenue	**16'079**	6'431
Personnel expenses	-306	-231
Administrative expenses	-501	-335
Depreciation and amortization	-4'306	-1'608
Financial expenses	-3'424	-2'320
Tax	-3	-5
Net result	**7'539**	1'932

Balance sheet

CHF 1'000		31.12.2011	31.12.2010
Cash and cash equivalents		21	421
Treasury shares	1	–	2'801
Receivables – third parties		8	2
Receivables – group companies		5'281	7'344
Deferred expenses		46	32
Total current assets		**5'356**	10'600
Loans – group companies		65'542	21'535
Investments	2	72'345	40'072
Total fixed assets		**137'887**	61'607
Total assets		**143'243**	72'207

CHF 1'000		31.12.2011	31.12.2010
Liabilities - group companies		1'800	600
Other liabilities		40	11
Accrued expenses and deferred income		297	238
Total current liabilities		**2'137**	849
Total liabilities		**2'137**	849
Share capital		28'560	21'420
Legal reserve from capital contributions since 1997	3	89'089	34'020
Other legal reserve		1'222	1'222
Reserves for treasury shares		–	2'801
Retained earnings from prior years		14'696	9'963
Net result		7'539	1'932
(Total retained earnings)		(22'235)	(11'895)
Total shareholders' equity		**141'106**	71'358
Total liabilities and shareholders' equity		**143'243**	72'207

Notes

1. Purchase, sale and number of treasury shares

This information is disclosed under note 21 of the consolidated financial statements on page 81 of the annual report.

2. 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 %)
- **Starrag Heckert (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 %)
- **Starrag Italia Srl, Rivoli, Italy**
(Business: Sales, nominal capital TEUR 10, interest 100 %)

3. Reserves from capital contributions (since 1997)

Declared reserves from capital contributions (from 1997) at 31 December 2010 amounted to CHF 34'020'000, of which CHF 32'416'374 were recognized by the Swiss Federal Tax Administration within the meaning of Article 20 (3) of the Federal Income Tax Act and Article 5 (1) of the Federal Withholding Tax Act. The premium of CHF 57'540'000 from the capital increased conducted in 2011 will be allocated to reserves from capital contributions (since 1997). This amount will be reported to the Swiss Federal Tax Administration upon approval of the annual report and consolidated financial statements for 2011 at the general meeting of shareholders.

4. Sureties, guarantees and pledges

CHF 1'000	**31.12.2011**	31.12.2010
Sureties	153'925	146'817
Guarantees	1'925	2'993

5. Authorized and conditional capital increase, major shareholders, participations of the Board of Directors and the Management Board

This information is disclosed under note 20 of the consolidated financial statements on page 81 of the annual report.

6. Remunerations

This information is disclosed under note 30 of the consolidated financial statements on page 87 of the annual report.

7. Risk assessment

This information is disclosed in the notes of the consolidated financial statements on page 67 of the annual report.

Proposed Appropriation of Retained Earnings

Proposed appropriation of retained earnings

CHF 1'000	2011
Retained earnings from prior year	11'895
Transfer from reserves for treasury shares	2'801
Net income	7'539
To be carried forward	**22'235**

Proposed appropriation of legal reserve from capital contributions

CHF 1'000	2011
Legal reserve from capital contributions since 1997	89'089
Withholding tax free distribution of CHF 1.20 per share	-4'032
To be carried forward	**85'057**

Report of the statutory auditor

Report of the statutory auditor
to the general meeting of
StarragHeckert Holding AG
Rorschacherberg

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of StarragHeckert Holding AG, which comprise the income statement, balance sheet and notes (pages 92 to 96), for the year ended 31 December 2011.

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 2011 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.

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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, 6 March 2012

Five-year overview

CHF m	**2011**	2010	2009	2008	2007
Order intake	348.3	188.3	187.7	341.2	327.5
Order backlog at year end	237.5	103.9	124.3	187.8	164.5
Sales revenue	354.4	199.2	252.5	306.9	244.1
Earnings before interest, taxes, depreciation and amortization (EBITDA)	31.1	16.3	21.9	40.4	27.8
Operating profit EBIT	19.1	10.1	15.4	35.1	22.8
Net income	10.9	8.1	11.5	24.8	18.0
EBIT as percentage of sales revenue	5.4 %	5.1 %	6.1 %	11.4 %	9.3 %
EBIT as percentage of net operating activities	12.0 %	12.0 %	13.7 %	26.9 %	22.0 %
Cash flow from operating activities	37.0	32.2	34.1	9.2	13.4
Capital expenditure	69.9	4.2	5.0	12.1	9.3
Employees at year end	1’420	739	783	782	682
Net operating assets	163.1	84.8	112.7	130.6	103.9
Total assets	326.6	169.4	179.4	223.7	191.0
Net cash	37.0	31.1	10.4	-13.7	-1.2
Shareholders' equity	176.6	108.5	114.7	108.0	96.8
Equity ratio	54.1 %	64.1 %	63.9 %	48.3 %	50.7 %
Return on equity (ROE)	7.1 %	7.5 %	10.0 %	23.0 %	18.6 %
Earnings per share in CHF	3.52	3.27	4.61	9.86	7.16
Share price at year end in CHF	49.55	69.00	55.10	51.50	75.60
Profit distribution per share in CHF	1.20[1)]	1.00	1.50	2.00	1.80
Total shareholder return (TSR)	-26.7 %	27.9 %	10.9 %	-29.5 %	33.4 %

[1)] Proposal of the Board of Directors to the annual general meeting on 20 April 2012 in the form of a withholding-tax-free distribution from capital contribution reserves.

Financial calendar

20 April 2012	Annual general meeting in Rorschacherberg
4 May 2012	Information on first-quarter 2012 results
27 July 2012	Letter to shareholders on 1H 2012 results
2 November 2012	Information on third-quarter 2012 results
25 January 2013	Initial information on full-year 2012 results
8 March 2013	Presentation of 2012 results for analysts and the media in Zurich
12 April 2013	Annual general meeting in Rorschacherberg

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Credits

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

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