Starrag Group

Half-year report
2012

Success in a tough market environment

- Order intake up 11 %, backlog for nine months
- Increased EBIT (+26 %), slight rise in sales
- EBIT margin up to 6.4 %
- First synergies apparent from completed Dörries Scharmann integration
- Advances into new target markets with Bumotec acquisition
- Second half-year set to follow in a similar vein

CHF m	**2012** 01.01. – 30.06.	2011 01.01. – 30.06.	Change
Order intake	192.9	173.3	+ 11 %
Order backlog	260.2	230.1	+ 13 %
Sales revenue	183.4	182.8	+ 0.3 %
Earnings before interest and taxes EBIT	11.7	9.3	+ 26 %
EBIT as % of sales revenue	6.4 %	5.1 %	+ 26 %
Net income	7.6	5.4	+ 41 %
Earnings per share (in CHF)	2.23	1.94	+ 15 %
Return on equity ROE	8.6 %	6.2 %	+ 38 %
Cash flow from operating activities	12.7	-6.6	n/a
Capital expenditure	23.3	70.9	- 67 %
Free cash flow	6.6	- 11.9	n/a
Total assets	339.9	320.9	+ 5.9 %
Net cash	21.3	10.0	+ 113 %
Shareholders' equity	178.2	171.8	+ 3.7 %
Equity ratio	52 %	54 %	- 2.0 %
Headcount	1'603	1'452	+ 10 %

Dear shareholders

A successful first half-year 2012

Despite a market environment which lacked consistency, we are able to look back on a successful six-month period. Earnings before interest and taxes was up 26 % to CHF 11.7 million, and with the corresponding margin up from 5.1 % to 6.4 %, the Starrag Group is very much in the top third of Swiss mechanical engineering companies. Net income was up 41 % to CHF 7.6 million, though currency fluctuations due to the euro, which was weaker than in the corresponding period the previous year, negatively affected EBIT by CHF 0.7 million and net income by CHF 0.5 million. Earnings per share were set at CHF 2.23 (+15 %).

Solid order intake in a demanding environment

Order intake totalled CHF 193 million – a rise of 11 % on the previous year, with organic growth in local currency at 8 %. Prevailing uncertainty in Europe's capital markets and loss in momentum in the Chinese market led to larger projects being put on hold in the first half of 2012. Organic growth of CHF 14 million in order intake however points to gains in market share in the traditional target markets.

Growth primarily came from the industrial and aerospace markets. In the energy sector, the uncertainty regarding the future energy mix in Europe had a crippling effect on investments – both in conventional power generation and in the wind power segment, most investments in the development and renovation of production facilities were deferred. Prices for standard machines continue to remain under pressure. Japanese, Italian and also Spanish manufacturers who are operating in what are currently weak domestic markets are increasingly tending to run their factories to capacity at prices which do not cover their costs.

In regional terms, growth in the Asian and European markets was sustained, while order intakes from America remained at the previous year's healthy levels.

Increase in sales and order backlog

Sales in the six months under report increased by 0.3 % to CHF 183 million. At the end of June 2012, the Group had an order backlog of CHF 260 million, which corresponds to around nine months' work in hand. The factories in Mönchengladbach and Rorschach are still under-utilised, but this is being compensated by short-time work, secondments of personnel and certain manufacturing processes being taken over from fully-utilised factories such as the ones in Chemnitz, Bielefeld, Geneva, Sâles and St. Etienne.

Strong balance sheet, continued solid net cash

The equity ratio remains high at 52 %, underpinning how financially sound the Group is. At the end of June 2012, net cash stood at CHF 21.3 million, thanks to continued strict management of net current assets. This ensures that the Starrag Group will continue to remain a solid and reliable partner for its customers over the long term.

Future investments to continue at high levels

In the first six months of 2012, the Starrag Group invested CHF 6.2 million in the building of a new production site in Bangalore in India and in equipment designed to optimise costs in its European factories. The building of the production site in India was completed on time and on budget. At the same time, we are completing the development in India of a new series of compact machining centres which are tailored to the demands of the emerging markets in the region. Ensuring easy operation and taking into account climatic conditions, the reliability of the power supply and the level of qualification of the production staff are the main elements of this project.

Thanks to close cooperation with the research engineers at all the various production locations, synergies have been achieved in the development of new products. Indeed, as early as autumn this year we will be presenting two new machines with new machining concepts for the industrial series production of large components.

Significant challenges remain in terms of procurement

The Starrag Group continues to be confronted with price increases and delays in delivery when it comes to procurement. The boom in orders from manufacturers of smaller standard machines which continued through to the end of 2011 was not sufficiently catered for by the technical component market, which dried up after the economic crisis. Adherence to delivery dates tailed off as a consequence, and efforts to ensure quality assurance in terms of the components delivered had to be stepped up. This challenge caused us to call for an external analysis which resulted in an optimised procurement organisation from the beginning of 2012 onwards. This is in line with one of the Starrag Group's main priorities, which is to develop long-term partnerships with trusted and competitive suppliers.

Acquisition of Bumotec SA

At the end of May, we acquired Bumotec SA, a company which has a solid market position primarily in the watchmaking and jewellery sector but also in medical technology for implants and surgical instruments. These represent new markets for our Group, and ones which have shown continued and rapid growth in recent years and thus formed an attractive addition to our four established target markets aerospace, energy, transport and industrial. Bumotec is highly profitable, debt-free and has a lean organisation. The company has 150 employees and achieved sales of over CHF 40 million in the financial year 2011.

Integration of Dörries Scharmann almost complete

The bulk of the work which arose out of the merger of StarragHeckert and Dörries Scharmann has now been completed. Since January 2012, we have been using the common name of Starrag Group to strengthen the marketing of the strong individual product brands. The sales organisations in China, USA, UK and India have been combined to form highly effective teams, and a global tool for client relationship management has been evaluated and was implemented globally in the second quarter of 2012.

In the six months under report, we were able to reap the first benefits of the merger in terms of combined procurement of components and services; due to our long lead times however the results will primarily be seen from 2013 onwards. Other synergies were created by aggregating the two existing SAP systems, and this project will be completed on schedule in the third quarter of 2012.

Visibility continues to be restricted

For the first six months of 2012, the CECIMO European branch association was anticipating a decline in orders among European machine tool manufacturers. Once this temporary negative trend comes to an end towards the end of 2012, then 2013 should see a turnaround and growth in order intakes. The industrial and transport market segments are currently running at high levels of production capacity. This is also the case with aerospace, where increases in delivery rates and series production of new types of civil aircraft are supporting the trend of investment in renewal and expansion. In the military aerospace market and in energy however, a short-term recovery is not expected.

The uncertainty brought about by the government debt crisis is currently contributing to the cooling off of the investment climate, which is why the Starrag Group is expecting sales and earnings development in the second half of 2012 to be along the same lines as the first six months.

Our thanks

As well as through their daily work, all of our employees have contributed to the success of our Group with their high levels of commitment and flexibility, and the Board of Directors and Management would like to take this opportunity to express their heartfelt gratitude. Thanks must also go to our customers for the trust they have shown in us, and to our suppliers with whom we continue to have a good working relationship. Finally we would like to express our gratitude to our shareholders for their continued trust.

The long-term aim of the Starrag Group remains unchanged – we intend to be a solid, transparent Group which provides our faithful customer-base with innovative products and services which help them to create a clear competitive advantage thanks to more productive and competitive manufacturing. They have a first-class customer services department available to them around the world and throughout the entire life-cycle of the machines. With its high levels of net equity and solid net cash position, the Starrag Group is a sustainable and reliable partner – for our customers who are at the leading edge of technology, our tried and tested suppliers, our keen employees and for the shareholders whose trust we have earned.

Walter Fust President of the Board of Directors	Dr Frank Brinken CEO

Rorschacherberg, 27. July 2012

Significant earnings increase, organic growth and solid free cash flow

Order intake

Order intake nominally increased in the first six months of 2012 by 11.3 % to CHF 193 million. When currency adjustments and acquisitions are taken into account, there was an increase of 8.0 %. Acquisitions contributed CHF 12 million to overall growth, while the weak euro was the cause of a negative exchange translation effect of CHF 7 million.

Income statement

Sales revenue showed a slightly positive development compared with the previous year, rising by 0.3 %. Acquisitions played a major role in this growth, contributing 6.9 %. On the one hand, Dörries Scharmann was for the first time consolidated from the beginning of the year, after sales in the previous year from 1 to 19 January 2011 had not been included. On the other hand, Bumotec was consolidated after purchase on 29 May 2012. Sales revenue suffered through negative exchange rate effects due to the weakness of the euro, losing CHF 6.9 million or 3.8 %. The book-to-bill ratio stood at 1.05 for the first six months of 2012.

Earnings before interest and taxes increased from CHF 9.3 million to CHF 11.7 million. The EBIT margin of 6.4 % was up compared with the previous year's figure of 5.1 % and with the 5.7 % figure recorded at the end of 2011. This improvement came on the one hand from marginally better average margins from orders and on the other hand thanks to strict cost management.

The financial result remained stable at CHF - 1.1 million, while the effective tax rate fell significantly to 29 %, with the prime reason for this lower tax rate being the different geographical distribution of profits, while increased tax rates in certain countries had a negative effect. Net income therefore increased at an above-average rate from CHF 5.4 million in the previous year to CHF 7.6 million. As a result of the capital increase carried out in the second quarter of 2011 to refinance the acquisition of Dörries Scharmann, earnings per share rose above average by 15 % from CHF 1.94 to CHF 2.23. Currency translations affected net income by 8.4 % or CHF 0.13 per share.

Balance sheet

Total assets stood at CHF 340 million as of 30 June 2012, up CHF 13 million compared with end-2011. The acquisition of Bumotec increased the total assets by around CHF 30 million. Additional assets from the first-time consolidation of Bumotec were partially compensated by the use of net cash for the payment of the purchase price.

Current assets were down overall by CHF 2.6 million. Net cash reduced by CHF 11.5 million, primarily due to the Bumotec acquisition. Other current assets increased by CHF 15.3 million with the first-time consolidation of Bumotec, while reductions of CHF 6.4 million were made in the traditional business.

Fixed assets increased by CHF 16 million, thanks in no small part to the purchase of Bumotec. CHF 8.1 million of additional intangible assets were also created by the revaluation of Bumotec's assets.

Liabilities increased from CHF 150 million to CHF 162 million thanks to the results of the first-time consolidation of Bumotec (CHF 15.2 million), though a reduction in the original business of CHF 3.5 million was set against this.

Net equity rose only marginally year-on-year, by just CHF 1.5 million. Despite an increase by net income of CHF 7.6 million, there were currency translation differences of CHF 2.0 million and a dividend payment CHF 4.0 million to be taken into account.

Due to the higher balance sheet total, the equity ratio went down by 1 % year-on-year to 52.4 %, meaning that the Starrag Group is still very financially sound.

Cash flow

Cash flow (before changes in net working capital) increased significantly to CHF 15.4 million (compared with CHF 14.3 million the previous year). When the stocks – which were up by CHF 5.0 million due to the tense situation in the procurement markets – and changes in other net working capital are taken into account, the result is a cash flow from operating activities of CHF 12.7 million (compared with CHF -6.6 million the previous year).

CHF 6.2 million were invested in assets, with CHF 4.9 million going into improvements in the European factories and the development and integration of the IT platforms and the other CHF 1.3 million into expansion, namely the building of a new factory in Bangalore, India.

Free cash flow as the sum of the capital inflow from business activities and investments into assets reached CHF 6.6 million in the first six months of 2012, which represents a significant improvement compared with the negative free cash flow of CHF -11.9 million the previous year.

From the 2011 net income, a dividend free of withholding tax of CHF 4.0 million was paid out from capital reserves in April 2012, corresponding to a pay-out of 37 % of the 2011 net income.

Income statement

CHF 1'000	**2012** 01.01. – 30.06.	2011 01.01. – 30.06.	2011 01.01. – 31.12.
Sales revenue	183'378	182'804	354'430
Change in self-manufactured products	6'432	1'020	4'036
Material expenses	-83'687	-78'737	-153'716
Gross profit	**106'123**	105'087	204'750
Personnnel expenses	-64'816	-61'387	-120'722
Operating expenses	-24'833	-29'478	-54'770
Other operating income	1'330	833	1'835
Earnings before interest, taxes, depreciation and amortization EBITDA	**17'804**	**15'055**	**31'093**
Depreciation and amortization	-6'066	-5'767	-11'949
Earnings before interest and taxes EBIT	**11'738**	9'288	19'144
Financial income	780	874	1'190
Financial expenses	-1'896	-1'968	-3'017
Earnings before tax	**10'622**	8'194	17'317
Income tax	-3'045	-2'805	-6'462
Net income	**7'577**	5'389	10'855
Thereof:			
‣ Shareholders of the company	7'487	5'347	10'793
‣ Minority shareholders	90	42	62
Earnings per share in CHF	2.23	1.94	3.52
Diluted earnings per share in CHF	2.23	1.94	3.52

Statement of comprehensive income

CHF 1'000	**2012** 01.01. – 30.06.	2011 01.01. – 30.06.	2011 01.01. – 31.12.
Net income	7'577	5'389	10'855
Changes in fair value (after income taxes)	-283	310	-2'907
Income taxes on change in fair value cash flow hedges	97	-45	177
Currency translation	-1'854	-6'638	-4'355
Other comprehensive income	**-2'040**	-6'373	-7'085
Total comprehensive income	**5'537**	-984	3'770
Thereof:			
‣ Shareholders of the company	5'414	-1'037	3'725
‣ Minority shareholders	123	72	45

Balance sheet

CHF 1'000	30.06.2012	30.06.2011	31.12.2011
Cash and cash equivalents	32'273	27'624	43'728
Receivables	91'578	100'635	93'498
Other financial assets	6'874	15'223	4'357
Current income tax	758	2'180	-
Inventories	74'891	57'498	67'420
Total current assets	206'374	203'160	209'003
Tangible fixed assets	80'881	72'888	72'709
Intangible assets	52'615	44'869	44'906
Total fixed assets	133'496	117'757	117'615
Total assets	**339'870**	320'917	326'618

CHF 1'000	30.06.2012	30.06.2011	31.12.2011
Financial liabilities	5'515	11'374	527
Operating liabilities	33'432	32'049	32'654
Accured expenses and deferred income	73'018	59'712	70'237
Current income tax	7'994	5'083	8'210
Provisions	7'591	9'353	8'515
Total current liabilities	127'550	117'571	120'143
Financial liabilities	5'447	6'190	6'217
Deferred income tax	24'292	20'997	19'621
Pension benefit obligations	1'400	-	-
Provisions	3'027	4'298	4'001
Total non-current liabilities	34'166	31'485	29'839
Total liabilities	**161'716**	149'056	149'982
Share capital	28'560	28'560	28'560
Additional paid-in capital	85'819	89'851	89'851
Cash flow hedges	-1'075	2'106	-889
Retained earnings	86'985	74'026	79'485
Currency translation	-23'026	-23'469	-21'139
Total shareholders' equity of the company	177'263	171'074	175'868
Minority shareholders	891	787	768
Total shareholders' equity	**178'154**	171'861	176'636
Total liabilities	**339'870**	320'917	326'618

Cash flow statement

CHF 1'000	**2012** 01.01. – 30.06.	2011 01.01. – 30.06.	2011 01.01. – 31.12.
Net income	7'577	5'389	10'855
Income tax expenses	3'045	2'905	6'462
Interest expenses	114	385	756
Interest income	-106	-87	-347
Depreciation and amortization	6'066	5'767	11'949
Change in non-current provisions	-947	2'148	164
Other non-cash items	-326	-2'183	-2'042
Change in inventory	-5'021	-3'098	-12'270
Change in other non-cash net current assets	6'517	-20'414	2'966
Income tax paid	-4'258	2'620	658
Cash flow from operating activities, net	**12'661**	-6'568	19'151
Capital expenditure for:			
‣ Business combination	-17'303	-65'600	-59'982
‣ Tangible fixed assets	-3'945	-4'175	-8'338
‣ Intangible fixed assets	-2'226	-1'154	-1'904
Disposals of fixed assets	154	51	362
Cash flow from investing activities, net	**-23'320**	-70'878	-69'862
Change in current financial liabilitites	3'887	10'397	-127
Repayment of non-current financial liabilities	-140	-64	-274
Interest paid	-294	-377	-756
Interest received	106	89	347
Dividend payment	-4'032	-2'520	-2'524
Purchase of treasury shares	-	-166	-166
Sale of treasury shares	-	3'925	3'925
Capital increase	-	63'059	63'059
Cash flow from financing activities, net	**-473**	74'343	63'484
Currency translation	-323	-1'483	-1'255
Net change in cash and cash equivalents	-11'455	-4'586	11'518
Cash and cash equivalents at beginning of period	43'728	32'210	32'210
Cash and cash equivalents at end of period	**32'273**	27'624	43'728

Statement of shareholders'equity

CHF 1'000	Share capital	Treasury shares	Additional paid-in capital	Cash flow hedges	Retained earnings	Currency translation	Shareholders' equity of the company	Minority share-holders	Total share-holders' equity
31.12.2010	**21'420**	**-2'801**	**35'445**	**1'841**	**68'667**	**-16'801**	**107'771**	**715**	**108'486**
Net income	-	-	-	-	5'347	-	5'347	42	5'389
Other comprehensive income	-	-	-	265	-	-6'668	-6'403	30	-6'373
Total comprehensive income	**-**	**-**	**-**	**265**	**5'347**	**-6'668**	**-1'056**	**72**	**-984**
Share-based payment	-	-	-	-	12	-	12	-	12
Dividend payment	-	-	-2'471	-	-	-	-2'471	-	-2'471
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
30.06.2011	28'560	-	89'851	2'106	74'026	-23'469	171'074	787	171'861
31.12.2011	28'560	-	89'851	-889	79'485	-21'139	175'868	768	176'636
Net income	-	-	-	-	7'487	-	7'487	90	7'577
Other comprehensive income	-	-	-	-186	-	-1'887	-2'073	33	-2'040
Total comprehensive income	**-**	**-**	**-**	**-186**	**7'487**	**-1'887**	**5'414**	**123**	**5'537**
Share-based payment	-	-	-	-	13	-	13	-	13
Dividend payment	-	-	-4'032	-	-	-	-4'032	-	-4'032
30.06.2012	**28'560**	**-**	**85'819**	**-1'075**	**86'985**	**-23'026**	**177'263**	**891**	**178'154**

Notes to the consolidated half-year financial statements 2012

Basis for accounting

These unaudited consolidated half-year financial statements 2012 were prepared in accordance with International Financial Reporting Standards (IFRS). It is a abbreviated interim report in accordance with IAS 34 on Interim Financial Reporting.

These consolidated half-year financial statements do not include all the information found in the consolidated annual report and should therefore be read in conjunction with the 2011 consolidated annual financial statements. The accounting principles correspond to those used in the 2011 consolidated annual financial statements (see pages 69 - 72 of the 2011 annual report).

These present half-year financial statements contain estimates and assumptions which have an influence on the reported amounts and the associated disclosure. The actual results may differ from these estimates.

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 30 June 2012, Bumotec SA generated sales revenue of CHF 4.1 million and a net profit of CHF 0.6 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.

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 this present interim report are broken down as follows:

CHF 1’000	**Fair value**
Cash and cash equivalents	21'697
Receivables	12'043
Other financial assets	88
Inventories	3'187
Tangible fixed assets	9'108
Intangible assets	5'598
Current financial liabilities	-570
Other current liabilities	-8'543
Pension benefit obligation	-1'400
Deferred income tax	-4'737
Net assets	**36'471**
Goodwill	2'529
Cash consideration	**39'000**
Less cash and cash equivalents acquired	-21'697
Net cash drain	**17'303**

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 12.2 million less valuation adjustments of CHF 0.2 million. The transaction costs of CHF 0.1 million are contained in the operating expenses.

Events after the balance sheet date

No events which are of any significance for the assessment of these present half-year financial statements have occurred since 30 June 2012. The consolidated half-year financial statements were approved by the Board of Directors on 23 July 2012 and authorized for publication.

High-precision machine tools for greater productivity

Starrag Group is a global technology leader in manufacturing high-precision machining tools for milling turning, boring and grinding of mid-sized to large workpieces of metallic and composite materials. Principle customers are internationally active companies in the aerospace, energy, transport and industrial 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).

Financial calendar

2 November 2012	Information on third-quarter 2012 results
25 January 2013	Initial information on full-year 2012 results
8 March 2013	Presentation of 2012 results for analysts and the media in Zurich
12 April 2013	Annual general meeting in Rorschacherberg
7 May 2013	Information on first-quarter 2013 results
26 July 2013	Half-year report 2013

Contact information

Dr. Frank Brinken, CEO
P +41 71 858 81 11
F +41 71 858 82 09

Gerold Brütsch, CFO
P +41 71 858 81 11
F +41 71 858 82 30

investor@starrag.com

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

Starrag Group

Berthiez
Bumotec
Dörries
Droop+Rein
Heckert
Scharmann
SIP
Starrag
TTL
WMW

Starrag Group Holding AG
Seebleichestrasse 61
9404 Rorschacherberg
Switzerland

P +41 71 858 81 11
F +41 71 858 81 22

investor@starrag.com
www.starrag.com