MID-YEAR REPORT 2011

starragheckert
precisely productive
DST

→ **ADVANCING ORDER INTAKE**
→ **SIGNIFICANT INCREASE IN EARNINGS**
→ **INTEGRATION OF DÖRRIES SCHARMANN ON TRACK**

Dear shareholders

This interim report includes for the first time Dörries Scharmann, which has been part of the substantially enlarged StarragHeckert Group since January 2011. With this merger, we considerably enhanced our position in our target markets aerospace, power generation, transport and engineering thanks to a complementary product range.

In the first half-year 2011, we succeeded in generating a positive operating result EBIT of CHF 9.3 million and a net income of CHF 5.4 million. The operating result EBIT is CHF 5.5 million, net income CHF 2.4 million above prior year's period. The considerably weaker Euro had an adverse translation effect of CHF 1.3 million on operating result EBIT and of CHF 0.6 million on net income. Despite the negative influence of the dramatic exchange rate developments, StarragHeckert achieved an EBIT margin of 5.1% of sales revenue compared which compares well with the industry peers.

KEY FIGURES

million CHF	**01.01. TO 30.06.2011** [1]	01.01. TO 30.06.2010	PRO-FORMA 01.01. TO 31.12.2010 [2]
Order intake	173.3	67.9	332.4
Order backlog end of period	230.1	92.5	259.2
Sales revenue	182.8	96.1	391.9
Earnings before interest and taxes EBIT	9.3	3.8	22.5
EBIT as % of sales revenue	5.1%	4.0%	5.7%
Net income	5.4	3.0	14.4
Earnings per share (in CHF)	1.94	1.21	4.29
Total assets	320.9	173.2	332.5
Shareholders'equity	171.8	110.6	177.9
Return on equity	6.2%	5.5%	8.1%
Net cash	10.0	21.7	31.3
Headcount	1'452	746	1'439

[1] Including Dörries Scharmann from first consolidation on 19 January 2011.
[2] Pro Forma, as if the acquisition of Dörries Scharmann and the capital increase completed on 2 May 2011 already had taken place on 31 December 2009.

Recovery of order intake

Order intake, as well affected by the significantly weaker Euro, amounted to CHF 173 million in the first six months. In the first quarter, Dörries Scharmann recorded a weak order intake caused by the past uncertainties relating to its ownership. Nevertheless, the confidence mainly of the global key customers returned in the second quarter, causing the group order intake to increase from CHF 72 million in the first three months to CHF 101 million in the second quarter.

In general, we observed an encouraging recovery of order intake in the first half-year with StarragHeckert following the industry trend with some time lag. Currency and acquisition adjusted, an organic growth of CHF 58 million or 70% was achieved compared to the prior year period. Growth in order intake is currently carried mainly from European customers, while also in the USA and in Asia a positive growth rate could be achieved.

The market segments engineering and transport benefit from a considerably higher capacity utilization. In aerospace, civil aircraft construction also shows a significant recovery in orders while there are delays with military projects. In wind and conventional energy activity remains low. The prices for standard machines still remain under pressure. Especially Japanese manufacturers operating in their weak domestic market environment try to utilize their production capacity with prices sometimes significantly below cost.

Book-to-bill Ratio above 1 from second quarter

Sales revenue amounted to CHF 183 million in the reporting period. This is clearly above the CHF 96 million of prior year period due to the consolidation of Dörries Scharmann. Currency and acquisition adjusted, sales revenue increased by 20%. The book-to-bill ratio is again slightly positive with 1.02 in the second quarter 2011.

At the end of June 2011 the order backlog amounted to CHF 230 million. Due to the lower Euro but also the weak order intake of Dörries Scharmann order backlog was 11% below the pro-forma December 2010.

Well received capital increase

Early May 2011, a capital increase could be finalized with net proceeds of CHF 66.8 million. The bridge loan from our principal shareholder to finance the acquisition of Dörries Scharmann could thus be repaid. The capital increase was well received by the market. In connection with this transaction, the free float of StarragHeckert increased from 32.1% to 35.4%. A stock split in the ratio of 1:10 further contributed to facilitate the trade with StarragHeckert's shares. With 54% the equity ratio remains high and underlines the solid financing of the group.

Continous investment into the future

In the first half year 2011, StarragHeckert invested CHF 5.3 million for the acquisition of the land for our new technology and manufacturing plant in Bangalore/India as well as to rationalize processes and improve performance at the European plants.

Start of the construction of the plant in India is scheduled in the course of this summer. Investment in research and development will be kept on prior year's level. As in the past, StarragHeckert will present again two major product innovations on this year's EMO – the most important machine tool fair worldwide – taking place in Hannover in September 2011.

Procurement as challenge

Procurement has increasingly become a challenge due to price increases and considerable delivery delays on the side of our suppliers as some of the component manufacturers have reduced or transferred their production capacities in the course of the economic crisis. On our part this was addressed by the adjustment of prices, which will lead to positive effects from the second half year. We respond to the not fully utilized capacity in our manufacturing plants in Mönchengladbach, Rorschach and Geneva with short-time work. In contrast, our plants in Chemnitz and Bielefeld are producing to their full capacity.

Resilience against strong Swiss Franc

The strong Swiss Franc impacted StarragHeckert mainly with translation effects at the consolidation of the key figures of the German plants. In fact, the average Euro exchange rate has depreciated by 15% compared to the first half year 2010. The operating risks from the currency fluctuation are not least thanks to the acquisition of Dörries Scharmann relatively minor, as sales revenues as well as costs incurred are to a significant part in Euro.

Integration of Dörries Scharmann on track

The integration of Dörries Scharmann in our group is managed by a steering committee with four members of both companies and is moving on track. Six subject-specific Task Force groups supporting the Committee, took up their task in April 2011. The group «Sales» has achieved quick progress by consolidating the sales and service activities. In the markets of Great Britain, China and India, the sales teams and service engineers have already been integrated in the existing subsidiaries of StarragHeckert. Next task will be the U.S. subsidiaries, where the group «Customer Service» is involved as well. The Task Force group «Supply Chain and Manufacturing» found interesting opportunities for more efficient production and procurement of components. The group «Products» focuses on the group wide standardization and utilization of synergies on the component level.

The work within the teams has clearly shown the necessity to merge the two SAP systems within the next year, furthermore to standardize the customer relation management (CRM) by means of a group wide system. Similar corporate cultures and identical values have proved to be a great advantage in the integration process and will facilitate a quick implementation of our vision «One Team – One Company». Synergies with regard to the growth of our order volume shall be realized with clear priority. The growth of the two companies towards one group on the basis of mutual confidence and with a view to a common successful future is more and more recognized by our customers.

Limited Visibility

The visibility in our sales markets remains limited. The market segments engineering and transport benefit from a considerably higher degree of capacity utilization. Civil aviation also shows a significant recovery in orders. On the other hand, the uncertainties in connection with the debt crisis are not a sound base for longterm investment decisions. The high volatility of the currency markets and the continuously strong Swiss Franc make forecasts even more difficult. Still, StarragHeckert is expecting that the order intake will continue to develop positively. In the second half of 2011 sales revenue and earnings are expected in the same range as in the first half year.

Thanks to all our stakeholders

Apart from the Task Force groups, we are happy to note that all employees are making major efforts for a successful integration besides their daily work. The Board of Directors as well as the Executive Board take the opportunity of expressing their warm thanks to all employees, as well as to all customers, suppliers and shareholders who continuously place their confidence in us.

Our farget remains unchanged: As a financially robust and transparent company, we strive to offer our loyal customers significant competitive advantages by highly innovative products and services as well as by providing them with a premium customer service. StarragHeckert has a high equity ratio and a comfortable net cash position, therefore being a reliable value – for our technologically demanding customers in a global world, our reliable suppliers, our employees and last but not least our shareholders.

Sincerely yours

Walter Fust
Chairman of the Board of Directors

Dr. Frank Brinken
Chief Executive Officer

Rorschacherberg, 29 July 2011

INCOME STATEMENT

million CHF	**01.01. - 30.06.2011**	01.01. - 30.06.2010	01.01. - 31.12.2010	PRO-FORMA 01.01. - 31.12.2010
Sales revenue	**182.8**	**96.1**	**199.2**	**391.9**
Change in self-manufactured products	1.0	-0.9	-0.8	-3.1
Material expenses	-78.7	-42.8	-91.7	-164.9
Gross Profit	**105.1**	**52.4**	**106.7**	**223.9**
Personnnel expenses	-61.4	-30.2	-58.1	-129.7
Operating expenses	-29.4	-16.1	-34.1	-60.3
Other operating income	0.8	0.8	1.8	2.4
Depreciation and amortization	-5.8	-3.1	-6.2	-13.8
Earnings before interest and taxes EBIT	**9.3**	**3.8**	**10.1**	**22.5**
Financial income	0.9	0.8	1.7	2.1
Financial expenses	-2.0	-0.4	-0.7	-4.7
Earnings before tax	**8.2**	**4.2**	**11.1**	**19.9**
Income tax	-2.8	-1.2	-3.0	-5.5
Net income	**5.4**	**3.0**	**8.1**	**14.4**
Thereof:				
→ Shareholders of company	5.4	3.0	8.1	14.3
→ Minority shareholders	-	-	-	0.1
Earnings per share in CHF	1.94	1.21	3.27	4.29
Diluted earnings per share in CHF	1.94	1.21	3.27	4.29

ABBREVIATED STATEMENT OF COMPREHENSIVE INCOME

million CHF	**01.01. - 30.06.2011**	01.01. - 30.06.2010	01.01. - 31.12.2010	PRO-FORMA 01.01. - 31.12.2010
Net income	**5.4**	**3.0**	**8.1**	**14.4**
Changes in fair value (after income taxes)	0.3	-0.9	0.5	0.5
Currency translation	-6.7	-6.1	-11.1	-21.4
Other comprehensive income	-6.4	-7.0	-10.6	-20.9
Total comprehensive income	**-1.0**	**-4.0**	**-2.5**	**-6.5**
Thereof:				
→ Shareholders of company	-1.1	-4.1	-2.4	-6.5
→ Minority shareholders	0.1	0.1	-0.1	-

ABBREVIATED BALANCE SHEET

million CHF	30.06.2011	30.06.2010	31.12.2010	PRO-FORMA 31.12.2010
Cash and cash equivalents	27.6	24.4	32.2	39.0
Receivables	100.6	57.0	49.3	89.9
Other financial assets	15.2	7.6	6.1	18.1
Current income taxes	2.2	-	-	4.8
Inventories	57.5	40.1	40.1	56.5
Current assets	**203.1**	**129.1**	**127.7**	**208.3**
Fixed assets	**117.8**	**44.1**	**41.7**	**124.2**
Total assets	**320.9**	**173.2**	**169.4**	**332.5**
Financial liabilities	11.4	2.0	0.4	1.3
Other current liabilities	106.2	53.6	53.0	120.4
Current liabilities	**117.6**	**55.6**	**53.4**	**121.7**
Financial liabilities	6.2	0.6	0.7	6.5
Other non-current liabilities	25.3	6.4	6.8	26.4
Non-current liabilities	**31.5**	**7.0**	**7.5**	**32.9**
Shareholders' equity	**171.8**	**110.6**	**108.5**	**177.9**
Total liabilities	**320.9**	**173.2**	**169.4**	**332.5**

ABBREVIATED CASH FLOW STATEMENT

million CHF	01.01. - 30.06.2011	01.01. - 30.06.2010	01.01. - 31.12.2010	PRO-FORMA 01.01. - 31.12.2010
Earnings before tax	8.3	4.2	11.1	19.9
Non-cash items	6.0	1.1	4.8	15.6
Change in inventories	-3.1	6.2	4.0	11.9
Change in other non-cash net current assets	-20.4	5.0	15.9	21.7
Income tax paid	2.6	-1.4	-3.6	-6.8
Cash flow from operating activities	**-6.6**	**15.1**	**32.2**	**62.3**
Cash flow from investing activities	**-70.9**	**-2.1**	**-4.2**	**-8.1**
Change in financial liabilities	10.3	1.1	-0.3	-0.3
Interest	-0.3	-	0.1	-2.0
Dividend payment	-2.5	-	-3.7	-18.0
Capital increase	62.9	-	-	-
Sale of own shares	3.9	-	-	-
Cash flow from financing activities	**74.3**	**1.1**	**-3.9**	**-20.3**
Currency translation	-1.4	-1.7	-3.9	-8.3
Change in cash and cash equivalents	**-4.6**	**12.4**	**20.2**	**25.6**
Cash and cash equivalents at 1 January	32.2	12.0	12.0	13.4
Cash and cash equivalents at 30 June	27.6	24.4		
Cash and cash equivalents at 31 December			32.2	39.0

ABBREVIATED STATEMENT OF SHAREHOLDERS'EQUITY

million CHF	01.01. - 30.06.2011	01.01. - 30.06.2010	01.01. - 31.12.2010	PRO-FORMA 01.01. - 31.12.2010
Shareholders' equity at 1 January	**108.5**	**114.6**	**114.7**	**202.4**
Total comprehensive income	**-1.0**	**-4.0**	**-2.5**	**-6.5**
Dividend payment	-2.5	-	-3.7	-18.0
Capital increase	64.0	-	-	-
Sale of own shares	2.8	-	-	-
Shareholders' equity at 30 June	**171.8**	**110.6**		
Shareholders' equity at 31 December			**108.5**	**177.9**

NOTES

ACCOUNTING PRINCIPLES

This unaudited mid-year report 2011 was prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated interim financial statements are prepared in accordance with IAS 34 Interim Financial Reporting.

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

The accounting principles correspond with those applied in the annual report 2010 (see pages 55 to 60 of the annual report 2010).

SEGMENT INFORMATION

million CHF	**01.01. TO 30.06.2011**	01.01. TO 30.06.2010	PRO-FORMA 01.01. TO 31.12.2010
Business Unit 1	39.6	52.0	100.9
Business Unit 2	64.7	44.0	98.1
Business Unit 3	78.2	-	192.7
Other and consolidation	0.3	0.1	0.2
Sales revenue	**182.8**	**96.1**	**391.9**
Business Unit 1	-1.1	3.1	2.0
Business Unit 2	8.1	0.2	6.4
Business Unit 3	2.4	-	12.4
Other and consolidation	-0.1	0.5	1.7
Earnings before interest and taxes EBIT	**9.3**	**3.8**	**22.5**

ACQUISITION OF DÖRRIES SCHARMANN TECHNOLOGIE GMBH

On 19 January 2011, StarragHeckert Holding AG acquired 100% of the shares of Dörries Scharmann Technologie GmbH based in Mönchengladbach, Germany for a cash purchase price of CHF 85.6 million. Also acquired was a claim of the seller against Dörries Scharmann Technologie GmbH of CHF 3.6 million.

Dörries Scharmann Techologie GmbH reported sales revenue of CHF 78.2 million and net income of CHF 1.4 million from the acquisition date to 30 June 2011. If the company had already been included in the consolidated financial statements from 1 January 2011, sales revenue of StarragHeckert would be CHF 9.0 million higher and net profit would be CHF 0.4 million lower.

StarragHeckert can complement their product range through the acquisition and substantially strengthens its position in the target markets aerospace, power generation, transport and engineering.

Net assets and the resulting goodwill – as provisionally determined for these interim financial statements – are as follows:

million CHF	Book value	Adjustement to fair value	**Fair value**
Cash and cash equivalents	26.7		26.7
Receivables	40.7		40.7
Other financial assets	12.0		12.0
Income tax	4.7		4.7
Inventories	16.5		16.5
Fixed assets	40.3	26.0	66.3
Current financial liabilities	-0.9		-0.9
Other current liabilities	-71.0		-71.0
Non-current financial liabilities	-5.8		-5.8
Other non-current liabilities	-11.5	-8.2	-19.7
Acquired net assets	**51.7**	**17.8**	**69.5**
Goodwill			16.1
Cash purchase price			**85.6**
Less acquired cash and cash equivalents			-26.7
Plus assumed financial liabilities			6.7
Net outflow of cash			**65.6**

The resulting goodwill which cannot be allocated to another asset category represents strategic advantages resulting from the merger. These include the complementary product portfolio, market potentials, expected synergies as well as know-how. We assume that the goodwill is not tax deductible.

FINANCIAL REVIEW

Key figures of the first half of 2011 were significantly impacted by two major events. On the one hand, the acquisition of Dörries Scharmann with consolidation as from 19 January 2011 almost doubled the business volume. On the other hand, significant translation differences resulted from the depreciating Euro exchange rate (average in the reporting period 14.7% below first half of 2010).

For ease of comparison, certain comments refer to pro-forma reference data. Such hypothetic pro-forma key figures were prepared under the assumption that Dörries Scharmann had been acquired and financed by capital increase already on 31 December 2009.

In the first half-year 2011, order intake amounts to CHF 173.3 million compared to CHF 67.9 million in the prior year period. Currency and acquisition adjusted, this represents an organic growth of CHF 58.2 million or 69.6%. Sales revenue amounts to CHF 182.8 million compared to CHF 96.1 million in the same period 2010. Currency and acquisition adjusted, this is an increase by 19.5%. Due to the lower Euro, sales revenue has reached less than half of pro-forma sales revenue for the full year 2010.

Order backlog of 230.1 million as of 30 June 2011 has mainly decreased due to the weak Euro but also due to the low order intake at Dörries Scharmann from pro-forma CHF 259.2 million as of 31 December 2010. As from the second quarter 2011 however, the book-to-bill ratio is back positive at 1.02.

The gross margin has improved from 57.1% to 57.5% compared to the pro-forma figures 2010; this comes from a higher average percentage of completion of the order backlog. The personnel rate however has slightly deteriorated from 33.1% pro-forma 2010 to 33.6% in the reporting period because of the lower workload. The operating profit EBIT of CHF 9.3 million corresponds to 5.1% of the sales revenue (pro-forma 2010: 5.7%). The weaker Euro had a negative translation impact reducing EBIT by CHF 1.3 million.

A solid net income of CHF 5.4 million or CHF 1.94 per share could be achieved (compared to half of the 2010 pro-forma profit of CHF 2.15 per share). Net profit was reduced by CHF 0.6 million or CHF 0.22 per share due to translation effects caused by the weak Euro.

Additionally, the effective tax rate had a negative impact, being with 34.2% above the pro-forma 2010 rate of 27.5%. This can be explained by the increased profit share taxable in countries with a higher tax burden.

Total assets amount to CHF 320.9 million as per 30 June 2011, being CHF 11.5 million below the pro-forma value per 31 December 2010, mainly due to the Euro translation. Accounts receivable increased by CHF 10.7 million caused by the increased business volume off-set by cash reduced by CHF 11.4 million.

The capital structure remains very solid. After the acquisition of Dörries Scharmann and the capital increase closed at the beginning of May, a comfortable equity ratio of 53.5% results, irrespective of the negative EUR translation effects on net equity of CHF 6.6 million.

The operating cash flow (before change in net working capital) amounts to CHF 13.1 million. The increased order volume results in a cash outflow from operations of CHF 6.6 million after change in net working capital and after paying income taxes.

In the first half year 2011, CHF 70.9 million were spent on investments. In addition to the purchase of Dörries Scharmann (net cash outflow of CHF 65.6 million), StarragHeckert invested CHF 5.3 million for the purchase of the land for the new technology and manufacturing plant in Bangalore/India and to rationalize processes and improve performance at the European plants.

Free cash flow amounted to CHF -11.9 million. This amount together with the acquisition costs of Dörries Scharmann of CHF 65.6 million and the dividend payment for the fiscal year 2010 (CHF 2.5 million) have been financed with the net proceeds from the capital increase (CHF 66.8 million after deducting the costs of CHF 1.8 million or 2.6%), an increase in shortterm financial liabilities (CHF 10.3 million) and the reduction of cash and cash equivalents by CHF 4.6 million.

StarragHeckert together with Dörries-Scharmann is the global leading supplier of technologically advanced machine tools for boring, turning, milling and grinding of medium to large metallic or composite workpieces. Principle customers are internationally active companies in the aerospace, energy, transport and engineering sectors. The products, together with the technology and service offerings allow customers to achieve significant productivity gains. Group products are marketed under the Starrag, Dörries, Heckert, Scharmann, SIP, Droop+Rein, TTL, Berthiez, WMW and Ecospeed brands.

Headquartered in Rorschacherberg/Switzerland the group operates manufacturing plants in Switzerland, Germany, France, UK and India, as well as service and sales companies in various other countries. The holding company is listed at the SIX Swiss Exchange (Symbol: STGN).

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