Starrag Group

# Annual Report
2012

# Annual Report 2012

# High-precision machine tools for greater productivity

Starrag Group is a global technology leader in manufacturing high-precision machinie tools for milling turning, boring and grinding of small, medium-sized and larger workpieces of metallic and composite materials. Principle customers are internationally active companies in the Aerospace, Transport, Industrial and Energy 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, Bumotec, 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

The Starrag Group concluded the 2012 financial year with corresponding results in the face of a very demanding environment and compared with the rest of the sector. At the same time we were confronted with vastly differing developments in our four target markets. Our order intake was up 5 % on the previous year at CHF 364 million, and though once acquisitions and currencies were taken into account, this resulted in a drop of around 4 %, this should be seen in the context of the exceptionally large increase that we had achieved in 2011 and the German industry association VDW also reported a drop in order intake of 13 %. In terms of sales, we achieved an increase of 8 % to CHF 384 million – adjusted for currencies and acquisitions, this saw us at the same levels as in 2011.

Operating profit EBIT rose by 14 % to 26 % – an improvement of 5.7 percentage points of sales. The bottom line saw a 26 % increase in net profit of CHF 14 million, or CHF 4.00 per share (+14 %). The financing of our Group continued to remain solid in the year un-der report with an equity ratio of 53 %.

## Increased opportunities with Bumotec

One of the high-points of the past financial year was the acquisition of Bumotec, which opened up additional sales opportunities for the Group in the watch/jewellery and medical technology client sectors which have attractive growth potential and which we had yet to explore. The first synergies could be seen already in the year under report, with Bumotec extending its radius of geographical activity via the various locations of the Starrag Group to markets which had previously remained virtually untapped.

## Systematic strengthening of our presence in Asia

Various global trends show that the markets for machine tools will continue to shift towards Asia, which has already taken on around half of the world's production. Our group therefore already decided a while ago to significantly commit to India as a location, both for production and for sales and service, in order to benefit from the attractive growth opportunities. A technology centre was opened in Bangalore in 2010, and at the end of the following year we began work on building a production plant at the same location which began operations on schedule in January 2013. At the same, we stepped up the development of local qualified personnel in our customer services department and in technical areas and also launched in the year under report a newly-developed series of compact machining centres specifically tailored to meet the demands of the emerging markets in the region.

## Personnel and organisation

Bumotec purchased in the year under report and SIP now form the new Business Unit 4. Bringing them together in organisational terms was logical, since they have comparable product portfolios with high precision requirements and also since they have similar corporate cultures in regional terms. Jean-Daniel Isoz, who previously headed SIP, was given responsibility for the new Business Unit.

At the forthcoming Annual General Meeting, Valentin Vogt will be leaving the Board of Directors at his own request. He has served our Group since 2005, acting as Vice-President since 2008. His many years of experience in the industry in roles of responsibility enabled him to constantly provide the Starrag Group with meaningful strategic impulses. We would like to take this opportunity to thank him for his work and wish him every success for the future.

## Cautiously optimistic for 2013

Despite an environment that is also set to remain testing in 2013, we are cautiously optimistic, prompted by various signals from the market and from customers, all of which are relevant to us. On the other hand, we have also done our homework. We expect both additional growth impulses and a positive cost effect, both from new products and from the substantial strengthening and streamlining of all our business functions, from purchasing through to production, maintenance and customer services and including continued improvements of processes and workflows. With the promising order backlog at the start of the year we will be able to aim for another increase in order intakes, sales and results in 2013, in which the uncertainties at our markets are still significantly.

## Proposal to raise dividends

With the intention of giving our shareholders a chance to participate in the operational success of the group, and not just in the form of a potential share price increase, we have decided to increase the dividend pay-out ratio from its previous target band of 25 % – 33 % of net profit to 30 % – 40 %. Therefore, and on the basis of the success of 2012, the Board of Directors is proposing to the Annual General Meeting of 12 April 2013 the payment of a dividend of CHF 1.80. This corresponds to a dividend ratio of 44 %, and a yield of 2.9 % based on the 2012 closing price of our share of CHF 61.60.

## Sincere thanks

Once again, we owe a debt of gratitude to our employees for the commitment they have shown. In 2012 they again concentrated all their efforts towards the success of our Group. We should also like to thank our customers and suppliers, many of whom have been working with the Starrag Group for a number of years now. And finally we should like to thank you, our shareholders, for your continued support.

Walter Fust
Chairman of the Board of Directors

Dr. Frank Brinken
CEO

# At a glance

## Increased order intake, sales and net income, balance sheet strength sustained

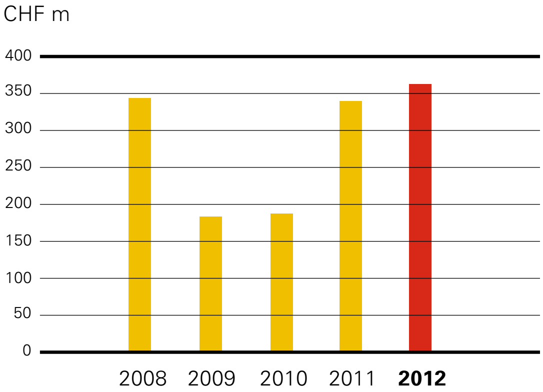
- Order intake up 5 % to CHF 364 million – sales increased by 8 % to CHF 384 million
- EBIT up 14 % to CHF 22 million – increase in operating margin to 5.7 % – equity ratio of 7.5 %
- 25 % increase in net profit to CHF 14 million – earnings per share of CHF 4.00
- Solid balance sheet with equity ratio of 53 % after self-financed acquisition of Bumotec SA
- Dividend payment of CHF 1.80 per share (+50 %) not subject to Swiss withholding tax out of reserves from capital contributions

| CHF m | **2012** | 2011 | Change |
|---|---|---|---|
| Order intake | 364.2 | 348.3 | +4.6 % |
| Order backlog | 238.6 | 237.5 | +0.5 % |
| Sales revenue | 384.0 | 354.4 | +8.3 % |
| Operating profit EBIT | 21.7 | 19.1 | +14 % |
| EBIT as percentage of sales revenue | 5.7% | 5.4% | +5.6 % |
| Net income | 13.6 | 10.9 | +26 % |
| Net income as percentage of sales revenue | 5.2 % | 3.1 % | +67 % |
| Earnings per share (in CHF) | 4.00 | 3.52 | +14 % |
| Return on equity (ROE) | 7.3% | 7.1% | +2.8 % |
| Cashflow from operating activities | 23.8 | 19.2 | +24 % |
| Capital expenditure | 32.1 | 69.9 | -54% |
| Free Cashflow | 10.2 | 9.3 | +10% |
| Total assets | 347.6 | 326.6 | +6.4 % |
| Net cash | 24.9 | 37.0 | -33% |
| Shareholders equity | 185.6 | 176.6 | +5.1 % |
| Equity ratio | 53.4 % | 54.1% | -1.3 % |
| Employees at year end | 1'644 | 1'420 | +16 % |
| Profit distribution per share in CHF | 1.80 [1) 2)] | 1.20 [1)] | +50 % |

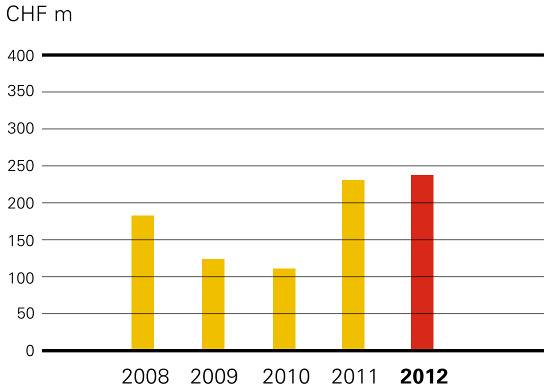
1) In form of a withholding-tax-free distribution from capital contribution reserves.

2) Proposal by the Board of Directors to the Annual General Meeting.

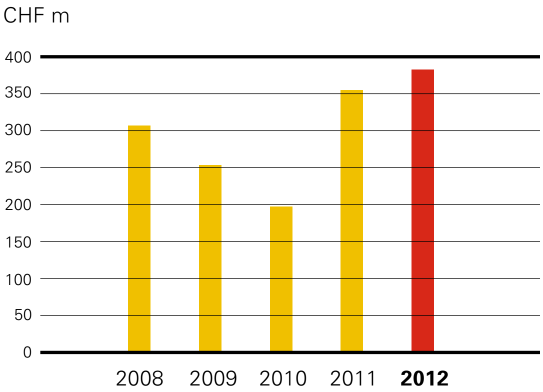
### Order intake



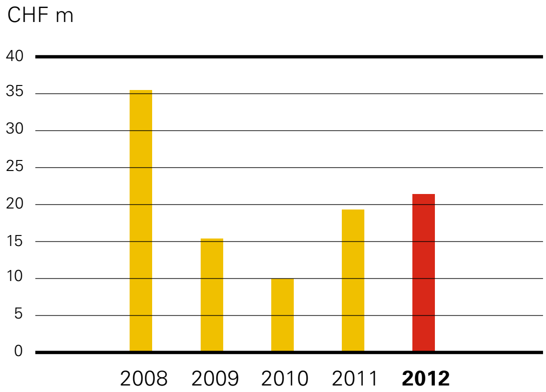

### Order backlog



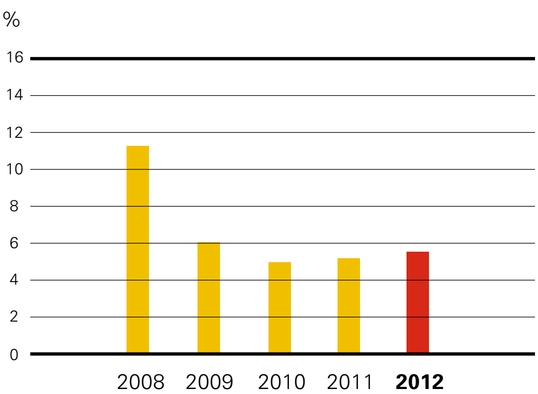

### Sales revenue



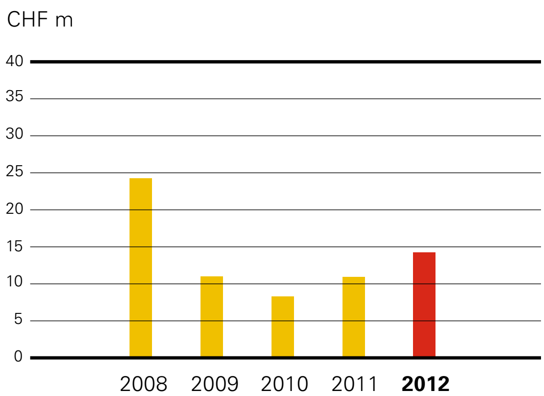

### Operating profit EBIT



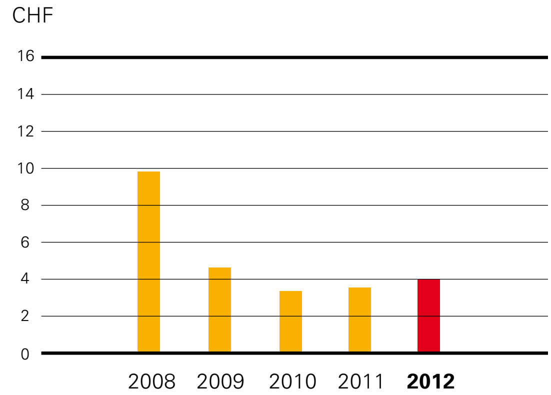

### EBIT as percentage of sales revenue



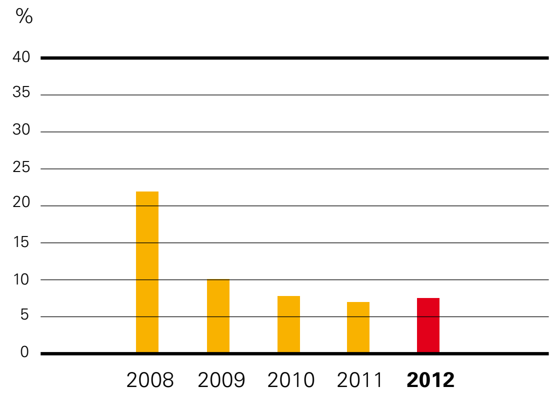

### Net income



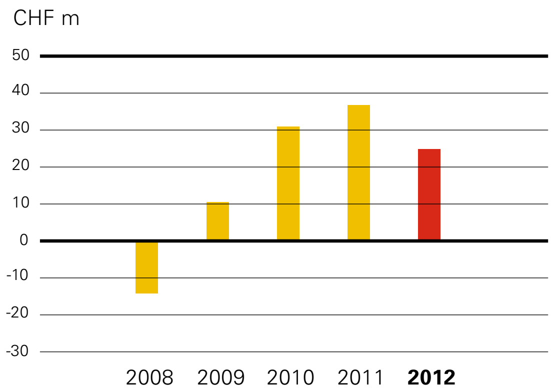
### Earnings per share



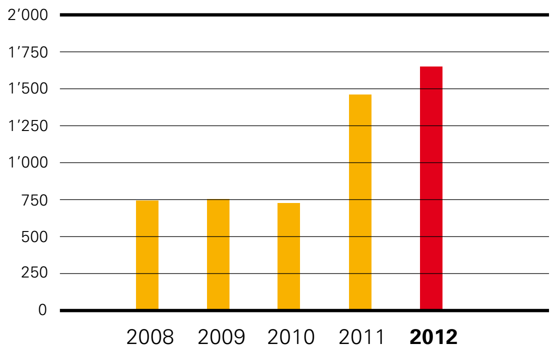

### Return on equity



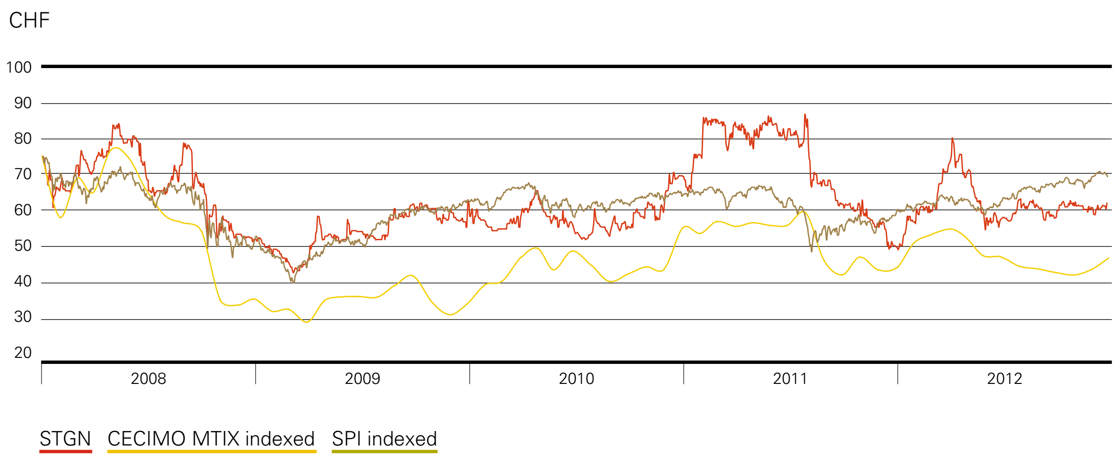

### Net cash




### Employees at year end




### Share price

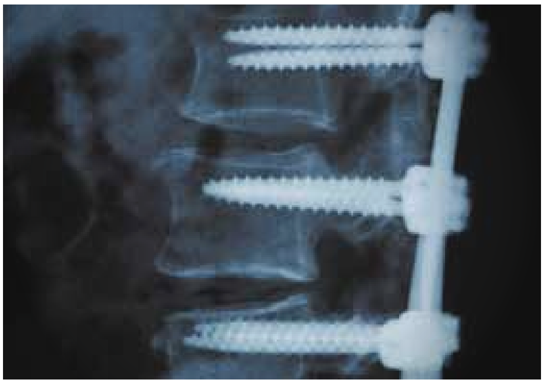


# Highlights

## Progress in new growth markets

With the May 2012 acquisition of Bumotec SA in Sâles (in the Swiss canton of Freiburg), the Starrag Group opened up the path to new opportunities in attractive growth markets. The company develops, produces and distributes high-precision multifunctional machine tools for the complete machining of smaller work pieces plus all the relevant after-sales services.

The acquisition of Bumotec enabled the group to take on additional technology expertise in the form of a profitable and lean organisation which primarily serves customers in the watch/jewellery and medical technology sectors in Europe and Asia – two industries with incredibly interesting long-term growth potential. The company is also a global leader in its field of competence.




## Coveted innovation award from British Aerospace Systems

A team made up of members of British Aerospace (BAe) Systems and the Starrag Group won the prestigious Chairman's Silver Award for Innovation from BAE Systems, in recognition for their development of new technology for the cost-effective processing of safety-critical titanium alloy aircraft components. The team, which went by the name of "Two heads are better than one", was one of over 3'000 candidates who were then whittled down to 16 finalists before finally receiving the prize in December 2012 at a gala event in Washington D.C.

The team was rewarded for its successful multi-concept development, including production and implementation, of a new horizontal twin-spindle machining centre with a weight of over 200 tons which can mill two parts at the same time. This new development has been crucial in maintaining both highly-qualified jobs and the sensitive production of titanium parts in Europe. As a result, the Starrag Group now has the world's leading solution for efficient titanium processing at a location in Great Britain.

## Updated mission statement for future success

In the 2012 business year, the Starrag Group adapted its vision and mission to take into account the latest levels of development. The vision describes the long-term aim towards which our group is looking to progress systematically, namely becoming the leading manufacturer of highly-productive, durable complete solutions for precision machining. The mission defines the corporate direction on a more concrete level. The focus is on ensuring that our products guarantee the utmost in productivity to our customers throughout their entire life cycle. The third pillar which shapes the Starrag Group's daily business and strategy is made up of the five central corporate values of the company. Living by those principles means creating substantial added value for the customer with every solution that is provided.

‣ See also from page 20 onwards


## Successful trade fair with new brand

The AMB in Stuttgart is gradually developing into one of the most important trade fairs for the machine tools industry, both for the sector in Germany and also internationally. Last September, the Starrag Group presented its comprehensive portfolio at a large stand spreading over some 300 m², with a machine from Bumotec and one from Heckert taking centre stage. As was also the case at the IMTS trade fair in Chicago held a little earlier in the year, we presented the S-191 Linear, produced by Bumotec whom we had acquired in May, and show-cased its machining capabilities live. The two trade fairs also provided initial opportunities for the group to present its ten brands for the first time.

In Stuttgart, Heckert presented the new HEC 630 X5 Athletic horizontal 5-axis machining centre with NC-controlled rotating and tilting unit. This machining centre enables users to machine prismatic and casing-shaped work pieces with edges as long as 1200 mm and weights of 1000 kg, at one setting and ready for assembly. The machine displayed at the AMB was the first of its kind to be shown with the new design and this, combined with the expert discussions with customers and also project enquiries, meant that the fair was an unqualified success for the Starrag Group. The same was the case in Chicago, where we also displayed a model of the BHC 3500 large machining centres, which is a further development of the HEC range which provides flexible complete machining for even bigger work pieces up to 5400 mm in length and 25 tonnes in weight.

## Back to full fitness thanks to a retrofit

As well as selling new machines, the retrofitting business is beginning to contribute more and more to the Starrag Group's turnover. Professional extensions and upgrades to the latest levels of technology can enable existing machines tools to make substantial gains in precision and productivity.

Komatsu Mining GmbH – a customer of ours located in Düsseldorf – decided to task Dörries Scharmann with a comprehensive retrofit of a 30-year-old Schiess portal milling and drilling machine, over 15’000 of which are still in use around the world. Thanks to the retrofit, the machine now has an availability of 98 %, with performance better than when it was first delivered and precision levels equivalent to a new machine, while the all-round control and safety technology was brought up to the latest standards. Komatsu can thus be sure that the machine will continue to provide reliable service – year after year after year…


## Quick and lean integration

The acquisition of the Dörries Scharmann Group in January 2011 and Bumotec in May 2012 represented historic growth for the Starrag Group. To leverage the potential for cooperation as quickly as possible, the Starrag Group focused its efforts on a swift and professional integration process. A group-wide client relation management (CRM) system was thus implemented in the year under report, as was a uniform SAP-based logistics system to enable a seamless flow of goods, making processes leaner and quicker, with a positive effect on costs. At the same time, we also revisited our brand architecture, and since early 2011, our public persona has been the Starrag Group, with the individual companies making up a "house of brands" considering the specific culture, technology as well as the market access, whilst continuing to distribute their products under the names which they have built up over the years.

## In the top 20 in terms of performance

The Obermatt Index measures the annual performance of companies, taking just two clearly quantifiable values into account, namely EBITDA as a measure of operational performance and earnings per share as an indicator for investment performance. Both of these values are compared with those of peers, providing a relative and thus more meaningful measure of performance as it broadly excludes the influence of general economic and sector-based trends.

In the most recent study in 2011, the Starrag Group emerged in an impressive 20th spot in the combined overall performance of the 200 or so companies in the Swiss Performance Index SPI (excluding banks/financial institutions), once again illustrating that medium-sized companies can make the most of their agility to demonstrate above-average performance. The Groups is thus proving the old adage that it is small enough to listen, big enough to deliver.

# Business profile

## History

The company was founded in 1885 in Rorschach, Switzerland as a sole proprietorship for the manufacturing of threading machines for the textile industry. After the textile crisis around the First World War, the first Starr milling machines were manufactured beginning in 1920. Five years later, the company's name was changed to Starrfräsmaschinen AG. In the mid-1930s, production began of copy milling machines for turbines, aircraft and mould making.

After the Second World War, the company made a name for itself with the world's first ever five-axis milling machine, before going public in 1998. That year also saw Starrfräsmaschinen AG take over Heckert Werkzeugmaschinen GmbH in Chemnitz, Germany, formerly known as Wanderer Werken. Back in the 1970s, Heckert was already the first company which had designed a highly-automated flexible machining system, gaining them strong international recognition.

After the companies were combined, the name was changed to StarragHeckert. In the year 2000, the company set up a holding structure entitled StarragHeckert Holding AG, and over the following 11 years, it acquired UK company Toolroom Technology Limited (TTL), which produces adaptive milling technology, primarily for repairing engines, and Geneva-based SIP (Société d'Instruments de Précision SA), which is known the world over for its ultra-precision jig-boring machines.

In January 2011, StarragHeckert also took over the German Dörries Scharmann Group along with its famous Berthiez, Dörries, Droop + Rein and Scharmann brands. This provided an opportunity for the brand concept to be brought up to date, with the group now being known as the Starrag Group.

In May 2012, another acquisition followed – that of Bumotec SA (in Freiburg, Switzerland), which specialises in high-precision multifunctional machine tools for the complete machining of smaller work pieces plus all the relevant after-sales services. It also enabled the Starrag group to gain access to the high-growth customer sectors of watches and jewellery as well as medical technology.

## Vision

The Starrag Group is the preferred partner for international customers in the Aerospace, Energy, Transport and Industrial sectors in Europe, USA and the emerging markets in Asia. The group's comprehensive range of precision machinery in the upper quality segment which is constantly being updated and includes expert technology and services helps customers to make relevant and sustainable improvements in productivity.

## Market-orientated business models – all under one roof

Since the arrival of the new millennium, organic growth and in particular a host of medium-sized and larger acquisitions have seen The Starrag Group literally become a group with a comprehensive technology portfolio when it comes to expertise in high-precision machines. The various moves towards expansion always followed the logic that what is new should be a meaningful addition to what is already there, thus increasing the competitive advantage of the group as a whole.

The range of services includes all processing steps from the simple to the most complex and for small, medium-sized and large work pieces. The result is that all areas of expertise are covered in a way that few other providers can offer.

## Individual customer focus as top priority

Our highest priority in this respect is always customer focus, which requires us to consistently provide flexible, adaptable solutions. The Starrag Group provides contract manufacturing which is always tailored to the individual needs of the customer. This means that as well as individual machines, system solutions are coming more and more to the fore, which can involve integrating vastly different machines into flexible, customer-specific manufacturing systems.

The product range currently encompasses ten strong, well-known brands which differentiate themselves by means of their specific fields of expertise (see page 19). In terms of distribution, the group primarily concentrates on direct sales due to the fact that the products themselves are technically so demanding, and combines that with high technological expertise, complemented by external intermediaries who identify needs in their respective regions.

Starrag Group's international customers attach importance to brief and direct communications paths, which is why the group is present around the world in all the important industrial centres. Experienced on-site distribution, application and customer services specialists know all about local cultures and customs and are ideally placed to react quickly. They are our guarantees of maintaining close, sustainable relationships based on trust with our customers. Our service team, present around the world, is constantly being trained and expanded. Quick and efficient parts supplies are ensured by our global logistics system, which uses optimised transport routes and decentralised spare parts depots. Our intensive contact with the customer, which includes delivery of the machines and ensuring that they are operational, also enables us to constantly monitor all levels of customer satisfaction, particularly since the Starrag Group has a relatively small number of generally large-scale clients which it looks after. Customer satisfaction is also supported by a global CRM system.

A common factor throughout the group is that it guarantees high quality and opens up synergies along the value creation chain in sales and service. This includes for example the development of shared modular platforms from which each brand can go on to benefit within the framework of their specific product development.

## Product development with the client

In order to maintain its technological leading edge, the group regularly invests on average a higher proportion of turnover than its competitors in the development of new products and components. Innovation is considered to be an absolutely core driver of business, and the Starrag Group maintains development centres in Switzerland, Germany, France, the UK and India.

The application engineers in the local sales companies work hand in hand with the customers and pass their requirements on to the development centres. This speeds up the innovation process and generates clear added value, both for the customer and the company.

The Starrag Group protects its technological developments with a wide portfolio of patents. Trends and new products are systematically analysed across the sector and the findings used for in-house development. Regular trade fairs, primarily in Europe and North America, deliver important information which is used as the basis for drawing conclusions and consequences for in-house development planning on a yearly basis. Thanks to active monitoring of product life cycles and technology trends, as well as taking into account the operating experience of important customers, new developments can be introduced at an early stage, enabling the group to build on its technological advantage.

The group's development efforts are supported by close collaboration with leading technical universities and research institutes. Two leading academics in the field of machine tool building are part of the supervisory board of Dörries Scharmann, namely Professor Reimund Neugebauer (Dresden Technical University) and Professor Christian Brecher (Rhineland-Westphalian Technical College Aachen), helping to maintain the group at the cutting edge of technology.

## Demanding customer sectors with future potential

The Starrag Group focuses on specific applications in four highly demanding target markets: Aerospace, Energy, Transport and Industrial.

**Aerospace**
Larger aircraft, rising fuel prices and a growing environmental conscience require lighter, quieter, more cost-effective and economical aircraft with lower emissions and immissions. The result for modern aircraft manufacturers and their suppliers is that there is a trend towards increasingly larger and more complex parts which must be produced reliably, under constant process surveillance, to close tolerances and within short cycle times. There is therefore greater demand for parts with complex geometries which have to be manufactured in five-axis machines. The Starrag Group's machinery ranges from the heavy machining of high-strength titanium alloys to the high-speed cutting of aluminium and also the precision machining of large gear casings made of light metal alloys.

Carbon fibre-reinforced plastic components are now being used. Gear components under heavy loads, critical primary structural components for the fuselage, tail unit and wing areas, turbine elements such as engine blades, blisks, casings, fuel systems, high-precision gyroscope components as well as reliable electrical connection and sensor parts are all examples of products which are manufactured using our machines day in, day out for all aircraft programmes around the world.

**Energy**
In fossil-fuel energy production, the Starrag Group has the most years of experience not only in machining high-precision turbine and compressor blades but also for highly demanding large casings for steam and gas turbines. Combining several different types of machining technology in one machine is becoming increasingly important. The parts to be machined are required to meet ever higher standards and are becoming larger, more complex and increasingly being manufactured out of materials that are hard to machine.

As far as renewable energy sources are concerned, the Starrag Group is an important supplier to the wind power industry. Large, high-precision gear casings and components increase efficiency by reducing the need for maintenance during operating times. In oil and gas exploration, large ball shut-off valves for gas and oil pipelines, complex drill heads and other safety components are manufactured on our machines.

**Transport**
Starrag Group machining centres are specialised in small and medium-sized production batches and in the machining of large diesel engines. In this particular segment, the group focuses on agricultural vehicles, construction machines, lorries and buses. In the passenger vehicle sector, Starrag Group machining centres are primarily used for high-performance engines. In ship-building and railway engineering, we are specialists in large diesel engines and in the complex machining of high-precision marine propulsion systems. Our precision serial manufacturing to within close tolerances of prismatic work pieces for the vehicle and transport industries, such as engine blocks, cylinder heads and gear casings made of light metals or cast-iron alloys, is characterised by a striving to avoid unproductive down-times and zero-defect production.

**Industrial**

In mechanical engineering – including for example machine tools, packing machines, printing machines and plastics machines and also technical components in hydraulics, pneumatics and propulsion technology – the trend is also towards ever more complex work pieces. With the acquisition of Bumotec, the entire range of parts for the watch and jewellery industries and the surgical instruments and medical implants sectors were also covered, considerably extending the range on offer for this target market. As our engineers strive to optimise components, this brings with it new, innovative machining concepts which simplify the production process to provide the utmost in precision and guaranteed quality, increase economy and are incredibly flexible to implement. The Starrag Group meets these requirements by providing customers with multi-facetted machining centres tailored to their needs.

## Clear strategic direction

The Starrag Group's strategic success factors can be clearly defined:

- Concentrating on the upper quality segment
- Technological leadership
- Focusing on clearly-defined target markets
- Solid financial basis
- High levels of internal flexibility, particularly when times are tough
- Always striving to find innovative, customer-orientated solutions.

This strategy has proved to be resistant during periods of difficulty and has stood the test of time throughout the business cycle. The Starrag Group is the only machine manufacturer which is listed on the stock exchange, continuing to record positive results throughout the latest recession and which always paid out a dividend to its shareholders.

To ensure its existence over the long term, the Starrag Group continues to aim for profitable growth with an EBIT margin 8 % as a medium-term average, across economic cycles. This should also provide shareholders with a chance to participate in the success of the group, both in the form of a potential share price increase and a greater dividend pay-out ratio of 30 % – 40 % (up from current levels of 25 % – 33 %) of earnings.

In addition to growth in recent times which was primarily driven via acquisitions, the coming years will see the consistent usage of the group-wide synergy potential to focus on organic growth, with the aim being an annual increase of 5 % – 8 % over the medium term. The concentration on organic growth does not however exclude further acquisitions on an individual basis, but they would always have to meet the basic criteria of being a strategic fit, having an interesting market and product portfolio and also a cultural affinity. The Starrag Group has a stringent, tried and tested process of analysis in this respect.

## High flexibility required

In the future, we can expect the environment to become even more volatile, with market fluctuations becoming even more pronounced, and this will require more flexibility from companies. Internally, processes and procedures will require further improvement, and this will be a permanent activity aimed at continually increasing productivity. This will be of benefit to global business process engineering, which is designed to simplify and unify group-wide processes wherever it is useful. Defined key processes are regularly evaluated and improved. The most balanced possible diversification of risks in terms of markets and regions and a solid financing structure should be able to secure future growth and innovation.

Our group already has strong market positions in Europe, Asia and North America. In geographical terms, the markets will continue to shift towards Asia – a region which in a few years will already have acquired half of the world's machine tools. The Starrag Group intends to have a share of this growth, via investments in local production in India and also by means of the further development of the sales and service organisation in the principal Asian industrial nations. Various significant trends speak in favour of further organic growth for our group in this region, namely an increasing need for mobility, growing demand for conventional and renewable energy, the need for investment in infrastructure and in the mechanisation of agriculture and increasing demand for consumer goods.

To conclude, the Starrag Group is expecting to register growth that in the medium term will outstrip that of the European machine tool industry as a whole. The proportion of sales generated with customers in Asia is set to increase in the coming years to around 50 %. Our fundamental strategy – of playing a leading role in all four of our target markets of Aerospace, Energy, Transport and Industrial – is one that we will continue to adhere to.

## 10 brands – one group

**The Starrag Group brings together ten strong, strategically suited brands under one roof.**

- The ten brands cover the entire technology spectrum of milling, turning, drilling and grinding of medium-to-large-sized metal and composite material work pieces in the upper quality segment.

- Each brand enjoys high levels of trust with clients, built up over years, in its specific field of applications and represents a performance promise that proves itself in practice again and again.

- The brands come together to form a group which ensures the utmost in quality and opens up synergies along the value creation chain – from development to service including production and sales. This covers for example the development of shared modular platforms from which each brand can go on to benefit within the framework of their specific product development.

starrag
Starrag Group

berthiez

**High-precision cylindrical grinding**
Outstanding solutions for the engine and rolling bearing industry based on specialised vertical turning and grinding machines.

bumotec

**Multifunctional machine tools**
High-precision complete machining of small work pieces in the watch, jewellery, medical technology and micro mechanics sectors.

droop+rein

**Maximum precision for large work pieces**
Machine tools for the machining of large to ultra-large work pieces (up to 250 tonnes) such as diesel engines, power plant components and large components used in aircraft landing gear.

dörries

**Synonymous with high-performance lathes**
High-performance vertical lathes, from single-column machines with a turning diameter over 1.6 metres up to large gantry-type machines with a turning diameter of 12 metres, a turning height of 10 metres and up to 450 tonnes in weight.

heckert

**Lasting precision and productivity in perfect harmony**
A graduated offer of high-precision and highly-productive horizontal machining centres for milling, turning and boring work pieces in medium and high volumes.

scharmann

**Complete machining solutions with the shortest possible cycle times**
Special solutions for heavy and complete machining of very large work pieces based on high-performance and automatically interchangeable head attachments.

SIP

**Total commitment to precision**
Jig-boring machines and machining centres for research institutions, the aerospace industry, aircraft manufacturers and leading precision engineering firms who require the utmost in precision.

starrag

**The utmost in precision for flow parts**
Five-axis, robust and stiff machines with high removal rates for machining turbines, compressor blades, impellers, blisks and complex structural components with the utmost in precision.

TTL

**The home of adaptive machining**
Internationally-recognised software-based manufacturing solutions for machining and repairing components used in gas turbines and aircraft jet engines.

WMW

**Machining centres for emerging markets**
Horizontal machining centres for India's high-growth industries, produced in the Starrag Group's first non-European manufacturing site in Bangalore.

# FIVE VALUES ONE GOAL

The Starrag Group uses five central, clearly defined business values to make progress. They determine our everyday thinking and dealing, while at the same time driving us to create substantial added value for the customer with every solution.

## 1. Market leadership via customer orientation

Applied customer orientation is a combination of a whole host of factors. Market knowledge, expertise and professionalism combine with commitment, reliability and flexibility, creating mutual trust and results for both parties which exceed customer expectations.

## 2. Advantage via innovation

The Starrag Group strives relentlessly to surprise the market with technological innovations which are creative and dynamic. New market demands are seen as an opportunity and actively implemented into customer solutions.

## 3. Quality via stable processes

Clearly-defined, simple and efficient processes in all business sectors ensure the continuous maintaining of the highest standards of quality, creating long-term reliability which the customer can always count on.

## 4. Sustainability via value creation

Durable value creation ensures sustainable growth in the value of the business, thus protecting long-term existence and independence. The Starrag Group is aiming for solid growth whilst respecting social and ecological responsibility.

## 5. Success via committed employees

Motivated, enthusiastic employees who are able to develop in an open working environment are what a successful business is all about, which is why our management culture is based on mutual trust, respect, enabling and recognition.

‣ What this means in actual terms will be revealed over the next few pages.

# TECHNOLOGY FOR ENERGY

Mitsubishi Heavy Industries, Japan

## Market leadership via customer orientation

Mitsubishi Heavy Industries Japan is an important manufacturer of steam turbines. Production runs around the clock without a break, requiring reliable machining systems which are perfectly attuned to process sequences.

Starrag has comprehensive process expertise and has been carrying out successful complete turnkey projects for decades now, including all services from project planning right up to application-specific CAM software. And it is exactly this performance which prompted Mitsubishi to entrust Starrag with the design and realisation of a flexible manufacturing system as their European technology partner – a project which saw several machining centres interlinked with a gantry robot.

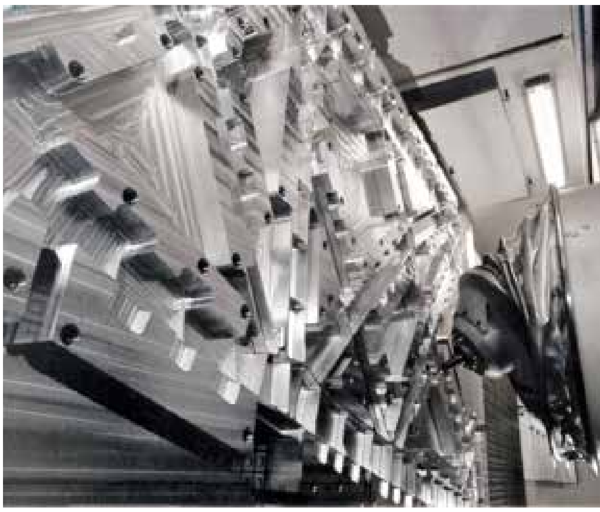
**A highly-qualified applications expert supports Mitsubishi on-site with the programming and running in of the machining process. The perfect interplay between all system components enables the machining process to be significantly reduced.**

# PERFORMANCE FOR PRODUCTIVITY

## Advantage via innovation

Korean aircraft manufacturer KAI Korea Aerospace Industries decided to acquire seven high-performance ECOSPEED F machining centres with rail transportation system. Scharmann milling machining centres are used to produce complex wing structural elements known as wing ribs out of high-strength aircraft aluminium to a total length of up to six metres for the Airbus A 350 XWB.

The ECOSPEED fits in perfectly with the concept, which up until now has been completely carried out by Scharmann, with its Sprint Z3 parallel kinematic machining head, making this currently by far and away the world's most productive solution for the high-performance machining of aluminium structural components with machining volumes of up to 10 litres per minute.



**Realising this innovative machining concept enabled the development team to secure a decisive technological advance for Scharmann. No other machining centre for the five-axis simultaneous machining of complex aluminium structural components offers comparable levels of productivity with the utmost in precision and excellent surface quality.**

# PRECISION
# FOR RELIABILITY


Super Precision Center 7140 SIP

## Quality via stable processes

A major American technology company with 130’000 employees around the world was looking for a machining centre which fulfilled its lofty demands when it came to precision production.

After an intensive evaluation process, management decided on the SPC 7140 SIP, with the balance being tipped in favour of this particular machining centre by, amongst other things, the safety with which even the most demanding applications can be used right from the off and with the required precision. After all, “First part is good part“.

But what does this mean for the customer in concrete terms? It means more safety when machining complex geometries, avoiding expensive rejects in the production process and a measurable increase in productivity and efficiency.

**The new SPC series is the result of German engineering expertise combined with the unique Swiss precision of SIP. During the development of this machining centre, the full technological expertise of our engineers and process technicians throughout the group was united to consistently make best use of all synergies.**

# SUSTAINABILITY FOR VALUE CREATION

## Sustainable value creation

Asia will be the main growth region in the coming decades, and in the interest of sustainable development, the Starrag Group is thus building a production plant in Bangalore in India to manufacture WMW brand machining centres for use locally in the Asian growth markets. On-site production enables the Group not only to be in close proximity to its customers and thus achieve short delivery times, but also reduces the effect on the environment thanks to optimised transport routes.

As early as the construction phase, priority was given to adhering to European standards whilst still keeping safety and environmental conventions in mind. The Starrag Group pays high salaries in comparison with local companies and finally it goes without saying that The Group also forbids any kind of child labour in the building of its new production plant.

**In India, Starrag is participating in the Swiss VET Programme to train young Indian employees based on Swiss standards for apprenticeships.**


Snapshot in the centre of Bangalore

# MOTIVATION FOR SUCCESS

Trainee of the Starrag Group, Rorschach

## Success via committed employees

The Starrag Group is fully committed to maintaining loyalty amongst its employees, since long-term cooperation is the only way to create personal ties and a high level of commitment, which are pre-requisites for above-average performance. Training is therefore given highest priority, right from the start of the professional career.

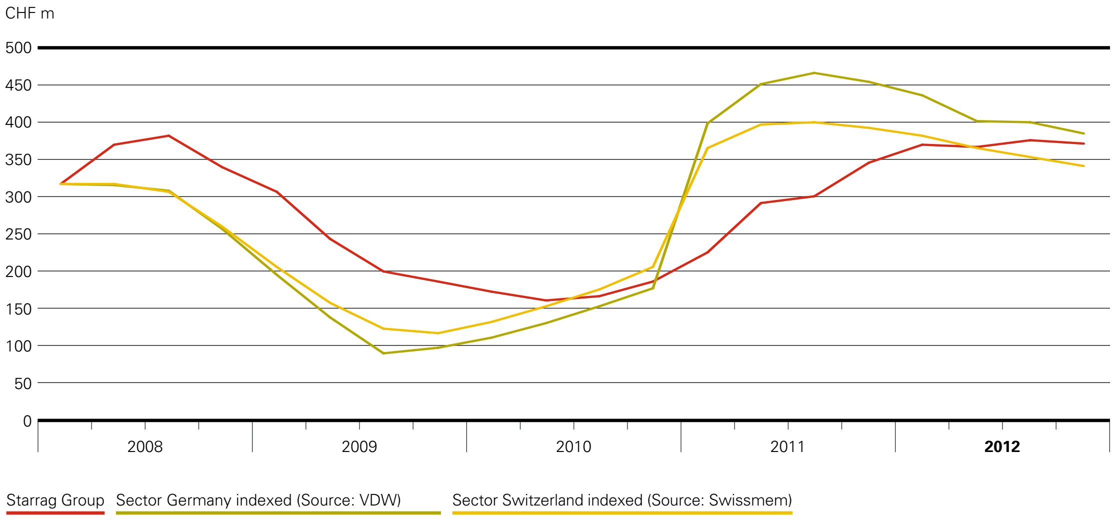
The Starrag Group regularly trains a total of around 150 apprentices and students in more than 10 different trades and in various locations, with the students and apprentices taking part in numerous projects and activities. We therefore decided to create the Azubi Academy in Chemnitz, Germany, which teaches the social and methodological skills required to get off to a good start in the world of work.

**Trainees in Rorschach who not only took part in but actually won, in the year under report, the “Art meets Technology“ project, run by the well-respected German trade paper mav.**

# Business performance 2012

2012 was once again affected by the uncertainty surrounding the economy and economic policy, which put overall pressure on investment appetite. The global machine tool industry benefited from the significant recovery in the automotive industry and the continued strong levels of growth in demand for mobile communications devices, which led overall to a clear increase in volume. The situation remained a challenging one in the large components, power generation and military aviation sectors, while civil aviation was able to make substantial gains.

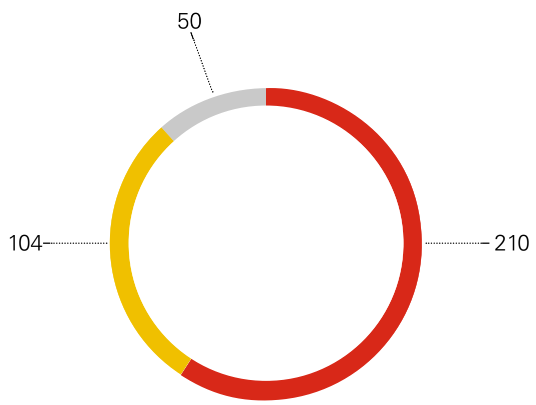
Order intake: Starrag Group vs. sector




## Varying development in the different target markets

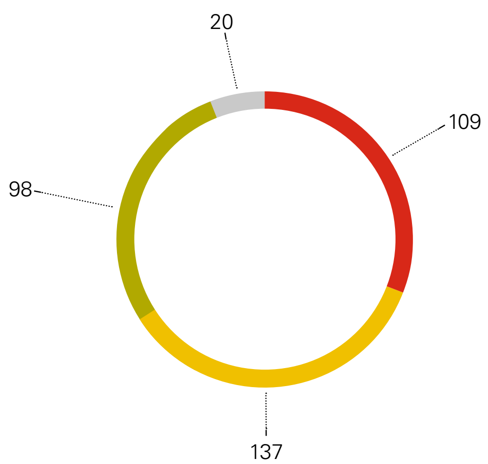
In this challenging environment for the entire economy, the Starrag Group can look back on a financial year 2012 with overall corresponding results, not least compared with the rest of the sector. We managed to improve on the previous year in terms not only of the order intake but also in sales and profit. In terms of the Group's target markets, business in Aerospace was unsatisfactory due to governmental cost-cutting measures in the military sector, while the civil sector demonstrated growth, leading to a corresponding shift of focus towards the latter. In the Energy target market, uncertainty over the future energy mix paralysed the market as expected, which is why we were able to bring in far fewer orders than the previous year. In Transport on the other hand, order intake showed very satisfying developments. Increases were relatively broadly supported and in particular covered the utility vehicle, automotive and agriculture sectors, with a focus on India and China. We also improved considerably in the Industrial target market thanks in no small part to the Bumotec acquisition, while established business came in at around the same levels as the previous year.

## Order intake by region




| CHF m | 2012 | | 2011 |
|---|---|---|---|
| Europe | 210 | 58% | 61% |
| Asia | 104 | 29% | 29% |
| North America | 50 | 14% | 10% |

## Order intake by market segment




| CHF m | 2012 | | 2011 |
|---|---|---|---|
| Aerospace | 109 | 30 % | 31% |
| Industrial | 137 | 38 % | 27% |
| Transport | 98 | 27 % | 25% |
| Energy | 20 | 5 % | 17% |

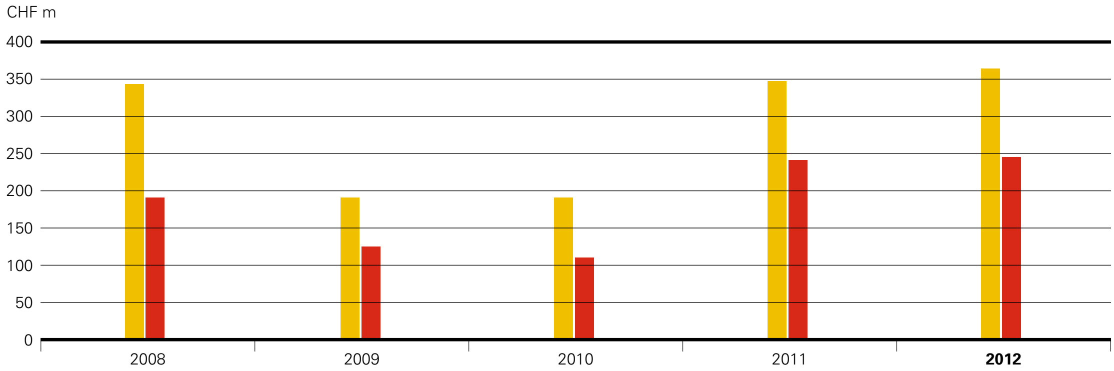
### Orders significantly up in North America

In regional terms, North America was first in line when it came to the increases in order intake thanks to the uptick in civil aircraft building and the reshoring of the production of large components. Asia also saw us take in more orders, with growth supported by all four target markets. In Europe, order intake was at the same levels as the previous year, with the geographical focus moving from the west to Eastern European markets. Overall, the Starrag Group was able to further strengthen its market position in all sales regions in the year under report, with investments in application technology and customer services playing a major role. The order backlog, which is of great quality in terms of the customer structure, stood marginally above the previous year's level at CHF 239 million. Shorter delivery times led to an operational reduction in the order backlog of around CHF 15 million, which was again compensated for by the acquisition of Bumotec.

### Increased order intake and sales revenue

Group-wide, orders were taken in 2012 for CHF 364 million, representing a 5 % increase year-on-year. After adjustment for acquisition and currency effects, order intake was just under 4 % lower than in 2011, though the previous year had seen an exceptionally high increase of 18 % and the German industry association VDW reported drop in order intake of 13 %. Order intake was below average in the fourth quarter due to the postponement of agreed orders. This however strengthened the project pipeline, meaning that positive developments in new orders can be expected in the first half of 2013. It remains unclear as to whether the uncertainty caused by the European sovereign debt crisis will continue to affect customers' investment decisions. Sales revenue in 2012 stood at CHF 384 million – some 8 % up on the previous year. Adjusted to take currencies and acquisitions into account, sales were at the same level as in 2011.

## Order intake and order backlog




| CHF m | 2008 | 2009 | 2010 | 2011 | **2012** |
|---|---|---|---|---|---|
| Order intake | 341 | 188 | 188 | 348 | 364 |
| Order backlog | 188 | 124 | 104 | 238 | 239 |

## Cost management as a consistent priority

The proportion spent on materials was slightly lower compared with the previous year, despite an increase in volume, and this can be attributed in part to the first synergies from the integration of Dörries Scharmann, including the new group-wide organising of purchasing and the standardisation of components which from 2013 should serve to reduce costs, primarily in the medium term. The change in product mix also had a positive influence, which will only be fully seen with the processing of the current order backlog. On the other hand, we were also faced with occasional increases in material costs as a consequence of the supplier chain running close to capacity due to the boom in the automotive industry. Personnel costs also increased as a result of the acquisitions.
The Starrag Group pays the closest attention to continuous cost management. Active control of fixed costs, optimising organisation and improving processes with the aim of continuous improvements in performance are among management's permanent priorities. In the year under report, we tackled the issue of varied workloads at our different production locations with short-time work, posting personnel to other locations and transferring production stages to those factories that were under-utilised. We also decided in this case not to replace staff departures that were the result of fluctuation.

## Higher earnings

With an EBIT of CHF 21.7 million – 14 % higher than the previous year – the Group improved its margin to 5.7 % from 5.4 % in 2011. This increase is the result of consistent cost management, higher volumes and the acquisition of Bumotec. Nevertheless, the medium-term target value of an EBIT margin of 8 % cannot be attained. Below the line, 2012 saw net profit up 26 % to CHF 13.6 million – a sizeable increase which was primarily attributable to the much improved operating result and also a consequence of the lower tax rate.

## Solid financing

The Starrag Group continued to have a firm footing in 2012 with a virtually unchanged equity ratio of 53 %. Free cashflow remained at a solid CHF 10.2 million despite increased investments. Even after the self-financed acquisition of Bumotec, net liquidity remained high at CHF 24.9 million, and this solid financing enabled the dividend pay-out ratio to be moved up to a higher target band, from its previous levels of 25 % – 33 % of net profit up to 30 % – 40 %.

## New market perspectives thanks to Bumotec

With the May 2012 acquisition of Bumotec SA in Sâles (in the Swiss canton of Freiburg), the Group is establishing a solid market position primarily in the watch/jewellery sector but also in medical technology for implants and surgical instruments. These are new markets for the Starrag Group and ones which have continually demonstrated rapid growth in recent years, making them a substantial and also attractive complement to the established Industrial target market. The Aerospace sector will also benefit as Bumotec offers solutions for fuel systems, gyroscope components and electrical connection and sensor parts. In the year under report, Bumotec was already able to make the most of the local presence of the Starrag Group in the various market regions. Capacity expansion with a new building near to the current location of Sâles is also currently in the planning stage.

## Integration of Dörries Scharmann bearing fruit

The integration of the Dörries Scharmann Group, which was acquired at the beginning of 2011, was completed in the course of the year under report and is already beginning to pay dividends. The joint sales and service organisation is looking particularly strong in the non-European markets thanks to expanded levels of technical expertise on site and quicker reaction times to market changes with an even more powerful presence. The combined procurement of components and services is also beginning to bear fruit, though long lead times means that the real effects will only primarily be seen from 2013 onwards in terms of results. In the second quarter of 2012, a global client relationship management (CRM) tool was successfully implemented.

## New plant opened in India

The new production plant in Bangalore was opened on schedule in January 2013, with the official announcement coming at IMTEX, the leading Indian trade fair for machine tools. WMW, one of the ten Group brands, also launched at the same time a newly-developed series of compact machining centres specifically tailored to meet the demands of the emerging markets in the region. With the technology and customer services centre which we also built in Bangalore, the Starrag Group has an excellent starting point from which to tap into the promising future of the Asian markets.

## Innovation – Investment – Improved processes: Optimisation on all fronts

Investments in the development of new products and processes continued at a high level. In 2012, we developed various products specifically for the promising gas and oil market which already resulted in the first orders coming in during the final quarter of the year. A significant proportion of the above-sector-average investment went into the new production plant in Bangalore and the new group-wide SAP system. CHF 5.7 million was invested in further improvements and added flexibility in machining at the European factories. As mentioned else-where in this report, the continued optimising of processes and procedures associated with the integration of Dörries Scharmann contributed to increased cooperation, centralising, uniformity and strengthening in terms of development, purchasing, CRM, sales, customer services and IT across the Group.

As usual, the Starrag Group was present at the relevant trade fairs with a strong presence. At the two big machine tool trade fairs in the autumn, namely IMTS (Chicago) and AMB (Stuttgart), we presented two new machines featuring machining concepts for the industrial series production of large components which will provide customers with significant increases in terms of productivity. Both machines were greeted with real interest and should enable the Group to acquire a greater share of all four target markets in the medium term. At IMTEX – the leading Indian trade fair for machine tools held in January 2013 – we presented a newly-developed series of compact machining centres specifically tailored to meet the demands of the emerging markets. Our new combined entity as the Starrag Group was also implemented in consistent fashion to every aspect of our presence and completed across the year under report, covering everything from our appearances at trade fairs to our updated Internet presence, and also including all of our visual means of expression.

Due to the varying degrees of utilisation at the various locations, brought about by differing developments in our target markets, various organisational and infrastructure-based optimisation measures were required in Rorschach and Mönchengladbach, in conjunction with an overall potential analysis, with the ultimate aim being the long-term strengthening of both locations.

As part of the on-going training and further education of our employees, language programmes and IT courses were added in 2012 to improve qualification levels. These and other measures are part of a multi-year programme that is also aimed at all levels of staff, including more junior employees. In India, we are also participating with the Swiss trade association Swissmem in a programme which is designed to train young Indian employees based on Swiss apprenticeship guidelines. A first group of five students completed the programme in the second half of 2012.

## Cautiously optimistic forecast for 2013

For 2013, the relevant trade associations in the machine tool industry are relatively optimistic based on the reasonably positive developments of the leading business indicators. The Starrag Group also views the prospects with cautious optimism, even though the overall economic environment remains undoubtedly full of challenges. We expect growth impulses to come primarily from Asia, where we are ideally placed thanks to our base in India. Furthermore many significant customers have signalled that in the coming year, they will be thinking of renewing or indeed extending their capacity. Grounds for confidence can also be seen in the various new products which are in the development pipeline and are set to come on the market during 2013 and 2014, the extension of the machine programme in India, the expanded global customer services department and the further strengthening of sales. Finally we intend once again to improve processes and workflows via various projects which are currently under way, and thus generate further cost savings.

All in all, and despite the continuing uncertainty in our markets, we will therefore be aiming for another increase in order intake, sales and operating income in 2013 to levels above those of this year. In terms of EBIT margin, our long-term aim of an average of 8 % across the machine-building cycle remains unchanged.

# Sustainability in the broadest sense of the word

The Starrag Group's industrial and social commitment is geared towards the long term. We maintain open dialogue with all stakeholders and take their needs into account in a balanced way. Measures to achieve sustainability are based on the economic, social and ecological environment.

## Results-oriented corporate culture

Economic sustainability is based on a results-orientated corporate culture and aims at a long-term increase in the Group's value for the benefit of all stakeholders. We refer here to the measures illustrated at various places in this annual report comprising all divisions of the company. The performance of the group according to the Obermatt Index proves that we are on the right track.

## Employee-orientated HR policy

The success of the Starrag Group is based first and foremost on committed employees who are motivated by the happiness and satisfaction of working in an open and modern environment and want to give their very best in terms of performance. Central elements in our management culture are thus mutual trust, respect, regular exchanges of information, working together, appreciation and promoting the continued development of the individual.

The Starrag Group makes a variety of efforts to increase employee commitment to achieving the company's goals. Employees are kept regularly informed by their superiors at all locations about the current course of business as well as the latest themes and projects, and they also hear personally from the CEO at least twice a year at employee meetings. There is also an in-house magazine entitled "together" which is published twice yearly and provides employees with more in-depth information from the various locations and markets.

As a starting point for improving the working environment and motivating of our employees, we carried out a group-wide survey in 2011 comparing the various sectors of the Starrag Group with a large number of other companies. The Starrag Group came out in a very positive light, particularly in terms of work content, client focus and teamwork. The survey also confirmed that measures which had already been implemented in various sectors were having the desired effect. An important conclusion also was the identification of certain areas of potential improvement which have continually been implemented since then. High levels of employee satisfaction are also expressed by the fact that for years now, the turnover rate has been well below average.

We give particular priority to maintaining our employees' expertise. As part of annual formal employee discussions on performance appraisal and target agreements, further training requirements are dealt with, with the corresponding measures then being taken. Two years ago, the Starrag Leadership Academy was founded, which is a group-wide training programme for all management-level employees which aims to create a uniform definition of leadership. These training sessions have considerably strengthened group-wide collaboration between all management-level employees thanks to the mixing of groups between locations and functions. Other training-based priorities include further technical training, safety at the workplace and coaching in the efficient use of the IT tools that are in place.

In the year under report, there was a focus on promoting language skills, with all employees in each location offered further training courses in the three business languages of the company, namely German, English and French.

Our in-house vocational training plays a central role in acquiring qualified specialist employees. As has been the case for a number of years now, we currently train around 150 apprentices and students every year in more than ten different trades. We have modern, well-equipped training centres at every location where our apprentices are taught the basics of their trades. Where possible, those who achieve good performance appraisals are then given continued employment after their training. In India, we also participate with other Swiss companies in the Swiss VET Programme which is designed to train young Indian employees based on Swiss apprenticeship guidelines. In the second half of 2012, the first group of five students completed their two-year vocational training and received a "Multiple Skilled Production Technician" certificate.

Safety in the workplace and the health of our employees is given top priority within the framework of a systematic health management system. Our aim is to continually improve the working atmosphere above the levels of occupation health and safety requirements. We take monthly readings of relevant health indicators at our production locations which we evaluate and then use to implement location-specific measures. Despite increased production capacity, accident figures remained at low levels in 2012 and no serious incidents were recorded.
The various measures implemented the previous year in terms of safety in the workplace, health management and working atmosphere were systematically continued in 2012 and extended step by step to other locations. Rorschach held a family day which was a great success, enabling employees' families to get a closer look into our working environment, while Chemnitz held a father-daughter day and other locations implemented various other specific measures.

## Product energy efficiency as central starting point

The most important starting point for our Group in ecological terms is the energy consumption of our machines which perform decades of service for our customers. In the past, and in particular in regions where energy prices are low, too little attention was paid to energy consumption.

We can assume that in the future, energy consumption will play a greater role in terms of overall production costs. Energy efficiency for machine tools could become one of the most important factors for economic feasibility across the life cycle of a machine system. The Starrag Group therefore decided at an early stage to take part in the "Blue Competence" campaign run by two national trade associations – the Association of German Machine Tool Manufacturers (VDW) and Swissmem – and which targets increased energy efficiency and sustainability in manufacturing technology, and to introduce the relevant recommendations into the development of new products. The main driver for energy efficiency in the machining of work pieces is however cycle time. Since the Starrag Group's entire machine portfolio sets itself apart from the competitive environment by its higher machining performance and sub-sequently reduced production times, an investment in our machinery is particularly worthwhile from the point of view of energy-saving. We have made our entire range of machine systems more energy-efficient using what we call in-house eeMC (Energy-Efficient Machining Centres). The measures range from implementing energy-efficient engines to minimising the base load loss and using frequency-controlled pumps. It is also important for machines always to meet the stringent demands in terms of precision, even at wider ranges of temperatures, which significantly reduces our customers' energy use thanks to lower temperature stability requirements in production factories.

Participating in research projects in various countries to increase the energy efficiency of machines tools means that we can enable new findings and technologies to be implemented rapidly into product development. The focus is on cost-savings in the energy consumption of machine tools, in particular making progress in terms of drive systems, cooling lubricants, mechanical drives and sleep and warm-up settings to reduce the required preheating time. We have found that there is real potential to reduce the use of air-conditioning in the production factories without limiting quality and functionality by means of more precise and intelligent production technology. The energy-saving potential across the overall production processes and infrastructures is well into double-figure percentages.

The Starrag Group is continually implementing measures to improve its environmental performance at all business locations. This includes ensuring that our production processes are always low-energy and have a minimal effect on the environment. For all projects involving investments and the upkeep and renovation of buildings, environmental aspects are always considered alongside cost/benefit considerations, and indeed energy consumption at production locations went down correspondingly by 3.5 % in 2012 to 0.72 GJ per CHF 1’000 net value creation (2011: 0.74 GJ).

In the paint shop, environmentally-friendly water-soluble varnishes which do not contain solvents are used wherever possible. We feed reusable material and waste products such as oils, fats and shavings back into circulation by means of systematic recycling. Furthermore, splitting plants for cooling lubricants ensure that the latter are disposed of by category or fed back into the circulation.

# Corporate Governance

# 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 | Business Unit 2 | Business Unit 3 | Business Unit 4 |
|---|---|---|---|
| Walter Börsch | Dr. Eberhard Schoppe | Dr. Norbert Hennes | Jean-Daniel Isoz (from 6.3.2013) |
| ‣ Starrag | ‣ Heckert | ‣ Berthiez | ‣ Bumotec |
| ‣ TTL | ‣ WMW | ‣ Dörries | ‣ SIP |
| | | ‣ Droop+Rein | |
| | | ‣ Scharmann | |

**Operations**
Dr. Georg Hanrath

**Customer Service**
Günther Eller

**Regional Sales**
Dr. Frank Brinken

**CFO / Corporate Center**
Gerold Brütsch

**Commercial Director Business Unit 3**
Daniel Rosenthal

# Participation structure

- **Starrag Group Holding AG**<br>Rorschacherberg / CH
  - **Starrag AG**<br>Rorschacherberg / CH
  - **Starrag Group Holding GmbH**<br>Chemnitz / DE
    - **Heckert GmbH**<br>Chemnitz / DE
    - **Dörries Scharmann Technologie GmbH**<br>Mönchengladbach / DE
      - **Berthiez SAS**<br>Saint Etienne / FR
      - **Dörries Scharmann Technologie Service Center GmbH & Co. KG**<br>Ichtershausen / DE
      - **Dörries Scharmann Grundstücks-Vermietungsgesellschaft mbH & Co. KG**<br>Mönchengladbach / DE
      - **FIRMUS Grundstücks-Vermietungs-gesellschaft GmbH & Co. KG**<br>Mönchengladbach / DE
      - **Scharmann GmbH**<br>Mönchengladbach / DE
  - **SIP Société d'Instruments de Précision SA**<br>Satigny / CH
  - **Starrag India Private Limited**<br>Bangalore / IN
  - **Bumotec SA**<br>Sâles / CH
  - **Starrag USA Inc.**<br>Hebron / USA
  - **Starrag Group Holdings Ltd.**<br>Birmingham / UK
    - **Starrag UK Ltd.**<br>Birmingham / UK
    - **Indexexpert Holdings Ltd.**<br>Haddenham / UK
      - **Toolroom Technology Ltd.**<br>Haddenham / UK
  - **Starrag (Shanghai) Co. Ltd.**<br>Shanghai / PRC
  - **Starrag Makina Ticaret ve Servis Ltd.**<br>Ankara / TR
  - **Starrag RU Ltd.**<br>Moskau / RU
  - **Starrag France Sàrl**<br>Laperche / FR
  - **Starrag Italia Srl**<br>Rivoli / IT
  - **Starrag Mexico, S. de R.L. de C.V.**<br>San Pedro Garza García / MX
  - **Starrag Group Finance Ltd.**<br>St. Peter Port / UK

Details of share capital and the equity interest held are given in the consolidated financial statements on the page 102 of this annual report.

The registered shares of Starrag Group 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 2012 was CHF 207.0 million.

## Shareholders

There were 737 shareholders registered in the company's share register on 31 December 2012. 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 | ‣ 75 shareholders |
| 1 to 1'000 shares | ‣ 642 shareholders |

227'464 shares or. 6.8 % were not registered in the share register on 31 December 2012 (cleared shares).

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

- Walter Fust, Freienbach, Switzerland 1'845'602 shares, 54.93 %
- Eduard Stürm AG, Goldach, Switzerland 315'840 shares, 9.40 %
- Max Rössler / Parmino Holding AG, Goldach, Switzerland, 185'753 shares, 5.53 %

No disclosure notifications were made during the 2012 financial year in accordance with Art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading:

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

- 29.09.2011: Max Rössler, Goldach, Switzerland 5.25 %
- 04.05.2011: Eduard Stürm AG, Goldach, Switzerland, 9.73 %
- 04.05.2011: Walter Fust, Freienbach, Switzerland 54.88 %
- 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=19612

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 20 April 2014. 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 company has no outstanding conditional share capital.

## Changes in capital

In the last tree years under report, the share capital of Starrag Group Holding AG has changes as follows:

- 12.07.2010: Distribution of profits for the business year 2009 of a total of CHF 3’780’000 in the form of a par value repayment of CHF 100 on CHF 85 per share.
- 02.05.2011: Increase of capital of CHF 7’140’000 to refinance the acquisition of Dörries Scharmann Technologie GmbH and subsequent 1:10 share split, reducing the nominal value from CHF 85.00 to CHF 8.50.

## 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 (click on Article of association under Investors). 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 Starrag Group 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 Starrag Group Holding AG since 2005 and Vice Chairman since 2008.

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

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 Starrag Group 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 Starrag Group Holding AG since 1994.

He is a practicing lawyer and partner in the law firm Brunner Geiser Dudli 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 Starrag Group 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 in globo 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 2012 financial year, seven 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.

Furthermore, the Chairman of the Board of Directors regularly attends the management meetings. Walter Fust and Adrian Stürm also exercise further control functions as members of the supervisory board of Dörries Scharmann Technologie GmbH.

## Risk management

As one of the world's leading manufacturers of precision milling machines, the Starrag Group is faced with various risks, with the most important being:

- The weakening of the economic environment in customer markets and also of business cycles could lead to a reduction in demand;
- Misjudgements of developments in customer markets or in the competitive environment could lead to missed business opportunities or losses;
- Failure in research and development and other innovation-based activities could prevent business potential from being realised,
- A lack of availability of financial resources could have an impact on the performance and operations of the Starrag Group and
- Natural occurrences (such as fires) can have an influence on operating activities.

The Board of Directors and management give high priority to the careful handling of strategic, financial and operational risks. The Starrag Group has a holistic risk management process which is analysed every year by management and the Board of Directors, with the following aims being pursued:

- Systematically identifying special risks,
- Establishing processes to monitor, reduce and ideally to prevent risks and
- Finding the right balance between risks and opportunities.

The risk management system is based on a classic risk matrix involving the probability of occurrence and possible extent of damage (identification and classification) and includes internal guidance as well as a risk log, in which operational data as well as action planning for risk management are documented.

The Executive Board appointed a risk management representative for the moderation and implementation of the risk management, which reports directly to the CFO, 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.

Additional information on financial risk management can be foud on page 74.

## Internal auditing

In accordance with the simplifications stated in the Swiss Code of Best Practice for Corporate Governance, the Board of Directors has decided not to implement an internal audit.

The codex implies certain simplifications for medium and small companies as well as for companies with active majority shareholders.

# 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:

From left to right: Dr. Georg Hanrath, Günther Eller, Walter Börsch, Gerold Brütsch, Dr. Eberhard Schoppe, Dr. Frank Brinken, Daniel Rosenthal, Dr. Norbert Hennes, Jean-Daniel Isoz

**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 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 (Müller Martini Buchbinde-System AG) 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 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 (Witzig & Frank GmbH). 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, German) 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 & 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 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).

**Jean-Daniel Isoz** (1959, Swiss) has been responsible for Business Unit 4 since March 2013.

Prior to that, he was CEO of SIP Société d'Instruments de Précision SA from 2006. After first working as sales manager for SIP from 2000-2002, he took over as CEO of Bula Machines until end-2005. Previously, he had acquired 15 years of experience in various management positions in production and customer services for Bobst SA in Lausanne, USA and Asia.

Mr Isoz is qualified engineer specialising in electrical engineering. He also continued his studies in Finance and Marketing at INSEAD in Fontainebleau, France.

**Daniel Rosenthal** (1970, German) has been commercial manager of Business Unit 3 since 2011 and has responsable for post-merger integration within the Starrag Group since 2012.

Previously, he was CFO from 2006 and Head of Finance from 2005 for Dörries Scharmann, after being Engegement Manager for McKinsey from 2004 – 2005. Between 2000 and 2004 he was CFO of the software company CoredMedia AG, after working in investment banking with Barings and Merrill Lynch from 1997 – 2000.

Mr Rosenthal is a qualified mathematician who studied at the University of Münster and also has an MBA from the Simon Graduate School at the University of Rochester, NY, USA.

**Dr. Eberhard Schoppe** (1955, German) has been Head of Business Unit 2 in Chemnitz since 2004, having been a member of management there from 1999 as head of Production and Technology.

Prior to that, he held various positions of responsibility from 1994 onwards, as head of factory planning and work scheduling and also international sales. This followed on from his post as head of technology with another international machine tool producer (Fa. Saupe & Sohn GmbH, previously known as Präzisionsdrehmaschinen Limbach-Oberfrohna).

Dr. Eberhard Schoppe is a qualified mechanical engineer from Chemnitz Technical University.

## Management contracts

There are no management contracts with companies outside Starrag Group.

# Compensation, participation and loans

This report explains the system of compensation and its application in the 2012 financial year. It is in accordance with Annexe 1 of the Swiss Code of Best Practice for Corporate Governance and with chapter 5 of the corporate governance guidelines of the SIX Swiss Exchange Regulation, as well as taking into account the transparency regulations set out in the Swiss Code of Obligations Art. 663b and Art. 663c.

## Guidelines

The Starrag Group has comprehensive transparency regarding the indemnities of members of the Board of Directors and of management. Indemnities at the Starrag Group are based on the principles of value-based company management with the aim of guaranteeing a fair market compensation for management and thus ensuring that qualified members of management can be recruited and remain at the company for the long term. Individual tasks and services, the state of the Group's business, market conditions in the global sales and local labour markets as well as salary comparisons of similar positions based on the function and the business activity, size and international nature of the employers are taken into account for setting the indemnities of members of the Board of Directors and of management. Method for the determination of compensation to members of the Board of Directors and of management.

## The process of setting the indemnities for the Members of the Board of Directors and of management

The Board of Directors

- sets the system of compensation for members of the Board of Directors and of management upon the request of the Chairman of the Board of Directors
- sets the fixed indemnities of the Members of the Board of Directors and of the CEO, there were no changes in the reporting year compared with the prior year
- sets the additional indemnities of the Members of the Board of Directors for special tasks
- sets the plans for the variable indemnities to the Members of the Board of Directors and of management
- is informed on an annual basis about the indemnities paid to members of management
- performs its duties without calling on external consultants

The Chairman of the Board of Directors

- sets in consultation with the CEO the fixed indemnities of the members of management (other than the CEO), individually for each member of the management
- submits proposals to the Board of Directors for setting the indemnities systems and the indemnities
- performs his duties without calling on external consultants

## System of compensation

The members of the Board of Directors are compensated by means of a fixed basic fee, additional daily fees for additional services (in particular when the Chairman of the Board of Directors takes part in management meetings, working on the supervisory board of Dörries Scharmann) and a variable profit-share. The members of management are compensated with a fixed basic salary and a variable profit-share.

The basis for assessment for the variable profit-share of the members of the Board of Directors and of management is net income reduced by advance return on equity. The amount of variable profit-share is proportional to this basis for assessment. The amount of advance return on equity is fixed by the Board of Directors, according to their best judgement. The variable profit, sharing and thus the ratio of variable compensation to total compensation is not limited.

The fixed indemnities are paid every month in cash. The variable profit-shares are paid annually in cash after approval of the consolidated financial statements by the annual general meeting.

Since 2004, there has been an option contract between the majority shareholder and the CEO. The majority shareholder grants the CEO the right to draw 101'010 registered shares of the Starrag-Heckert Holding AG from the majority shareholder at a price of CHF 36.00 at his normal retirement date in 2013, insofar as the CEO has not previously ended his working relationship with the Starrag Group by unilateral termination.

The company has no stock participation programme.

## Disclosure of indemnities to the Members of the Board of Directors and of management

The following information was verified by the auditors as part of the consolidated financial statements (see page 94, explanation 30).

The short-term benefits paid out to non-executive members of the Board of Directors amounted to CHF 316'000 in the year under report (compared with CHF 375'000 the previous year). The short-term benefits paid out to management amounted to CHF 2'908'000 (compared with CHF 3'703'000 the previous year). No post-employment payments, other payments or benefits were made.

| CHF 1'000 | **2012** | | | | | 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fixed | Variabel | Options | Pension and other | **Total** | Fixed | Variabel | Options | Pension and other | **Total** |
| Walter Fust | 68 | 15 | – | 4 | 87 | 90 | 22 | – | 4 | 116 |
| Dr. Hanspeter Geiser | 36 | 15 | – | 4 | 55 | 36 | 22 | – | 4 | 62 |
| Valentin Vogt | 36 | 15 | – | 4 | 55 | 36 | 22 | – | 4 | 62 |
| Prof. Dr. Christian Belz | 36 | 15 | – | 4 | 55 | 36 | 22 | – | 4 | 62 |
| Adrian Stürm | 45 | 15 | – | 4 | 64 | 47 | 22 | – | 4 | 73 |
| **Total Board of Directors** | **221** | **75** | **–** | **20** | **316** | 245 | 110 | – | 20 | 375 |
| Variable as percentage of total compensation | | 25 % | | | | | 31 % | | | |
| **Total Executive Board (8 persons each)** | **2'023** | **587** | **26** | **272** | **2'908** | 2'008 | 1'379 | 26 | 290 | 3'703 |
| Variable as percentage of total compensation | | 22 % | | | | | 41 % | | | |
| Thereof: | | | | | | | | | | |
| ‣ Dr. Frank Brinken | 365 | 155 | 26 | 92 | 638 | 365 | 317 | 26 | 80 | 788 |
| Variable as percentage of total compensation | | 30 % | | | | | 46 % | | | |

The variable salaries went down in 2012 due to the higher advance return on equity compared with the previous year and to the special premiums linked to the purchase of Dörries Scharmann paid out in 2011.

Walter Fust as majority shareholder and Chairman of the Board of Directors of the Starrag Group Holding AG granted a bridging loan to a converted value of CHF 64 million in January 2011 for the financing of the purchase of Dörries Scharmann Technologie GmbH. After the capital increase which was carried out in May 2011, this was paid back plus interest based on current market conditions of CHF 0.3 m.

## Disclosure of shareholdings of members of the Board of Directors and of management

The shareholdings of members of the Board of Directors and of management are disclosed as part of the consolidated annual report on page 88 (explanation 20).

| | **Number of shares 31.12.2012** | | Number of shares 31.12.2011 | |
|---|---|---|---|---|
| Participations of Board of Directors and Management Board: | Shares | Options | Shares | Options |
| Walter Fust | 1’845’602 | – | 1’843’830 | – |
| Dr. Hanspeter Geiser | 2’050 | – | 2’050 | – |
| Valentin Vogt | 2’660 | – | 2’660 | – |
| Prof. Dr. Christian Belz | 1’330 | – | 1’330 | – |
| Adrian Stürm | 26’680 | – | 26’680 | – |
| Total Board of Directors | 1’878’322 | – | 1’876’550 | – |
| | | | | |
| Dr. Frank Brinken | 2’800 | 101’010 | 2’800 | 101’010 |
| Gerold Brütsch | 300 | – | 300 | – |
| Günther Eller | 200 | – | 200 | – |
| Stefan Knellwolf (till 31.12.2011) | n.a. | n.a. | 410 | – |
| Total Management Board | 3’300 | 101’010 | 3’710 | 101’010 |

## Disclosure of loans to the Members of the Board of Directors and of management

The Starrag Group has made no loans to Members of the Board of Directors and of management.

## Other information

There are no payments or advantages in favour of members of the Board of Directors and/or of management linked to their departures.

# Shareholders' participation 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 expires at the Annual General Meeting in 2014.
The lead auditor, Beat Inauen, was first assigned auditing responsibilities with the auditing of the 2012 annual report. The maximum period as lead auditor based on the legal rotation principle is seven years for Swiss companies.

## Audit fees

Audit fees paid to PricewaterhouseCoopers AG during the 2012 financial year and charged to the consolidated financial statements for 2012 amounted to CHF 317'800.

## Additional fees

Additional non-audit fees paid to Pricewaterhouse-Coopers AG and charged to the consolidated financial statements for 2012 amounted to CHF 23'100. These fees were primarily for tax advice.

## 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 fashion and with the highest possible levels of transparency. The most important information tools are the business and interim reports, the www.starrag.com website, media releases, balance sheet presentations for the media and analysts and the Annual General Meeting.

As a company listed on the stock exchange, the Starrag Group Holding AG is required to disclose information relevant to the share price in accordance with the listing regulations of the SIX Swiss stock exchange. Any interested party can register at http://www.starrag.com/index.php/en/ (click on E-Mail distribution under Investors) to receive potential information relevant to the share price directly from the company via the E-Mail distribution list. This information is also available on the website (http://www.starrag.com/index.php/en/, click on Media releases under Investors) and can be provided to any interested parties upon request.

## Corporate calendar:

- **12.04.2013**
  Annual general meeting in Rorschacherberg
  (5 p.m. in the Mehrzweckhalle Rorschacherberg)

- **07.05.2013**
  Information on first-quarter 2013 results

- **26.07.2013**
  Letter to shareholders on 1H 2013 results

- **05.11.2013**
  Information on third-quarter 2013 results

- **27.01.2014**
  Initial information on full-year 2013 results

- **07.03.2014**
  Presentation of 2013 results for analysts and the media in Zurich

- **12.04.2014**
  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 Report

# Financial commentary

## Increased order intake, sales and net income, balance sheet strength sustained

- Order intake up 5 % to CHF 364 million – sales increased by 8 % to CHF 384 million
- EBIT up 14 % to CHF 22 million – increase in operating margin to 5.7 % – equity ratio of 7.5 %
- 25 % increase in net profit to CHF 14 million – earnings per share of CHF 4.00
- Solid balance sheet with equity ratio of 53 % after self-financed acquisition of Bumotec SA
- Dividend payment of CHF 1.80 per share (+50 %) not subject to Swiss withholding tax out of reserves from capital contributions

| CHF m | **2012** | 2011 | Change |
|---|---|---|---|
| Order intake | 364.2 | 348.3 | +4.6 % |
| Order backlog | 238.6 | 237.5 | +0.5 % |
| Sales revenue | 384.0 | 354.4 | +8.3 % |
| Operating profit EBIT | 21.7 | 19.1 | +14 % |
| EBIT as percentage of sales revenue | 5.7% | 5.4% | +5.6 % |
| Net income | 13.6 | 10.9 | +26 % |
| Net income as percentage of sales revenue | 5.2 % | 3.1 % | +67 % |
| Earnings per share (in CHF) | 4.00 | 3.52 | +14 % |
| Return on equity (ROE) | 7.3% | 7.1% | +2.8 % |
| Cashflow from operating activities | 23.8 | 19.2 | +24 % |
| Capital expenditure | 32.1 | 69.9 | -54% |
| Free Cashflow | 10.2 | 9.3 | +10% |
| Total assets | 347.6 | 326.6 | +6.4 % |
| Net cash | 24.9 | 37.0 | -33% |
| Shareholders equity | 185.6 | 176.6 | +5.1 % |
| Equity ratio | 53.4 % | 54.1% | -1.3 % |
| Employees at year end | 1'644 | 1'420 | +16 % |
| Profit distribution per share in CHF | 1.80 [1) 2)] | 1.20 [1)] | +50 % |

[1)] In form of a withholding-tax-free distribution from capital contribution reserves.

[2)] Proposal by the Board of Directors to the Annual General Meeting.

**In the 2012 financial year, the Starrag Group achieved a 26 % increase in net profit of CHF 13.6 million. The EBIT margin was improved from 5.4 % to 5.7 % of sales revenue. Order intake was up 4.6 % year-on-year to CHF 364 million. The Board of Directors proposes to the Annual General Meeting of 12 April 2013 a dividend payment of CHF 1.80 per share in the form of a distribution not subject to Swiss withholding tax out of reserves from capital contributions. This represents a dividend ratio of 44 % of net profit.**

## Stable order situation

Order intake rose in 2012 by 4.6 % to CHF 364 million. After adjustment for acquisition and currency effects it was down 3.6 % on 2011, though the previous year had seen an exceptionally high increase of 18 % and the German industry association VDW also reported a drop in order intakes of 13 %.

Order intakes were below sales revenue, the former coming in below average due to the postponement of agreed orders, particularly in the fourth quarter. This resulted in a "Book to Bill Ratio" (the proportion of order intake/sales) of 0.95.

The order backlog on 31 December 2012 stood at CHF 239 million, which was slightly above the previous year's figure. Shorter delivery times led to an operational reduction of the backlog of around CHF 15 million which was compensated for by the acquisition of Bumotec.

## Clear growth in sales and net profit

In 2012, the Starrag Group achieved sales revenue of CHF 384 million, representing growth of 8.3 %. Adjusted to take currencies into account as well as the influence of the acquisitions of Bumotec and Dörries Scharmann, sales were up slightly year-on-year, by CHF 0.1 million.

Gross profit (sales revenue minus material costs plus/minus changes in inventory) represented CHF 221.3 million or 57.6 % of sales revenue. The gross margin was thus slightly (0.2 %) below that of the previous year (57.8 %, CHF 204.8 million) but was positively influenced by higher margins due to a change in the product mix and also cost savings/synergies created by shared purchasing with Dörries Scharmann, which was acquired in 2011. Negative effects came from ad hoc increases in material costs caused by good capacity utilisation in the supply chain due to the booming automotive industry, and also down to a lower average percentage of completion of processed orders.

## EBIT: Increased earnings power

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased in the period under report by CHF 4.0 million (12.8 %) to CHF 35.1 million. Operating profit EBIT rose by 13.6 % from CHF 19.1 million to CHF 21.7 million, producing an improvement in margin from 5.4 % to 5.7 % of sales revenues.

Personnel costs were up 11.5 % year-on-year at CHF 135 million, primarily due to acquisitions. The proportion of personnel costs rose from 34.1 % to 35.1 % of sales revenue, which can be attributed to the fact that Bumotec SA operates with a higher vertical range of manufacture and also to the expansion of the global sales and customer service organisation. Material costs were reduced from 15.5 to 14.1 per cent of sales thanks to strict cost management, the implementation of synergies with Dörries Scharmann and the disappearance of one-off costs for the acquisition and integration of the Dörries Scharmann Group. Depreciation and amortisation represented CHF 13.3 million – up CHF 1.4 million year-on-year – purely due to acquisitions.

## High levels of investments in development

Investments in the development of new products continued at their previous high levels. In the year under report, CHF 29 million (7.5 %) of sales revenue was implemented in the development of innovative products and processes and for customer-specific further development. Taking into account public sector assistance and the activation and depreciation of development projects, the figure was CHF 28.8 million net (7.5 % of sales revenue) of the income statement (26.1 million CHF net, 7.3 % of sales revenue in 2011).

## Net profit and earnings per share increased

Thanks to its higher operating profit, the Starrag Group was able to significantly increase net profit by 25.6 % to CHF 13.6 million. Earnings per share (EPS) rose by 13.6 % to CHF 4.00. The lower-than-average increase can be attributed to the increase of share capital in the second quarter of 2011 for the refinancing of the acquisition of Dörries Scharmann.

The financial result weakened from CHF -1.8 million to CHF -2.4 million, which can be explained by currency losses of CHF 1.0 million on unsecured loans between companies within the group, primarily for the financing of the subsidiary in India, coming after a currency gain of CHF 0.8 million was recorded in the previous year. This negative effect was partially compensated for however by interest and other financial expenses going down by CHF 1.2 million, which can be attributed to savings from the integration of Dörries Scharmann credit lines for advance payment and performance bonds into the financing structure of the Starrag Group.

Tax expenditure came in lower than the previous year at CHF 5.7 million, and the average tax rate went down correspondingly by 7.8 percentage points from 37.3 % to 29.5 %, with 2.8 percentage points being attributable to the release of tax provisions that were no longer required following the conclusion of tax audits and the definitive return of the corresponding assessment. The remaining five percentage points can be explained by the significantly increased earnings share in countries with higher tax burdens in the previous year which then went back down in 2012.

## Balance sheet remains strong

On 31 December 2012, the balance sheet total was CHF 348 million, representing an increase of CHF 21 million (6.4 %) year-on-year which stems primarily from the acquisition of Bumotec.

Current assets were up marginally to CHF 211 million (from CHF 209 million the previous year) while liquid assets were down net by CHF 12.1 million. This reduction is primarily due to the self-financed acquisition of Bumotec, while the positive free cashflow of CHF 10.2 million contributed to the increase in liquid assets. Receivables, inventories and other financial assets increased by a total of CHF 14.2 million, in the main due to the acquisition der Bumotec. Receivables continue to have a healthy maturity structure, and no significant bad debt expenses were recorded in the year under report.

Fixed assets increased to CHF 136 million (compared with CHF 118 million the previous year), which in the majority is down to the Bumotec acquisition. Investments in assets were CHF 15.0 million and compensated for by depreciation and amortisation of CHF 13.3 million (compared with CHF 11.9 million in 2011).

Outside capital rose from CHF 150 million to CHF 162 million, which can also primarily be attributed to the acquisition of Bumotec, while outside capital in the traditional business was reduced. The major changes comes from deferred income which rose as a consequence of increased deposit payments by customers and deferred income tax liabilities which increased significantly due to the reevaluation of Bumotec's active debts. Financial liabilities remained at CHF 6.7 million, while net liquidity, like liquid assets, also declined to CHF 24.9 million.

Equity capital rose by CHF 9.0 million to CHF 185.6 million, driven by the net profit of CHF 13.6 million and the dividend payment of CHF -4.1 million. The capital structure of the Starrag Group continues to remain solid. Despite the fully self-financed acquisition of Bumotec, the equity ratio dropped only slightly to 53.4 % from 54.1 % the previous year.

## Free cashflow increased

The cashflow from business activities rose by CHF 5.8 million to CHF 24.9 million, which can be explained by the improved results, whilst other effects were broadly balanced. Whilst taxes on profits were CHF 6.7 million higher, this was counteracted by the cash inflow from the reduction of net current assets in previous years.

The outflow of funds in investments went down to CHF 32.1 million – lower than the previous year which saw the purchase of Dörries Scharmann and despite the acquisition of Bumotec in 2012. Free cashflow came in at CHF 10.2 million in the year under report compared with CHF 9.3 million in 2011. Investments in assets include CHF 15 million for the purchase of equipment and intangible assets. CHF 5 million went into the construction of the production plant in India. Further investments were made in IT systems (including for the group-wide CRM system and the combining of the Dörries Scharmann and Starrag Group SAP systems), the expansion and modernisation of the machinery and means of production in the plants and the development of new technologies and products. In total, CHF 8.5 million went on investments in expansion and CHF 6.5 million on investments in replacements.

The outflow of funds from financing activities was CHF 4.5 million, primarily made up of the dividend from capital contributions not subject to Swiss withholding tax of CHF 4.0 million paid out in April 2012. This corresponded to a dividend ratio of 37 % of net profit in 2011.

# Consolidated income statement

| CHF 1'000 | | 2012 | 2011 |
|---|---|---|---|
| Sales revenue | 2,3 | 383'957 | 354'430 |
| Change in self-manufactured products | | 3'232 | 4'036 |
| Material expenses | | -165'901 | -153'716 |
| Personnel expenses | 4 | -134'632 | -120'722 |
| Operating expenses | 5 | -54'093 | -54'770 |
| Other operating income | 6 | 2'503 | 1'835 |
| Earnings before interest, taxes, depreciation and amortization EBITDA | | **35'066** | **31'093** |
| Depreciation and amortization | 1,7 | -13'325 | -11'949 |
| **Earnings before interest and taxes EBIT** | | **21'741** | 19'144 |
| Financial income | 8 | 239 | 1'190 |
| Financial expenses | 8 | -2'649 | -3'017 |
| **Earnings before tax** | | **19'331** | 17'317 |
| Income tax expenses | 24 | -5'699 | -6'462 |
| **Net income** | | **13'632** | 10'855 |
| | | | |
| Thereof: | | | |
| ‣ Shareholders of company | | 13'453 | 10'793 |
| ‣ Minority shareholders | | 179 | 62 |
| | | | |
| Earnings per share (in CHF) | 9 | 4.00 | 3.52 |
| Diluted earnings per share (in CHF) | 9 | 4.00 | 3.52 |

# Consolidated statement of comprehensive income

| CHF 1'000 | 2012 | 2011 |
|---|---|---|
| **Net income** | **13'632** | 10'855 |
| Change in fair value Cashflow Hedges | 1'064 | -2'907 |
| Income taxes on change in fair value Cashflow Hedges | -187 | 177 |
| Currency translation | -1'474 | -4'355 |
| Other comprehensive income | **-597** | **-7'085** |
| **Total comprehensive income** | **13'035** | 3'770 |
| | | |
| Thereof: | | |
| ‣ Shareholders of company | 12'840 | 3'725 |
| ‣ Minority shareholders | 195 | 45 |

The enclosed notes are part of the financial statements.

# Consolidated balance sheet

| CHF 1'000 | | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| Cash and cash equivalents | | 31'645 | 43'728 |
| Receivables | 10 | 100'841 | 93'498 |
| Other financial assets | 11 | 5'968 | 4'357 |
| Inventories | 12 | 72'652 | 67'420 |
| **Total current assets** | | **211'106** | 209'003 |
| Tangible fixed assets | 13 | 83'855 | 72'709 |
| Intangible assets | 14 | 52'630 | 44'906 |
| **Total fixed assets** | 15 | **136'485** | 117'615 |
| **Total assets** | | **347'591** | 326'618 |

| CHF 1'000 | | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| Financial liabilities | 16 | 1'710 | 527 |
| Operating liabilities | 17 | 32'974 | 32'654 |
| Accrued expenses and deferred income | 18 | 76'437 | 70'237 |
| Current income tax | | 8'457 | 8'210 |
| Provisions | 19 | 7'887 | 8'515 |
| Total current liabilities | | 127'465 | 120'143 |
| Financial liabilities | 16 | 5'042 | 6'217 |
| Deferred income tax | 24 | 24'418 | 19'621 |
| Provisions | 19 | 2'997 | 4'001 |
| Pension liabilities | 23 | 2'081 | – |
| Total non-current liabilities | | 34'538 | 29'839 |
| **Total liabilities** | | **162'003** | 149'982 |
| Share capital | 20 | 28'560 | 28'560 |
| Additional paid-in capital | | 85'820 | 89'851 |
| Cashflow hedges | | -12 | -889 |
| Retained earnings | | 92'964 | 79'485 |
| Currency translation | | -22'629 | -21'139 |
| Total shareholders' equity of company | | 184'703 | 175'868 |
| Minority shareholders | | 885 | 768 |
| **Total shareholders' equity** | | **185'588** | 176'636 |
| **Total liabilities and shareholders' equity** | | **347'591** | 326'618 |

The enclosed notes are part of the consolidated financial statements.

# Consolidated cashflow statement

| CHF 1'000 | | 2012 | 2011 |
|---|---|---|---|
| Net income | | 13'632 | 10'855 |
| Income tax expenses | 24 | 5'699 | 6'462 |
| Interest expenses | 8 | 243 | 756 |
| Interest income | 8 | -193 | -347 |
| Depreciation and amortization | 7 | 13'325 | 11'949 |
| Change in non-current provisions | | -986 | 164 |
| Other non-cash items | | 366 | -2'042 |
| Change in inventory | | -2'602 | -12'270 |
| Change in other non-cash net current assets | | 1'527 | 2'966 |
| Income tax paid | | -6'082 | 658 |
| **Cashflow from operating activities, net** | | **24'929** | 19'151 |
| | | | |
| Capital expenditure for: | | | |
| ‣ Acqusition of subsidiaries | 32 | -17'348 | -59'982 |
| ‣ Tangible fixed assets | | -11'741 | -8'338 |
| ‣ Intangible fixed assets | | -3'266 | -1'904 |
| Disposals of fixed assets | | 278 | 362 |
| **Cashflow from investing activities, net** | | **-32'077** | -69'862 |
| | | | |
| Change in current financial liabilities | | -135 | -127 |
| Repayment of non-current financial liabilities | | -281 | -274 |
| Interest paid | | -142 | -756 |
| Interest received | | 193 | 347 |
| Dividend payment | 9 | -4'109 | -2'524 |
| Purchase of treasury shares | | – | -166 |
| Sale of treasury shares | | – | 3'925 |
| Capital increase | | – | 63'059 |
| **Cashflow from financing activities, net** | | **-4'474** | 63'484 |
| | | | |
| Currency translation | | -461 | -1'255 |
| | | | |
| Net change in cash and cash equivalents | | -12'083 | 11'518 |
| Cash and cash equivalents at beginning of year | | 43'728 | 32'210 |
| **Cash and cash equivalents at year end** | | **31'645** | 43'728 |

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 | Cashflow hedges | Retained earnings | Currency translation | Shareholders' equity of the company | Minority shareholders | **Total shareholders' equity** |
|---|---|---|---|---|---|---|---|---|---|---|
| 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 | -7'085 |
| **Total comprehensive income** | | – | – | – | **-2'730** | **10'793** | **-4'338** | **3'725** | **45** | **3'770** |
| Share-based payment | | – | – | – | – | 25 | – | 25 | – | 25 |
| Change in scope of consolidation | | – | – | – | – | – | – | – | 61 | 61 |
| Dividend payment | 9 | – | – | -2'471 | – | – | – | -2'471 | -53 | -2'524 |
| Purchase of treasury shares | | – | -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 |
| Net income | | – | – | – | – | 13'453 | – | 13'453 | 179 | 13'632 |
| Other comprehensive income | | – | – | – | 877 | – | -1'490 | -613 | 16 | -597 |
| **Total comprehensive income** | | – | – | – | **877** | **13'453** | **-1'490** | **12'840** | **195** | **13'035** |
| Share-based payment | | – | – | – | – | 26 | – | 26 | – | 26 |
| Dividend payment | 9 | – | – | -4'031 | – | – | – | -4'031 | -78 | -4'109 |
| **31.12.2012** | | 28'560 | – | 85'820 | -12 | 92'964 | -22'629 | 184'703 | 885 | **185'588** |

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 small, medium-sized and larger workpieces of metallic and composite materials. Principle customers are internationally active companies in the Aerospace, Transport, Industrial and Energy 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, Bumotec, 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 Starrag Group Holding AG (formerly StarragHeckert Holding AG, business: Holding company) includes the following directly and indirectly controlled group companies:

- Starrag Group Holding GmbH (formerly StarragHeckert Holding GmbH), Chemnitz, Germany
  (Business: Holding company, nominal capital TEUR 4’500, interest 100 %)
- Starrag Group Holdings Ltd. (formerly Machine Tool Holdings Limited), Birmingham, 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 %)
- Starrag AG (formerly StarragHeckert AG), Rorschacherberg, Switzerland
  (Business: Production, nominal capital TCHF 10’000, interest 100 %)
- Bumotec SA, Sâles, Switzerland
  (Business: Production, nominal capital TCHF 487, interest 100 %, first-time consolidation due to acquisition in May 2012)
- Toolroom Technology Limited, Haddenham, UK
  (Business: Engineering, nominal capital TGBP 20, interest 76 % indirectly)
- Heckert GmbH (formerly StarragHeckert GmbH), Chemnitz, Germany
  (Business: Production, nominal capital TEUR 5’113, interest 100 %)
- Starrag India Private Limited (formerly StarragHeckert Machine Tools Private Limited), Bangalore, India
  (Business: Production, nominal capital TINR 446’500, 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)
- Starrag USA Inc (formerly StarragHeckert Inc), Hebron, USA
(Business: Sales, nominal capital TUSD 30, interest 100 %)
- Starrag UK Ltd. (formerly StarragHeckert UK Limited), Birmingham, UK
(Business: Sales, nominal capital TGBP 1’525, interest 100 %)
- Starrag (Shanghai) Co. Ltd. (formerly StarragHeckert (Shanghai) Co. Ltd.), Shanghai, China
(Business: Sales, nominal capital TUSD 200, interest 100 %)
- Starrag Makina Ticaret ve Servis Ltd. (formerly StarragHeckert Makina Ticaret ve Servis Ltd.,) Ankara, Turkey
(Business: Sales, nominal capital TTRY 5, interest 100 %)
- Starrag RU Ltd., (formerly StarragHeckert), Moscow, Russia
(Business: Sales, nominal capital TRUB 2’000, interest 100 %
- Starrag France SARL (formerly StarragHeckert France SARL), Laperche, France
(Business: Sales, nominal capital TEUR 8, interest 100 %)
- Starrag Italia Srl, Rivoli, Italy
(Business: Sales, nominal capital TEUR 10, interest 100 % first-time consolidation due to foundation in November 2011)
- Starrag Mexico, S. de R.L. de C.V., San Pedro Garza Garcia, Mexico
(Business: Sales, nominal capital TMXN 3, interest 100 %), first-time consolidation due to foundation in June 2012)

The scope of consolidation was significantly enlarged on 29 May 2012 by the acquisition of Bumotec SA, Switzerland and 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 95.

## 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 Starrag and TTL brands, Business Unit 2 for the Heckert and WMW brands, Business Unit 3 for the Berthiez, Dörries, Droop+Rein and Scharmann brands and Business Unit 4 for the Bumotec and SIP 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

As one of the world's leading manufacturers of precision milling machines, the Starrag Group is faced with various risks, with the most important being:

- The weakening of the economic environment in customer markets and also of business cycles could lead to a reduction in demand;
- Misjudgements of developments in customer markets or in the competitive environment could lead to missed business opportunities or losses;
- Failure in research and development and other innovation-based activities could prevent business potential from being realised,
- A lack of availability of financial resources could have an impact on the performance and operations of the Starrag Group and
- Natural occurrences (such as fires) can have an influence on operating activities.

The Board of Directors and management give high priority to the careful handling of strategic, financial and operational risks. The Starrag Group has a holistic risk management process which is analysed every year by management and the Board of Directors, with the following aims being pursued:

- Systematically identifying special risks,
- Establishing processes to monitor, reduce and ideally to prevent risks and
- Finding the right balance between risks and opportunities.

The risk management system is based on a classic risk matrix involving the probability of occurrence and possible extent of damage (identification and classification) and includes internal guidance as well as a risk log, in which operational data as well as action planning for risk management are documented.

The Executive Board appointed a risk management representative for the moderation and implementation of the risk management, which reports directly to the CFO, 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.

Pension plan obligations:
In the actuarial calculation of the cash value of pension plan obligations, statistical assumptions are made regarding the discount rate, future wage and pension development, expected returns on assets and the probability of withdrawals of participants, death and invalidity. Developments which deviate from the assumptions can lead to significant medium-term changes in provisions of pension plan obligations (cf. explanation 23).

# 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 10 to 30 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 ("Cashflow 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 Cashflow 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 in the reporting year 2012**

- **IFRS 7 (revised)** Transfer of Financial Assets (for business years starting from 1 July 2011)
- **IAS 12 (revised)** Deferred Tax (for business years starting from 1 January 2012)
- **IASB** Annual Improvement

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 19 (revised)** Employee Benefits (for business year starting from 1 January 2013)
- **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)
- **IAS 32 (revised)** Offsetting financial assets and financial liabilities (for business years starting from 1 January 2014)
- **IFRS 7 (revised)** Transfer of Financial Assets (for business years starting from 1 January 2014)
- **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

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 at 31 December 2012 by CHF 3.9 million.

# Segment information

## 1. Reporting by business segment

| CHF 1'000 | Machine Tools 2012 | Machine Tools 2011 |
|---|---|---|
| **Sales revenues** | **383'957** | 354'430 |
| Earnings before interest, taxes, depreciation and amortization EBITDA | 35'066 | 31'093 |
| Depreciation and amortization | -13'325 | -11'949 |
| **Earnings before interest and taxes EBIT** | **21'741** | 19'144 |
| Operating assets on 31 December | 309'978 | 278'533 |
| Operating liabilities on 31 December | -120'295 | -115'407 |
| **Net operating assets on 31 December** | **189'683** | 163'126 |
| Goodwill | 19'476 | 16'978 |
| Capital expenditure in fixed assets | 32'077 | 69'862 |
| Non-cash income | 366 | -2'042 |

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 | **2012** | 2011 |
|---|---|---|
| New machines | 293'288 | 270'540 |
| Customer services | 90'669 | 83'890 |
| **Total** | **383'957** | 354'430 |

## 3. Sales revenue by geographical segment

| CHF 1'000 | **2012** | 2011 |
|---|---|---|
| Switzerland | 80'543 | 70'322 |
| Germany | 273'984 | 256'810 |
| Other countries | 29'430 | 27'298 |
| **Total** | **383'957** | 354'430 |

Additional segment information is disclosed in note 15.

# Notes to the income statement

## 4. Personnel expenses

| CHF 1'000 | | 2012 | 2011 |
|---|---|---|---|
| Wages and salaries | | 108'864 | 99'477 |
| Pension benefits | 23 | 2'437 | 1'819 |
| Social benefits | | 18'931 | 15'902 |
| Other personnel expenses | | 4'400 | 3'524 |
| **Total personnel expenses** | | **134'632** | 120'722 |

## 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 | 2012 | 2011 |
|---|---|---|
| Sublease income | 510 | 607 |
| Government grants | 198 | 156 |
| Profit from sales of fixed assets | 42 | 30 |
| Other operating income | 1'753 | 1'042 |
| **Total other operating income** | **2'503** | 1'835 |

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 | 2012 | 2011 |
|---|---|---|
| Buildings | 2'376 | 2'176 |
| Machinery and equipment | 4'043 | 4'789 |
| Other tangible assets | 2'018 | 1'101 |
| **Total depreciation of tangible fixed assets** | **8'437** | 8'066 |
| Brands and customer relations | 1'563 | 565 |
| Technology | 2'366 | 2'390 |
| IT software | 959 | 928 |
| **Total amortization of intangible assets** | **4'888** | 3'883 |
| **Total depreciation and amortization** | **13'325** | 11'949 |

## 8. Financial result

| CHF 1'000 | 2012 | 2011 |
|---|---|---|
| Interest income | 193 | 347 |
| Interest expenses | -243 | -756 |
| Currency losses/gains | -998 | 843 |
| Other financial expenses | -1'362 | -2'261 |
| **Total financial result, net** | **-2'410** | -1'827 |
| Thereof: | | |
| ‣ Financial income | 239 | 1'190 |
| ‣ Financial expenses | -2'649 | -3'017 |
| Result from available-for-sale financial instruments | 44 | 298 |

## 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 2012, the number of shares was 3'360'000 (prior year 3'064'466). Based on the net result attributable to the shareholders of the company of CHF 13.5 million (prior year CHF 10.8 million) net earnings per share amount to CHF 4.00 (prior year CHF 3.52). As the company has not issued any stock options or convertible bonds, earnings per share were not diluted.

At the general meeting on 12 April 2013, the Board of Directors will propose the distribution of a dividend of CHF 1.80 per share from reserves from capital contributions. A dividend of CHF 1.20 from reserves from capital contributions was paid for the 2011 financial year.

# Notes to the balance sheet

## 10. Receivables

| CHF 1'000 | | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| Trade receivables | | 36'175 | 30'429 |
| Receivables from construction contracts | 21 | 57'157 | 57'576 |
| Other receivables | | 7'509 | 5'493 |
| **Total receivables** | | **100'841** | 93'498 |
| **Thereof:** | | | |
| ‣ not due | | 82'742 | 83'724 |
| ‣ past due < 90 days, not impaired | | 11'383 | 3'613 |
| ‣ past due ≥ 90 days, not impaired | | 3'723 | 2'936 |
| ‣ impaired | | 2'993 | 3'225 |
| **Therof:** | | | |
| ‣ CHF | | 23'147 | 12'465 |
| ‣ EUR | | 67'945 | 75'141 |
| ‣ USD | | 4'593 | 1'962 |
| ‣ other | | 5'156 | 3'930 |

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 | | 2012 | 2011 |
|---|---|---|---|
| Allowance for doubtful receivables at beginning of year | | 3'697 | 2'147 |
| Change in consolidated companies | 32 | 204 | 1'321 |
| Increase | | 369 | 566 |
| Decrease | | -568 | -20 |
| Use | | -559 | -215 |
| Currency translation | | -105 | -102 |
| **Allowance for doubtful receivables at end of year** | | **3'038** | **3'697** |

## 11. Other financial assets

| CHF 1'000 | **31.12.2012** | 31.12.2011 |
|---|---|---|
| Prepayments to suppliers | 3'495 | 2'635 |
| Deferred expenses | 1'880 | 1'664 |
| Cashflow hedges | 593 | 58 |
| **Total other financial assets** | **5'968** | 4'357 |

The Cashflows from the Cashflow hedges are expected within an average of 3 to 12 months.

## 12. Inventories

| CHF 1'000 | **31.12.2012** | 31.12.2011 |
|---|---|---|
| Raw materials and components | 33'492 | 39'669 |
| Work in progress | 32'128 | 21'484 |
| Finished products | 7'032 | 6'267 |
| **Total inventories** | **72'652** | 67'420 |

In 2012 a charge of CHF 1.2 million resulting from an inventory valuation adjustment was recorded (prior year CHF 1.4 million).

## 13. Tangible fixed assets

| | | **2012** | | | | 2011 | | | |
|---|---|---|---|---|---|---|---|---|---|
| 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 | | 69'618 | 43'785 | 6'523 | 119'926 | 39'706 | 34'204 | 3'717 | 77'627 |
| Change in consolidated companies | 32 | 5'932 | 2'055 | 472 | 8'459 | 27'553 | 8'224 | 2'701 | 38'478 |
| Additions | | 5'715 | 4'107 | 2'370 | 12'192 | 3'927 | 3'791 | 943 | 8'661 |
| Government | | – | – | – | – | – | -323 | – | -323 |
| Disposals | | -104 | -1'782 | -604 | -2'490 | -9 | -1'527 | -653 | -2'189 |
| Currency translation | | -788 | 228 | -538 | -1'098 | -1'559 | -584 | -185 | -2'328 |
| **Gross value at year end** | | **80'373** | **48'393** | **8'223** | **136'989** | 69'618 | 43'785 | 6'523 | 119'926 |
| Accumulated depreciation at beginning of year | | 17'497 | 26'274 | 3'446 | 47'217 | 15'521 | 23'212 | 2'757 | 41'490 |
| Depreciation | 7 | 2'376 | 4'043 | 2'018 | 8'437 | 2'176 | 4'789 | 1'101 | 8'066 |
| Disposals | | -9 | -1'771 | -551 | -2'331 | -9 | -1'386 | -545 | -1'940 |
| Currency translation | | -67 | -110 | -12 | -189 | -191 | -341 | 133 | -399 |
| **Accumulated depreciation at year end** | | **19'797** | **28'436** | **4'901** | **53'134** | 17'497 | 26'274 | 3'446 | 47'217 |
| Net book value at beginning of year | | 52'121 | 17'511 | 3'077 | 72'709 | 24'185 | 10'992 | 960 | 36'137 |
| **Net book value at year end** | | **60'576** | **19'957** | **3'322** | **83'855** | 52'121 | 17'511 | 3'077 | 72'709 |
| Fire insurance value at year end | | 159'551 | 143'541 | | 303'092 | 145'939 | 125'304 | | 271'243 |

## 14. Intangible assets

| CHF 1'000 | | 2012 Goodwill | 2012 Brands and customer relations | 2012 Technologie | 2012 IT Software | 2012 Total | 2011 Goodwill | 2011 Brands and customer relations | 2011 Technologie | 2011 IT Software | 2011 Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Gross value at beginning of year | | 16'978 | 11'949 | 24'372 | 9'407 | 62'706 | 1'822 | – | 9'595 | 8'723 | 20'140 |
| Change in consolidated companies | 32 | 2'629 | 5'773 | 1'264 | 125 | 9'791 | 15'730 | 12'382 | 14'153 | 562 | 42'827 |
| Additions | | – | – | 1'805 | 1'461 | 3'266 | – | – | 1'241 | 663 | 1'904 |
| Disposals | | – | – | – | -514 | -514 | – | – | – | -427 | -427 |
| Currency translation | | -131 | -108 | -172 | -45 | -456 | -574 | -433 | -617 | -114 | -1'738 |
| **Gross value at year end** | | **19'476** | **17'614** | **27'269** | **10'434** | **74'793** | 16'978 | 11'949 | 24'372 | 9'407 | 62'706 |
| Accumulated amortization at beginning of year | | – | 557 | 9'304 | 7'939 | 17'800 | – | – | 7'035 | 7'510 | 14'545 |
| Amortization | 7 | – | 1'563 | 2'366 | 959 | 4'888 | – | 565 | 2'390 | 928 | 3'883 |
| Disposals | | – | – | – | -436 | -436 | – | – | – | -415 | -415 |
| Currency translation | | – | -3 | -52 | -34 | -89 | – | -8 | -121 | -84 | -213 |
| **Accumulated amortization at year end** | | **–** | **2'117** | **11'618** | **8'428** | **22'163** | – | 557 | 9'304 | 7'939 | 17'800 |
| Net book value at beginning of year | | 16'978 | 11'392 | 15'068 | 1'468 | 44'906 | 1'822 | – | 2'560 | 1'213 | 5'595 |
| **Net book value at year end** | | **19'476** | **15'497** | **15'651** | **2'006** | **52'630** | 16'978 | 11'392 | 15'068 | 1'468 | 44'906 |

The goodwill impairment test was conducted using the following parameters:

| CHF 1'000 | 31.12.2012 Carrying amount of goodwill | 31.12.2012 Residual growth rate | 31.12.2012 Discount rate, pre-tax | 31.12.2011 Carrying amount of goodwill | 31.12.2011 Residual growth rate | 31.12.2011 Discount rate, pre-tax |
|---|---|---|---|---|---|---|
| Business Unit 1 | 768 | 1 % | 12.7 % | 755 | 1 % | 13.4 % |
| Business Unit 2 | 1'034 | 1 % | 12.2 % | 1'043 | 1 % | 12.9 % |
| Business Unit 3 | 15'045 | 1 % | 12.2 % | 15'180 | 1 % | 12.9 % |
| Business Unit 4 | 2'629 | 1 % | 9.4 % | – | – | – |
| **Total** | **19'476** | | | 16'978 | | |

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 | 2012 | 2011 |
|---|---|---|
| Switzerland | 39'651 | 23'109 |
| Germany | 85'567 | 88'514 |
| Other countries | 11'267 | 5'992 |
| **Total** | **136'485** | 117'615 |

## 16. Financial liabilities

| CHF 1'000 | **31.12.2012** | 31.12.2011 |
|---|---|---|
| Current financial liabilities | 1'710 | 527 |
| Non-current financial liabilities | 5'042 | 6'217 |
| **Total financial liabilities** | **6'752** | 6'744 |
| Thereof in: | | |
| ‣ EUR | 6'334 | 6'744 |
| ‣ CHF | 418 | – |
| Market value | 6'752 | 6'744 |
| **Contractual Cashflows** | **9'155** | 9'172 |
| Thereof: | | |
| ‣ due within 1 year | 2'020 | 1'131 |
| ‣ due within 2 to 5 years | 2'716 | 3'059 |
| ‣ due thereafter | 4'419 | 4'982 |
| Average interest rate | 4.7 % | 2.6 % |
| Unused credit lines | 75'675 | 68'664 |

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. In 2012 and 2011 the financial covenants have been satisfied.

## 17. Operating liabilities

| CHF 1'000 | **31.12.2012** | 31.12.2011 |
|---|---|---|
| Trade liabilities | 18'703 | 17'081 |
| Other operating liabilities | 13'895 | 9'992 |
| Advance payments received | 376 | 5'581 |
| **Other operating liabilities** | **32'974** | 32'654 |
| Thereof: | | |
| ‣ due within 6 months | 28'842 | 27'974 |
| ‣ due thereafter | 4'132 | 4'680 |

## 18. Accrued expenses and deferred income

| CHF 1'000 | | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| Construction contracts | 21 | 37'239 | 32'644 |
| Project costs | | 18'303 | 18'651 |
| Personnel expenses | | 12'058 | 11'145 |
| Commissions | | 256 | 506 |
| Other | | 8'581 | 7'291 |
| **Total accrued expenses and deferred income** | | **76'437** | 70'237 |

## 19. Provisions

| | | **2012** | | |
|---|---|---|---|---|
| CHF 1'000 | | Warranty | Other provisions | **Total** |
| Value at beginning of year | | 11'634 | 882 | 12'516 |
| Change in consolidated companies | 33 | 444 | – | 444 |
| Increase | | 5'814 | 242 | 6'056 |
| Decrease | | -305 | -1 | -306 |
| Use | | -7'333 | -424 | -7'757 |
| Currency translation | | -68 | -1 | -69 |
| Value year end | | **10'186** | **698** | **10'884** |
| Thereof: | | | | |
| ‣ Current | | 7'189 | 698 | 7'887 |
| ‣ Non-current | | 2'997 | – | 2'997 |

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 Cashflow in warranties will occur within 6 to 24 months and in other provisions within 6 to 12 months.

## 20. Share capital

| CHF 1'000 | **31.12.2012** | 31.12.2011 |
|---|---|---|
| Issued and fully paid-in capital: | | |
| ‣ 3'360'000 registered shares at nominal value of CHF 8.50 each | 28'560 | 28'560 |
| Authorized capital not issued: | | |
| ‣ 1'260'000 registered shares at nominal value of CHF 8.50 each | 10'710 | 10'710 |

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

The following registered shareholders held more than 3 % of voting rights.

| | **31.12.2012** | 31.12.2011 |
|---|---|---|
| ‣ Walter Fust | 54.9 % | 54.9 % |
| ‣ Eduard Stürm AG | 9.4 % | 9.4 % |
| ‣ Max Rössler / Parmino Holding AG | 5.5 % | 5.3 % |

| | **Number of shares 31.12.2012** | | Number of shares 31.12.2011 | |
|---|---|---|---|---|
| Participations of Board of Directors and Management Board: | Shares | Options | Shares | Options |
| Walter Fust | 1'845'602 | – | 1'843'830 | – |
| Dr. Hanspeter Geiser | 2'050 | – | 2'050 | – |
| Valentin Vogt | 2'660 | – | 2'660 | – |
| Prof. Dr. Christian Belz | 1'330 | – | 1'330 | – |
| Adrian Stürm | 26'680 | – | 26'680 | – |
| Total Board of Directors | 1'878'322 | – | 1'876'550 | – |
| Dr. Frank Brinken | 2'800 | 101'010 | 2'800 | 101'010 |
| Gerold Brütsch | 300 | – | 300 | – |
| Günther Eller | 200 | – | 200 | – |
| Stefan Knellwolf (till 31.12.2011) | n.a. | n.a. | 410 | – |
| Total Management Board | 3'300 | 101'010 | 3'710 | 101'010 |

# Other notes

## 21. Construction contracts

| CHF 1'000 | 2012 | 2011 |
|---|---|---|
| Revenue from construction contracts | 293'901 | 284'264 |

| CHF 1'000 | | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| Accrued contract costs and recognized profit | | 212'565 | 173'043 |
| Advance payments received | | -192'647 | -148'111 |
| **Net value from construction contracts** | | **19'918** | 24'932 |
| Thereof: | | | |
| ‣ Receivables | 10 | 57'157 | 57'576 |
| ‣ Accrued expenses and deferred income | 18 | -37'239 | -32'644 |

## 22. Research and development

Expenditure for research and development amounts to CHF 29.0 million or 7.5 % of sales revenue (prior year CHF 26.9 million or 7.5 %). After consideration of government grants as well as capitalization and depreciation of development projects, the income statement was charged with CHF 28.8 million net or 7.5 % of sales revenue (prior year net CHF 26.1 million or 7.3 % of sales revenue).

## 23. Pension benefits

| CHF 1'000 | | 2012 | 2011 |
|---|---|---|---|
| Current service cost | | 3'987 | 3'553 |
| Interest cost | | 1'481 | 1'484 |
| Anticipated return on plan assets | | -1'783 | -1'773 |
| Employers' contributions | | -1'900 | -1'637 |
| Plan curtailment | | 766 | – |
| Actuarial profits (-) / losses (+) | | -434 | 10 |
| Expenses for defined benefit plans | | 2'117 | 1'637 |
| Expenses for defined contribution plans | | 320 | 182 |
| **Pension benefit expenses** | 4 | **2'437** | 1'819 |

| CHF 1'000 | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Plan assets at market value | 55'619 | 54'217 |
| Defined benefit obligation | -61'647 | -59'414 |
| Underfunding | -6'028 | -5'197 |
| Actuarial profits (-) / losses (+) | 3'824 | 5'358 |
| **Amount booked in the balance sheet** | **-2'204** | 161 |
| Thereof: | | |
| ‣ Deferred expenses | – | 161 |
| ‣ Other operating liabilities | -123 | – |
| ‣ Pension liabilities | -2'081 | – |

| CHF 1'000 | | 2012 | 2011 |
|---|---|---|---|
| Present value of defined benefit obligation, beginning | | 59'414 | 59'382 |
| Änderung Konsolidierungskreis | 32 | 11'025 | – |
| Current service cost | | 3'987 | 3'553 |
| Interest cost | | 1'481 | 1'484 |
| Abgeltungen | | -10'269 | – |
| Benefits paid | | -4'407 | -4'610 |
| Contributions | | 1'628 | 678 |
| Plan curtailment | | 766 | – |
| Actuarial profits (-) / losses (+) | | -1'978 | -1'073 |
| **Present value of defined benefit obligation, end of year** | | **61'647** | 59'414 |

| CHF 1'000 | | 2012 | 2011 |
|---|---|---|---|
| Plan assets, beginning of year | | 54'217 | 54'908 |
| Change in scope of consolidation | 32 | 8'944 | – |
| Contributions | | 4'925 | 3'942 |
| Settlements | | -10'269 | – |
| Benefits paid | | -4'407 | -4'610 |
| Anticipated return on plan assets | | 1'783 | 1'773 |
| Actuarial profits (+) / losses (-) | | 426 | -1'796 |
| **Plan assets, end of year** | | **55'619** | 54'217 |
| Thereof: | | | |
| ‣ Surrender value of insurance contracts | | 49'833 | 50'201 |
| ‣ Equity funds | | 3'187 | 2'444 |
| ‣ Bond funds | | 2'411 | 1'181 |
| ‣ Other investments | | 188 | 391 |

| CHF 1'000 | 2012 | 2011 |
|---|---|---|
| Actuarial assumptions: | | |
| Discount rate | 2.00 % | 2.25 % |
| Salary increase | 1.00 % | 1.00 % |
| Pension increase | 0.00 % | 0.00 % |
| Return on plan assets | 3.00 % | 3.00 % |
| Exit probability | BVG 2010 GT | BVG 2010 GT |
| Mortality | BVG 2010 GT | BVG 2010 GT |
| Early retirement | – | – |
| Average remaining service time | 9.7 | 9.9 |

| CHF 1'000 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Plan assets at market value | 55'619 | 54'217 | 54'908 | 57'501 | 52'182 |
| Defined benefit obligation | -61'647 | -59'414 | -59'382 | -53'609 | -51'544 |
| Overfunding | – | – | – | 3'892 | 638 |
| Underfunding | -6'028 | -5'197 | -4'474 | – | – |
| Experience adjustments plan assets | -1'263 | -1'131 | -492 | 240 | 1'395 |
| Experience adjustments defined benefit obligations | -1'976 | 1'507 | 4'519 | 909 | -2'325 |

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 3.00 %). The estimated contributions for 2013 are CHF 4.6 million.

## 24. Income tax expenses

| CHF 1'000 | 2012 | 2011 |
|---|---|---|
| Earnings before income tax | 19'331 | 17'317 |
| Tax expenses at anticipated tax rate of 17 % | -3'291 | -2'813 |
| Tax expenses at other tax rates | -1'996 | -2'757 |
| Debits /credits from prior reporting periods | 540 | -12 |
| Use of non-capitalized tax loss carry forward | – | 49 |
| Non-deductable expenses/ non-taxable income | -476 | -320 |
| Non-capitalized tax loss carry forward | -476 | -608 |
| **Recognized income tax expenses** | **-5'699** | -6'462 |
| Thereof: | | |
| ‣ Current income tax expenses | -5'785 | -8'515 |
| ‣ Deferred income tax expenses | 86 | 2'053 |

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

| CHF 1'000 | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Receivables | 11'475 | 9'639 |
| Fixed assets | 12'582 | 10'538 |
| Other | 723 | -377 |
| Tax loss carry forward | -1'554 | -885 |
| Value adjustment | 1'192 | 706 |
| **Total deferred income tax** | **24'418** | 19'621 |

On 31 December 2012 there are off balance sheet tax losses carried forward of CHF 7.8 million (prior year CHF 5.6 million), whereof CHF 1.3 million expire within one to three years (prior year CHF 4.5 million) and CHF 2.3 million do not expire (year prior CHF 1.1 million). Deferred tax assets on tax loss carry-forward of CHF 1.2 million (prior year CHF 0.7 million) have not been capitalized.

| | CHF 1'000 | 2012 | 2011 |
|---|---|---|---|
| Deferred taxes at beginning of year | | 19'621 | 4'485 |
| Change in consolidated companies | 32 | 4'850 | 18'433 |
| Income/Expense for deferred taxes | | -86 | -2'053 |
| Deferred taxes on fair-value changes of Cashflow Hedges recognized in equity | | 187 | -180 |
| Currency translation | | -154 | -1'064 |
| **Deferred taxes at end of year** | | **24'418** | 19'621 |

## 25. Loaded assets

| CHF 1'000 | **31.12.2012** | 31.12.2011 |
| --- | --- | --- |
| To ensure financial liabilities in the amount of... the following assets are mortgaged: land and buildings | 5'121 | 5'347 |
| ‣ Book value | 10'225 | 10'752 |
| ‣ Liability | 8'714 | 8'714 |

## 26. Derivative financial instruments

| CHF 1'000 | **31.12.2012** | 31.12.2011 |
| --- | --- | --- |
| Forward currency exchange contracts: Contract value | 38'177 | 54'221 |
| **Replacement value:** | | |
| ‣ positive | 593 | 193 |
| ‣ negative | -505 | -1'501 |

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

Assuming the euro was 5 % weaker vs. the Swiss franc at 31.12.2012, and all other parameters being equal, the profit after tax would have been CHF 0.3 million lower (prior year CHF 0.2 million). Conversely, in the opposite case, the profit after tax would have been CHF 0.3 million higher (prior year CHF 0.2 million).
Assuming the U.S. dollar was 5 % weaker vs. the Swiss franc at 31.12.2012, and all other parameters being equal, the profit after tax would have been CHF 0.1 million lower (prior year CHF 0.1 million). Conversely, in the opposite case, the profit after tax would have been CHF 0.1 million higher (prior year CHF 0.1 million).
Equity would have increased by CHF 3.2 million (prior year CHF 3.8 million) or, in the opposite case, would have been CHF 3.2 million (prior year CHF 3.8 million) lower.

## 28. Operating lease liabilities

| CHF 1'000 | **31.12.2012** | 31.12.2011 |
| --- | --- | --- |
| ‣ Due within 1 year | 2'752 | 3'484 |
| ‣ Due to 2 to 5 years | 2'129 | 1'994 |
| **Total operating lease liabilities** | 4'881 | 5'478 |

| CHF 1'000 | **2012** | 2011 |
| --- | --- | --- |
| Expenses for operating lease liabilities debiting to the income statement amount to | 3'197 | 3'471 |

The leasing liabilities are for premises, cars and IT-Hardware.

## 29. Other commitments

| CHF 1'000 | 31.12.2012 | 31.12.2011 |
|---|---|---|
| Purchase commitment towards suppliers | 53'839 | 58'401 |
| Contractual commitments for capital expenditure | 1'502 | – |
| Guarantees | – | 137 |

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 316 (prior year kCHF 375). The current remunerations for the Executive Board in the reporting year added up to kCHF 2'908 (prior year kCHF 3'703). There were no payments or other benefits and remunerations after termination of employment contracts.

| CHF 1'000 | 2012 | | | | | 2011 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fixed | Variable | Options | Pension and other | **Total** | Fixed | Variable | Optionen | Pension and other | **Total** |
| Walter Fust | 68 | 15 | – | 4 | 87 | 90 | 22 | – | 4 | 116 |
| Dr. Hanspeter Geiser | 36 | 15 | – | 4 | 55 | 36 | 22 | – | 4 | 62 |
| Valentin Vogt | 36 | 15 | – | 4 | 55 | 36 | 22 | – | 4 | 62 |
| Prof. Dr. Christian Belz | 36 | 15 | – | 4 | 55 | 36 | 22 | – | 4 | 62 |
| Adrian Stürm | 45 | 15 | – | 4 | 64 | 47 | 22 | – | 4 | 73 |
| **Total Board of Directors** | **221** | **75** | **–** | **20** | **316** | 245 | 110 | – | 20 | 375 |
| Variable as percentage of total compensation | | 25 % | | | | | 31 % | | | |
| **Total Executive Board (8 persons each)** | **2'023** | **587** | **26** | **272** | **2'908** | 2'008 | 1'379 | 26 | 290 | 3'703 |
| Variable as percentage of total compensation | | 22 % | | | | | 41 % | | | |
| Thereof: | | | | | | | | | | |
| ‣ Dr. Frank Brinken | 365 | 155 | 26 | 92 | 638 | 365 | 317 | 26 | 80 | 788 |
| Variable as percentage of total compensation | | 30 % | | | | | 46 % | | | |

The variable salaries were reduced in 2012 compared to the previous year, due to the higher interest paid on the equity capital and the special premiums paid in 2011 in connection with the acquisition of Dörries Scharmann.

Walter Fust, majority shareholder and Chairman of the Board of Starrag Group 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 the loan was paid back in full together with interest of CHF 0.3 million based on market-oriented rates.

## 31. Exchange rates

| CHF 1'000 | **2012** | 2011 |
|---|---|---|
| Average rates<br>(for income statement and Cashflow statement) | | |
| 1 EUR | 1.2177 | 1.2469 |
| 1 USD | 0.9477 | 0.8968 |
| 1 GBP | 1.5012 | 1.4370 |
| 1 CNY | 0.1502 | 0.1387 |

| CHF 1'000 | **31.12.2012** | 31.12.2011 |
|---|---|---|
| Year end rates<br>(for balance sheet) | | |
| 1 EUR | 1.2193 | 1.2303 |
| 1 USD | 0.9229 | 0.9509 |
| 1 GBP | 1.4913 | 1.4652 |
| 1 CNY | 0.1482 | 0.1508 |

## 32. Acquisition of Bumotec SA

On 29 May 2012, the Starrag Group Holding AG acquired 100 % of Bumotec SA, located in Sâles, Switzerland, for a cash purchase price of CHF 39 million.

Between the purchase date and 31 December 2012, Bumotec SA generated sales revenue of CHF 25.1 million and a net profit of CHF 3.1 million. Had the company been included in the consolidated financial statement from 1 January 2012, Starrag Group's sales revenue in the first six months of 2012 would have been CHF 18 million higher, with net income up CHF 2 million.

Bumotec specializes in high-precision multi-functional machine tools for complete machining of small workpieces including comprehensive services in the after-sales sector.

This purchase enables the Starrag Group to complement its existing product portfolio as well as extending its activities to the target markets of watches and jewellery and medical technology.

The provisionally recognised net assets and the resultant goodwill for these present financial statements are listed as follows:

| CHF 1'000 | **Fair value** |
|---|---|
| Cash and cash equivalents | 21'652 |
| Receivables | 12'360 |
| Other financial assets | 69 |
| Inventories | 3'169 |
| Tangible fixed assets | 8'459 |
| Intangible assets | 7'162 |
| Current financial liabilities | -570 |
| Other current liabilities | 8'999 |
| Pension liabilities | -2'081 |
| Deferred income tax | -4'850 |
| **Acquired net assets** | **36'371** |
| Goodwill | 2'629 |
| **Cash consideration** | **39'000** |
| Less cash and cash equivalents acquired | -21'652 |
| **Net cash drain** | **17'348** |

The goodwill that was accounted and which has not been attributed to any asset category represents strategic advantages which arise from the merger of the businesses. These include the complementary product portfolio, market potentials, expected synergies and acquired expertise. It is expected that the goodwill accounted for will not be tax-deductible. The market value of the receivables includes the gross amount of contractual receivables of CHF 12.6 million less valuation adjustments of CHF 0.2 million. The transaction costs of CHF 0.1 million are contained in the operating expenses.

On 19 January 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 5 March 2013. Furthermore, it is subject to the shareholders' approval at the annual general meeting which will take place on 12 April 2013.

# Report of the statutory auditor

Report of the statutory auditor
to the general meeting of
Starrag Group Holding AG
Rorschacherberg

**Report of the statutory auditor on the consolidated financial statements**

As statutory auditor, we have audited the consolidated financial statements of Starrag Group Holding AG, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of shareholders' equity and notes (pages 67 to 97), for the year ended 31 December 2012.

*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 2012 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

| | |
|---|---|
| Beat Inauen | Martin Graf |
| Audit expert<br>Auditor in charge | Audit expert |

St. Gallen, 5 March 2013

# Income statement

| CHF 1'000 | **2012** | 2011 |
|---|---|---|
| Revenue from group companies | 21'122 | 12'241 |
| Financial income | 4'316 | 3'838 |
| **Revenue** | **25'438** | 16'079 |
| Personnel expenses | -295 | -306 |
| Administrative expenses | -689 | -501 |
| Depreciation and amortization | -2'330 | -4'306 |
| Financial expenses | -1'239 | -3'424 |
| Tax expenses | -31 | -3 |
| **Net income** | **20'854** | 7'539 |

# Balance sheet

| CHF 1'000 | | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| Cash and cash equivalents | | 30 | 21 |
| Receivables – third parties | | 3 | 8 |
| Receivables – group companies | | 1'731 | 5'281 |
| Deferred expenses | | 8 | 46 |
| **Total current assets** | | **1'772** | 5'356 |
| Loans – group companies | | 70'929 | 65'542 |
| Investments | 2 | 111'688 | 72'345 |
| **Total fixed assets** | | **182'617** | 137'887 |
| **Total assets** | | **184'389** | 143'243 |

| CHF 1'000 | | 31.12.2012 | 31.12.2011 |
|---|---|---|---|
| Liabilities – group companies | | 26'146 | 1'800 |
| Other liabilities | | 28 | 40 |
| Accrued expenses and deferred income | | 287 | 297 |
| **Total current liabilities** | | **26'461** | 2'137 |
| **Total liabilities** | | **26'461** | 2'137 |
| Share capital | | 28'560 | 28'560 |
| Legal reserve from capital contributions since 1997 | 3 | 85'057 | 89'089 |
| Other legal reserve | | 1'222 | 1'222 |
| Retained earnings from prior years | | 22'235 | 14'696 |
| Net result | | 20'854 | 7'539 |
| (Total retained earnings) | | (43'089) | (22'235) |
| **Total shareholders' equity** | | **157'928** | 141'106 |
| **Total liabilities and shareholders' equity** | | **184'389** | 143'243 |

# Notes

## 1. Purchase, sale and number of treasury shares

This information is disclosed under note 20 of the consolidated financial statements on page 88 of the annual report.

## 2. Investments

- Starrag Group Holding GmbH (formerly StarragHeckert Holding GmbH), Chemnitz, Germany
(Business: Holding company, nominal capital TEUR 4’500, interest 100 %)
- Starrag Group Holdings Ltd. (formerly Machine Tool Holdings Limited), Birmingham, UK
(Business: Holding company, nominal capital TGBP 50, interest 100 %)
- Starrag AG (formerly 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 %)
- Bumotec SA, Sâles, Switzerland
(Business: Production, nominal capital TCHF 487, interest 100 %)
- Starrag USA Inc (formerly StarragHeckert Inc), Hebron, USA
(Business: Sales, nominal capital TUSD 30, interest 100 %)
- Starrag (Shanghai) Co. Ltd. (formerly StarragHeckert (Shanghai) Co. Ltd.), Shanghai, China
(Business: Sales, nominal capital TUSD 200, interest 100 %)
- Starrag Group Finance Limmited (formerly StarragHeckert Finance Limited), St. Peter Port, Guernsey
(Business: Finance, nominal capital TGBP 10, interest 100 %)
- Starrag Makina Ticaret ve Servis Ltd. (formerly StarragHeckert Makina Ticaret ve Servis Ltd.,) Ankara, Turkey
(Business: Sales, nominal capital TTRY 5, interest 100 %)
- Starrag RU Ltd., (formerly OOO StarragHeckert), Moscow, Russia
(Business: Sales, nominal capital TRUB 2’000, interest 100 %)
- Starrag France SARL (formerly StarragHeckert France SARL), Laperche, France
(Business: Sales, nominal capital TEUR 8, interest 100 %)
- Starrag India Private Limited (formerly StarragHeckert Machine Tools Private Limited), Bangalore, India
(Business: Production, nominal capital TINR 446’500, interest 100 %)
- Starrag Italia Srl, Rivoli, Italy
(Business: Sales, nominal capital TEUR 10, interest 100 %)
- Starrag Mexico, S. de R.L. de C.V., San Pedro Garza Garcia, Mexico
(Business: Sales, nominal capital TMXN 3, interest 100 %)

## 3. Legal reserves from capital contribution (since 1997)

Declared reserves from capital contributions (from 1997) at 31 December 2012 amounted to CHF 85’057’000, of which CHF 81'844'161 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.

**4. Sureties, guarantees and pledges**

| CHF 1'000 | **31.12.2012** | 31.12.2011 |
|---|---|---|
| Sureties | 293'481 | 268'925 |
| Guarantees | 3'681 | 1'925 |

The company is part of the VAT group of Starrag AG and therefore jointly liable for VAT debts of the whole group to the Swiss Federal Tax Administration.

**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 88 of the annual report.

**6. Remunerations**

This information is disclosed under note 30 of the consolidated financial statements on page 94 of the annual report.

**7. Risk assessment**

This information is disclosed in the notes of the consolidated financial statements on page 73 of the annual report.

# Proposed Appropriation of Retained Earnings

## Proposed appropriation of retained earnings

| CHF 1'000 | **2012** |
| --- | --- |
| Retained earnings from prior year | 22'235 |
| Net income | 20'854 |
| **To be carried forward** | **43'089** |

## Proposed appropriation of legal reserve from capital contributions

| CHF 1'000 | **2012** |
| --- | --- |
| Legal reserve from capital contributions since 1997 | 85'057 |
| Withholding tax free distribution of CHF 1.80 per share | 6'048 |
| **To be carried forward** | **79'009** |

# Report of the statutory auditor

Report of the statutory auditor
to the general meeting of
Starrag Group Holding AG
Rorschacherberg

**Report of the statutory auditor on the financial statements**

As statutory auditor, we have audited the financial statements of Starrag Group Holding AG, which comprise the income statement, balance sheet and notes (pages 100 to 104), for the year ended 31 December 2012.

*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 2012 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

| | |
|---|---|
| Beat Inauen | Martin Graf |
| Audit expert<br>Auditor in charge | Audit expert |

St. Gallen, 5 March 2013

# Five-year overview

| CHF m | **2012** | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|
| Order intake | 364.2 | 348.3 | 188.3 | 187.7 | 341.2 |
| Order backlog at year end | 238.6 | 237.5 | 103.9 | 124.3 | 187.8 |
| Sales revenue | 384.0 | 354.4 | 199.2 | 252.5 | 306.9 |
| Earnings before interest, taxes, depreciation and amortization (EBITDA) | 35.1 | 31.1 | 16.3 | 21.9 | 40.4 |
| Operating profit EBIT | 21.7 | 19.1 | 10.1 | 15.4 | 35.1 |
| Net income | 13.6 | 10.9 | 8.1 | 11.5 | 24.8 |
| EBIT as percentage of sales revenue | 5.7 % | 5.4% | 5.1% | 6.1% | 11.4% |
| EBIT as percentage of net operating activities | 12.2 % | 12.0% | 12.0% | 13.7% | 26.9% |
| Cashflow from operating activities | 23.8 | 19.2 | 32.2 | 34.1 | 9.2 |
| Capital expenditure | 32.1 | 69.9 | 4.2 | 5.0 | 12.1 |
| Free Cashflow | 10.2 | 9.3 | 28.0 | 29.2 | -2.7 |
| Employees at year end | 1'644 | 1'420 | 739 | 783 | 782 |
| Net operating assets | 189.7 | 163.1 | 84.8 | 112.7 | 130.6 |
| Total assets | 347.6 | 326.6 | 169.4 | 179.4 | 223.7 |
| Net cash | 24.9 | 37.0 | 31.1 | 10.4 | -13.7 |
| Shareholders' equity | 185.6 | 176.6 | 108.5 | 114.7 | 108.0 |
| Equity ratio | 53.4 % | 54.1% | 64.1% | 63.9% | 48.3% |
| Return on equity (ROE) | 7.3 % | 7.1% | 7.5% | 10.0% | 23.0% |
| Earnings per share in CHF | 4.00 | 3.52 | 3.27 | 4.61 | 9.86 |
| Share price at year end in CHF | 61.6 | 49.55 | 69.00 | 55.10 | 51.50 |
| Profit distribution per share in CHF | 1.80[1)] | 1.20 | 1.00 | 1.50 | 2.00 |
| Total shareholder return (TSR), 1 year | 26.7 % | -26.7% | 27.9% | 10.9% | -29.5% |
| Total shareholder return (TSR), 3 years | 6.2 % | 1.7 % | -0.6 % | 8.7 % | 6.0 % |
| Total shareholder return (TSR), 5 years | -2.4 % | 3.6 % | 7.8 % | 13.9 % | 11.3 % |

[1)] Proposal of the Board of Directors to the annual general meeting on 12 April 2013 in the form of a withholding-tax-free distribution from capital contribution reserves.

# Financial calendar

| | |
|---|---|
| **12 April 2013** | Annual general meeting in Rorschacherberg |
| **7 May 2013** | Information on first-quarter 2013 results |
| **26 July 2013** | Letter to shareholders on 1H 2013 results |
| **5 November 2013** | Information on third-quarter 2013 results |
| **27 January 2014** | Initial information on full-year 2013 results |
| **7 March 2014** | Presentation of 2013 results for analysts and the media in Zurich |
| **12 April 2014** | Annual general meeting in Rorschacherberg |

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