Starrag Group

Annual Report
2013

Annual Report 2013

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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

In times of an unchanged difficult global economic situation, Starrag Group finished a year with overall satisfactory results, especially when benchmarking with the industry. Business developed in an varied way in regard to both target markets and regions. Overall, order intake rose by 17 % to CHF 425 million. Adjusted for acquisition and currency effects the organic growth rate 2013 reached 9 %. Revenues increased slightly by 2 % to CHF 391 million. After adjustment for acquisition and currency effects, sales revenues were 4 % below the previous year, primarily due to the acquisition of Bumotec in 2012.

The operating result before restructuring costs of CHF 22 million or 5.7 per cent of sales revenues reflecting the effective operating performance increased slightly over the previous year. After one time charges for restructuring costs EBIT amounted to CHF 19 million, corresponding to a margin of 4.9 %. Net profit improved slightly to CHF 13.5 million or CHF 3.97 per share. Starrag continues to be a strongly financed machine tool group with an equity ratio increased to 56 %.

Increasing technological competence and enlarging the served markets

Already in the previous year, first synergies became visible from the acquisition of Bumotec, adding new, attractive market segments and extending Bumotec's served markets geographically. This was continued in the reporting year with Bumotec satisfactory contributing to enhanced order intakes, sales revenues and earnings. We also extended our markets by intensifying our involvement in India as a base to gain access of the still dynamic promising Asian markets. In addition to the existing technology centre Bangalore, a state of the art new factory was opened in 2013. The staff was locally increased with competent customer service personnel and application engineers. Also, a new line of compact precision machining centres tailored to local requirements was launched.

Systematic lean initiatives

In 2012 we had already initiated actions to mitigate the effects of variations in capacity utilisations at our various sites. In 2013 we intensified necessary cost adjustments due to the vanishing demand in the wind energy market. The related restructuring costs had a one-time effect on the operating result 2013, but will be sustainable profit enhancing in the years to come. Investments into a group wide aligned state of the art IT infrastructure will also contribute to raise earnings through process efficiencies.

Again improved value reporting

According to the annual ranking of the reporting of Swiss companies we improved our position substantially. In the Value Reporting 2012 by the Institute for Banking and Finance of the University of Zurich, we were ranked 56th out of over 200 companies listed in the Swiss Performance Index (SPI). This was up from the previous year's rank of 70th.

2013 developments in the Board of Directors and the Management

At the next General Meeting Dr. Hanspeter Geiser has announced that he will not stand for reelection after serving as a member of the Board of Directors for the last 20 years. We would like to thank him sincerely for his valuable contributions towards the development of our group. Frank Brinken, who, after nine years as CEO will hand over this position to Walter Börsch at the General Meeting, will be proposed for election to the Board of Directors at the meeting.

Bernhard Bringmann was appointed Head of Business Unit 1 and new member of the Group Management with effect from 1 January 2014. He takes over from Walter Börsch, who will, starting from the upcoming General Meeting, lead our Group as CEO. Daniel Rosenthal, who as a member of the group management made a considerable contribution to the successful development and integration of the Dörries Scharmann Group, retired from the Group in September.

Sense of realistic optimism for the year 2014

Despite the current world economic uncertainties, we tend to look with optimism into the current financial year. This view is supported by our healthy order backlog and well-filled pipeline of solid projects quoted or under negotiation as well as new products and manufacturing processes designed to enhance our competitive advantages. Furthermore we have done our homework in 2013 and made improvements with regard to improve our cost position and raise efficiencies. We view 2013 in terms of profitability as a transitional year, leading to an improved operating margin 2014. Revenues should grow in 2014, whereas we expect repeat order income at least within the range of the previous year.

Unchanged dividend pay-out

With the intention letting our shareholders participate substantially in the operating success of the Starrag Group, the Board of Directors has decided to increase the dividend pay-out ratio from the previous level of 30 % to 40 % to 35 % to 50 %. Based on these ratios an unchanged dividend of CH 1.80 per share will be proposed to the General Meeting on 12 April 2014. This corresponds to a pay-out ratio of 45 % and, based on the closing price of our shares for 2013 of CHF 75.75, yielding a dividend return of 2.4 %.

We would like to thank our employees for the great commitment shown again in this past year – this is the foundation for our success. We would also extend our thanks to our customers and suppliers for their continued trust towards the Starrag Group. And finally we express our thanks to you, our shareholders, for the trust you have once again placed in us.

Walter Fust
Chairman of the Board of Directors

Dr. Frank Brinken
CEO

At a glance

High level of order intake, steady earnings

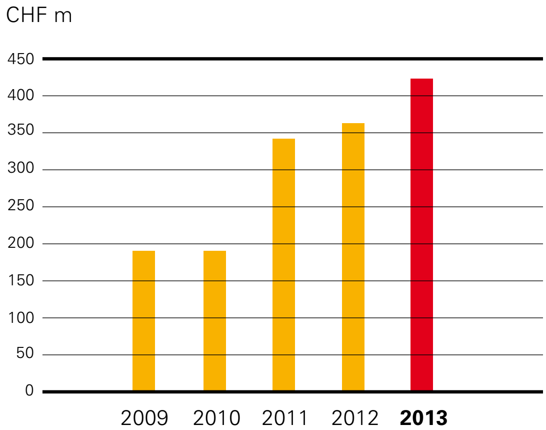
- Order intake up by 17 % to CHF 425 million – Revenues up by 2 % to CHF 391 million
- EBIT before restructuring costs up by 6 % to CHF 22 million – operating margin 5.7 %
- Net profit up 4 % to CHF 13.5 million – earnings per share CHF 3.97
- Strong balance sheet thanks to increased equity ratio of 56 % – return on equity 7.1 %
- Profit distribution remaining at CHF 1.80 per share – payout ratio 45 %

CHF m	**2013**	2012 [1]	Change
Order intake	424.9	364.2	+16.7%
Sales revenue	390.7	384.0	+1.7%
Earnings before interest, taxes and restructuring EBITR	22.4	21.1	+6.1%
Operating profit EBIT	19.0	21.1	-10.0%
Net income	13.5	13.0	+3.7%
Earnings per share (in CHF)	3.97	3.81	+4.2%
EBITR as percentage of sales revenue	5.7%	5.5%	n/a
EBIT as percentage of sales revenue	4.9%	5.5%	n/a
Net income as percentage of sales revenue	3.5%	3.4%	n/a
Return on equity (ROE)	7.1%	7.2%	n/a
Cashflow from operating activities	8.8	24.9	-64.8%
Capital expenditure in fixed assets	11.2	32.1	-65.0%
Free cash flow	-2.3	10.2	-122.5%
Profit distribution per share (in CHF) [2]	1.80 [3]	1.80	–

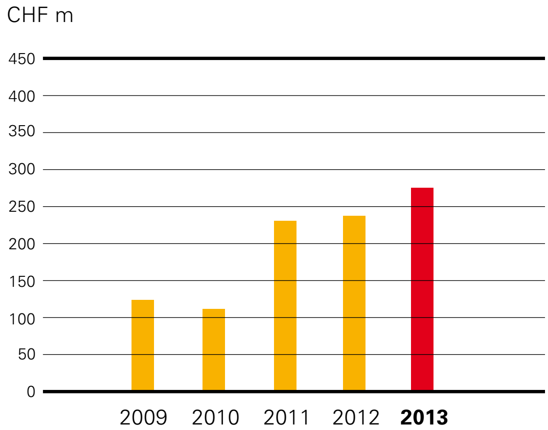
CHF m	**31.12.2013**	31.12.2012 [1]	Change
Order backlog	274.7	238.6	+15.1%
Total assets	348.7	347.2	+0.4%
Net cash	16.1	24.9	-35.3%
Shareholders equity	193.6	183.6	+5.4%
Equity ratio	55.5%	52.9%	+4.9%
Employees at year end	1'667	1'644	+1.4%

1) Restated due to the application of the amended IAS 19 – Employee Benefits.
2) In form of a withholding-tax-free distribution from capital contribution reserves.
3) Proposal by the board of Directors to the Annual Meeting.

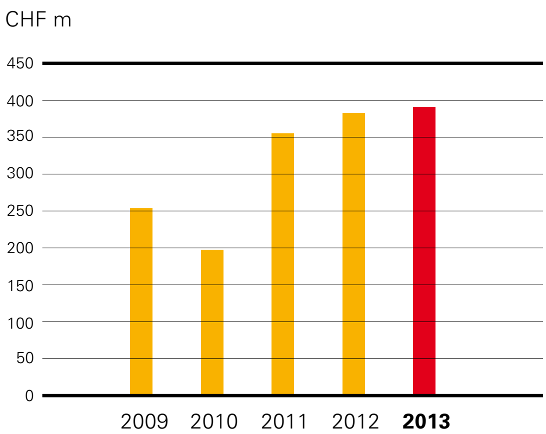
Order intake



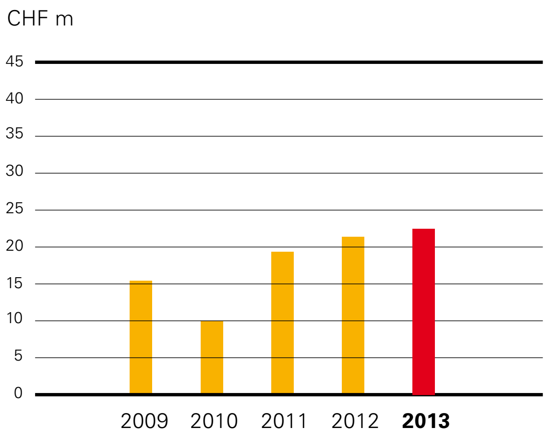
Order backlog



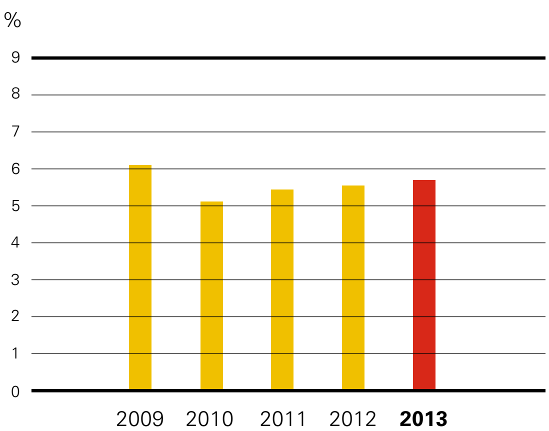
Sales revenue



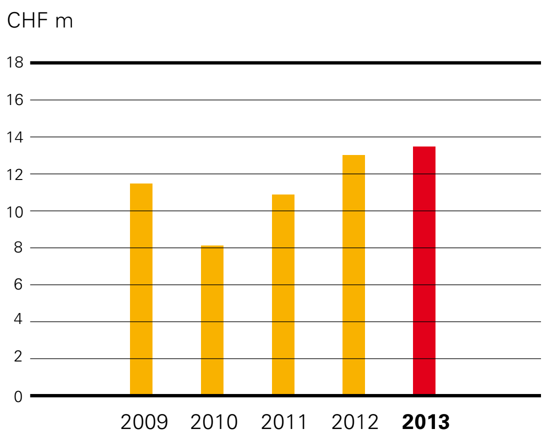
Operating profit EBITR



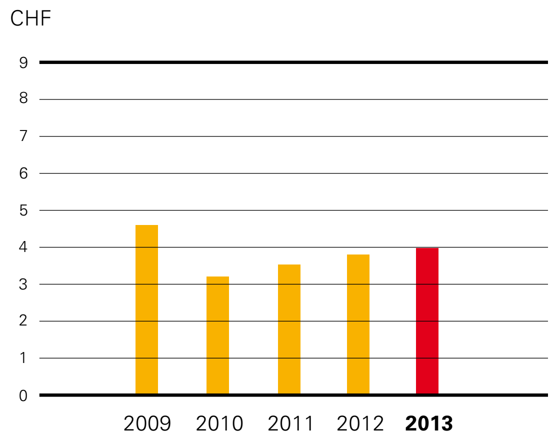
EBITR as percentage of sales revenue



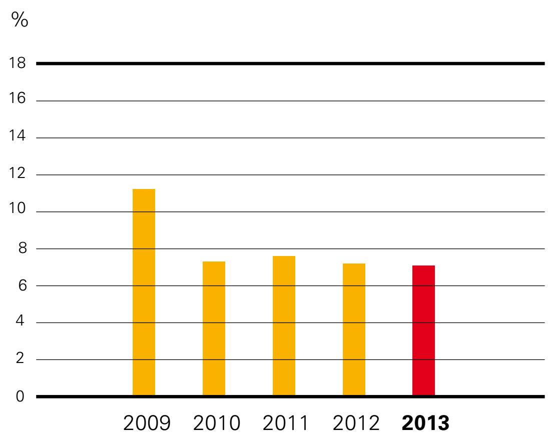
Net income



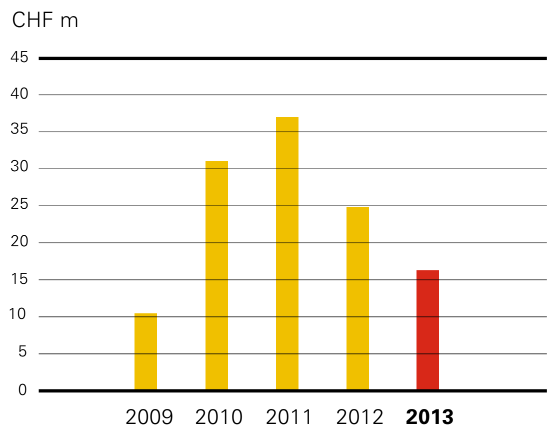
Earnings per share



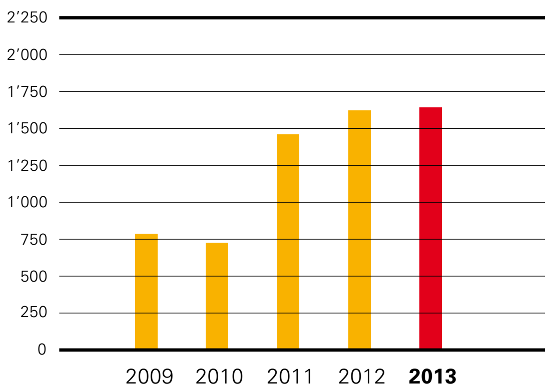
Return on equity



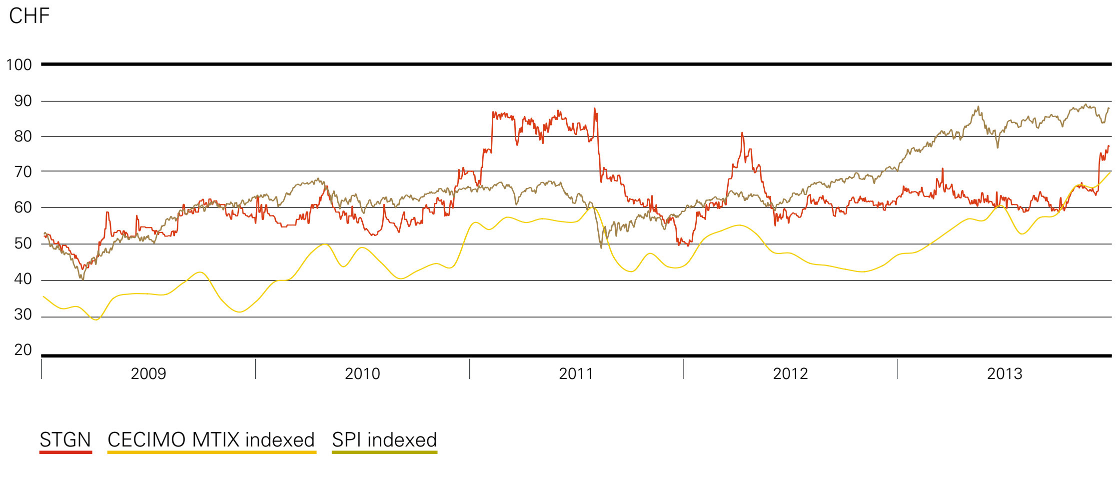
Net cash



Employees at year end



Share price



Highlights

World firsts and a world record at the EMO

EMO 2013, the world's biggest trade fair for machine tools, was a huge success for the Starrag Group. With a new machining centre from Bumotec the visitors discovered a world premiere of a new machine generation with an "inbuilt" world record. With the unique double-spindle configuration, a previously unheard-of 0.5 sec chip to chip time is achieved.

The second world first was a precision Heckert 5-axis machining centre with an integrated high rpm rotating table for turning operation. This innovation allows complete machining in one set-up improving long-term parts accuracy and shorten cycle times.

As a third world first, the company presented a new horizontal high performance machining centre capturing the technology synergies across the group. Named DBF it contains an integrated precision turning, drilling and milling head and allows machining of complex work pieces in one set up operation, again improving accuracy and enhancing the competitiveness of the users by considerably shortening cycle times.

Change in management

As part of the succession planning, the Starrag Group announced in March 2013 that the Head of Business Unit 1, Walter Börsch, would be promoted to the position of Group CEO. Frank Brinken, who has held this position for many years, will step down at the General Meeting on 12 April 2014. Walter Börsch has been working for the Starrag Group for seven years, and has many years of management experience in the machine tool sector with growing responsibilities.

During the General Assembly Frank Brinken will be proposed for election to the Board of Directors. Based on his in-depth knowledge of the industrial manufacturing sector and his management skills, he transformed the Starrag Group into a position within the premier league of the European machine tool industry. During his tenure as President and CEO he advanced the group into a globally recognised technological leadership.

The Board of Directors elected Bernhard Bringmann to the position of Head of Business Unit 1, taking up office on 1 January 2014. Bernhard Bringmann has been working for the Starrag Group for six years. In both cases therefore, the company could once again rely on its broad pool of talented managers and internal succession planning.

Major productivity gain thanks to innovative cooling system

The presentation of a new CO_2 air cooling system for Starrag machine tools (known as cryogenic cooling) was a special highlight during the EMO exhibition. This innovative system allows for an increase in productivity when machining high-strength materials of up to 70 % and more. Customers investing into new state of the art Starrag machine tools will profit from this development. Also owners of recent Starrag machining centres can profit, as the internal CO_2 cooling can be retrofitted. The process, which is now ready for production, was engineered in close collaboration with Walter AG from Tübingen, a well-known German tool manufacturer. The leading German industry magazine MM MaschinenMarkt awarded the Starrag/Walter team with the MM EMO Innovation Award in the milling category.

New factory in India opened on schedule

In January 2013, the Starrag Group opened a new production site in Bangalore, India, on schedule after a construction period of about a year. At the same time Starrag India launched a newly developed line of precision compact machining centres that are specifically suited for the requirements of the emerging markets.

Co-located within the plant is a fully developed Technology and Customer Service Centre. This puts the Starrag Group into an excellent position to further grow in the promising Asian markets. Today, over half of the global consumption of machine tool production comes from customers in Asia.

Star performer

Daimler Benz – already a long time customer of Droop+Rein and worldwide renowned for investing into leading equipment – placed an important order with us in December 2013, for the delivery of a complete manufacturing cell for production of car body dies for a newly built Mercedes facility in Sindelfingen. This manufacturing cell is intended to become the global standard for stamping die plants at Mercedes. The order consists of multiple large milling machines, setting-up stations and multi-functional robotic cells.

Droop+Rein has a long-standing co-operation with Mercedes for the car body tools with outstanding competences and ideas. Two manufacturing cells with the high up-time performance have already been in operation for many years, resulting in a close techno-commercial relationship and mutual trust.

Starrag Leadership Academy: Leadership as a value-driver

The importance of leadership skills as a core value driver has clearly recognised within the Starrag Group. Our middle management levels have been systematically undergone a management skills training, creating awareness and alignment of how management task should be applied in the company recognizing the contribution these skills make for the group's success. In the financial year 2013, around 150 middle-management employees completed our "Starrag Leadership Academy" systematic development programme for executives, in small groups bringing managers of different plants and functions together. The four-tier programme concentrated on corporate objectives and day-to day situations.

All participants improved their management skill set, which is now systematically applied in the company's day-to-day operations. Participants have a new understanding of participative management and clearly see this as an emerging value-driver. As a side effect, the company-wide cross functional teams are driving a significantly improved co-operation across the nine production sites. In particular, the programme contributed towards forming a uniform corporate spirit. A successful completion of the curriculum is a prerequisite for internal promotions. Due to its success, the "Starrag Leadership Academy" will be continued in other languages and will include in the future leaders from our various regional offices.

Fitness program for seasoned machines

Together with experts from our customer – Schuler Pressen GmbH in Weingarten, Germany – the Starrag Group retrofitted a 30-year-old very large Wotan Rapid boring mill back to an as new condition via a fundamental retrofit program. The mechanical and moving parts are again in an as new condition. To a large extent the old components still had the desired precision and could be reused after re-machining and re-scraping. New state of the art CNC systems and power electronics help to make this investment productive and precise for many years to come. The precision requirements were demanding. However we surpassed the expectations and achieved a maximum deviation of the manufactured components over the entire length of ten metres (X-axis) of 60 µm. In addition, the large boring mill was optimised and improved in many respects for better operations.
The Group-wide service team of the Starrag Group has over 300 employees at 60 sites globally.

Business profile

History

The company was founded in 1885 in Rorschach, Switzerland as a personal undertaking for manufacturing of threading machines for the textile industry. After the textile crisis around the First World War, the company began to manufacture milling machines in 1920. Five years later, the company's name was changed to Starrfräsmaschinen AG. In the mid-1930s, the company was a pioneer for 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. In 1998 the Starrfräsmaschinen AG went public. That year also saw the takeover of Heckert Werkzeugmaschinen GmbH in Chemnitz, Germany, formerly known as Wanderer Werke. Back in the 1970s, Heckert was the first company in the world which had designed and installed a highly-automated flexible machining system, gaining strong international recognition.

After the companies were merged the company name was changed to StarragHeckert. In the year 2000, a holding structure was set up. Starrag subsequently acquired the UK company TTL, which produces adaptive milling technology, primarily for repairing jet engines, and Geneva-based SIP (Société d'Instruments de Précision SA), which is known globally for its ultra-precision jig-boring machines.

In January 2011, StarragHeckert acquired the German based Dörries Scharmann Group along with its famous Berthiez, Dörries, Droop+Rein and Scharmann brands. This provided an opportunity to redefine the branding concept. Since then the group is known as the Starrag Group.

In May 2012, Swiss Bumotec SA joined the group, which specialises in high-precision multifunctional machine tools for the complete machining of smaller work pieces including a comprehensive portfolio of after-sales services. It enabled the Starrag Group to gain access to the dynamic growth markets of luxury goods (watches, jewellery), electronics and 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 top end segment which is constantly being innovated and is supported by technology and after sales service offerings that help our customers to achieve 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 products and services includes all processing steps for complex and small, medium-sized and large work pieces. Few other providers are in a position to provide the depth of proven knowledge and technologies.

Individual customer focus as top priority

Our highest priority is customer focus, which requires flexible and adapted manufacturing solutions. The Starrag Group provides integrated flexible manufacturing systems which are tailored to the specific needs of the customer. This means that besides offering globally competitive single individual machines, the group can also offer turnkey flexible system solutions.

The product range is built on ten strong, well-known brands. Each brand stands for excellence in its chosen field of expertise (see page 19). In sales and marketing, the group primarily concentrates on direct sales to its global customer base. The documented sales process involves interactions with the customer on various levels during the dialogue in the specification phase. The global sales force is mainly concentrated in the industrial regions of the world. Specialized well trained market partners help to identify additional opportunities in various emerging regions.

Starrag Group's international customers clearly attach importance to direct efficient communication channels, which is why the group is present around the world through fully owned sales and service centres. Experienced local distribution, application and customer service specialists know all about local cultures and languages. Customer service engineer clusters are strategically placed to provide competent and timely after-sales service. They are the vital link to maintaining close, sustainable relationships based on trust with our customers. Our global service team is constantly being trained on our new products and expands in line with our revenue growth path. Quick and efficient parts supplies are ensured by our global logistics system, which uses optimised transport procedures. Spare parts can quickly be delivered from decentralised spare parts stocks. Our intensive contacts with the customer also enable us to constantly monitor all levels of customer satisfaction. High quality and synergies along the value creation chain in sales and service are a common focus throughout the group. 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.

Joint product development with our clients

In order to maintain its technological lead, the group regularly invests a significant proportion of revenues in innovation. Besides basic self-financed development efforts, a significant part of our innovations are the result of successful co-development projects with leading customers. Innovation is one of the most important core driver of our culture. The Starrag Group maintains development centres in Switzerland, Germany, France, the UK and India.

In addition to developing new products experienced application engineers in the local sales companies work hand in hand with the customers and find jointly new optimised solutions for their production needs. The experiences gained in these projects are fed back to the development teams and speed up the innovation process generating clear added value for our customers.

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 driving our R&D roadmap. Thanks to active monitoring of product life cycles and technology trends, as well as taking into account the operating experiences of important customers, new developments are the foundation for its future 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 (Chairman of Fraunhofer Society) and Professor Christian Brecher (Machine Tool Institute, Aachen University), helping to ensure that the group retains its position as a developer of cutting edge 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 aircrafts, rising fuel prices and a growing environmental conscience require lighter, quieter, more cost-effective and economical aircrafts with lower emissions and a smaller noise footprint. These requirements entail a trend for modern aircraft manufacturers and their suppliers towards increasingly larger monolythic and more complex parts. Starrag machining technology ensures that these are produced reliably, under constant process control, to ever closer tolerances and within shortest cycle times, ensuring that the users assume a global competitive position independent of the prevailing labor cost levels.

Structural parts with complex geometries have to be manufactured on precise five-axis machines. The Starrag Group's product offering ranges from the heavy machining of high-strength titanium alloys to the high-speed cutting of aluminium and also the precision machining of large carbon composite structures.

Safety critical landing gear components and primary structural components for fuselage, empennage and wing areas, jet engine components such as turbine blades, integrated bladed rotors (blisks), casings and engine pylons or helicopter gear boxes are made by OEM producers of aircraft and jet engines. Other safety high-precision gyroscope components, fuel delivery systems as well as reliable electrical connection and sensor parts are further examples of products which are manufactured on Starrag machines every day for nearly all aircraft programmes around the world.

Energy

In conventional energy production, the Starrag Group has the longest experience in machining high-precision turbine and compressor blades and demanding large casings for steam and gas turbines. New machine generations are now combining different cutting technologies in one machine. A general trend influenced by Starrag developments are the higher precision parts, closer tolerances and minimised deviations over a production run. Starrag machines are especially suited to manufacture parts in the new and upcoming hard to machine materials and alloys. 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

In the renewable energy industry, 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 product life cycle.

Transport

Starrag Group machining centres are mostly used for small and medium-sized production batches. Typical applications are found in the machining of large cast iron components like sizeable diesel engine blocks and heads. Our machines are used by global leading producers of agricultural equipment, infrastructure construction equipment, trucks and buses. In the passenger vehicle sector, Starrag Group machining centres are primarily used for high-performance engines, gearboxes and drive train components out of light metals and cast iron. In ship-building and railway engineering, we are considered to be the specialist for large diesel engines and in the complex machining of high-precision marine propulsion systems.

Our production solutions for the transport industry are specially designed for zero defect production, long term precision and minimized non-productive times for three shift operations.

Industrial
In the mechanical engineering sector – machine tools, packing machines, printing machines and plastics machines and also technical components in hydraulics, pneumatics and propulsion technology – the technology trend calls for efficient machining of complex work pieces in one set up. Starrag has one of the most comprehensive portfolio for the wide range of requirements in this sector. Starrag's Bumotec operation is the leading supplier for the entire range of ultimate precision parts for the luxury watch and jewellery industry, as well as for the surgical instruments and medical implants industry. New innovative developments for this demanding sector open new opportunities for exotic materials by simplifying the production set-up process. Bumotec is pushing the technology envelope to provide the utmost result in precision and consistent quality, increase economy and flexibility.

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

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

- Clear focus on the upper quality segment
- Technological leadership
- Concentration on clearly-defined target markets
- Maintaining a solid financial basis
- Business model with high levels of flexibility, particularly in downswing
- Dedication to make our customers globally competitive

This strategy has proved to make the company resistant to downswings. Starrag is the only machine manufacturer who has been is listed on the stock exchange, continuously reporting positive results throughout the latest deep recession and always paying out a dividend to its shareholders.

Starrag is dedicated to long term oriented goals and to sustain its recession proven business model. Therefore the Starrag Group continues to aim for profitable growth with an EBIT margin of 8 % averaging over an economic cycle. This results into an attractive shareholding participating in the success of the group, both in the form of a potential share price increase and a solid dividend pay-out ratio of 35 % to 50 % of net earnings.

In addition to growth in recent times which was primarily driven via acquisitions, the coming years will see the consistent deployment of the group-wide synergy potential to achieving on organic growth target of 5 % to 8 %. The concentration on organic growth does not exclude further acquisitions provided they meet our clearly defined criteria of strategic as well as cultural fit with a synergistic market and/or product portfolio. The Starrag Group has a stringent, tried and tested analytical process for acquisitive growth.

High flexibility required

In the future, we expect the economic environment to stay volatile, with market swings eventually becoming even more pronounced. This requires a more flexible business model from market participants. Internal processes and procedures do need a continuous improvement culture. This permanent activity aims at continually increasing productivity by applying world class processes and avoids waste und non-value contributing activities. This will be the benefit for our aligned global business process management efforts, designed to simplify and unify group-wide processes. By balancing our target markets and expanding our activities in growing regions we will ensure to enhance our solid financing structure enabling future growth and innovation.

Our group already has strong market positions in Europe, Asia and North America. In geographical terms, the market will continue to shift towards Asia – a region which already consumes half of the world's machine tools production. The Starrag Group intends to profit from this growth, via local production in India and also by means of further investments into the sales and service organisation in the principal Asian industrial nations. The new production site which was opened in Bangalore at the beginning of 2013 serves as the manufacturing place for a new range of machine tools for the emerging economies in Asia. The significant major trends in this area, 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 form a solid base for Starrag's further organic growth in this region.

Starrag Group is expecting to increase its business volume in the medium term faster than other European machine producers. The proportion of sales generated with customers in Asia will gradually rise 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 positioned brands under one roof.

- The ten brands cover the entire technology spectrum of milling, turning, drilling and grinding of small and medium-to-large-sized metal and composite material work pieces in the top 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 highest in quality and opens up synergies along the value creation chain – from development to service including production and sales.

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.

Starrag Production System

Flexible production at nine sites

The Starrag Group manufactures its machines and production systems in nine production plants in Switzerland, Germany, France, the UK and India. They are all part of the "Starrag Production System" manufacturing network. Development and technology centres are co-located at these sites, ensuring that our entire technological expertise and portfolios can be used throughout the Group. The system also enables to balance out in capacities and smoothen peaks in individual plants by moving workload within the group.

This system reflects our dedication of "Product development together with the customer". We strive to be as close as possible to the action in the market, but also consider the prior stages in the value creation chain, in order to create a sustainable competitive advantage in the market.

Berthiez
St-Etienne, France

Bumotec
Sâles, Switzerland

Dörries Scharmann
Mönchengladbach, Germany

Droop+Rein
Bielefeld, Germany

Heckert
Chemnitz, Germany

SIP
Genf, Switzerland

Starrag
Rorschacherberg, Switzerland

TTL
Haddenham, UK

WMW
Bangalore, India

Innovation as part of the culture.

Ten strong brands, all of which assume a technological leadership position in their chosen field of application: this is the core competence of the Starrag Group and its key to success. In order to enhance and maintain this leadership role, constant innovation is our top priority.

Starrag Group invests more than the average machine tool builder in innovation (research and development). This relates not only to specific product and application expertise but also to the general technology know-how. The result is the profound ability to provide customers with comprehensive solutions which offer the optimum both from technical and economical point of view. In order to improve speed and efficiency in development, the Starrag Group applies two customised innovation processes: brand-driven core development and group-driven innovation management.

Brand-driven core development

The specialised brands represent top technologies in their chosen market segments. The development team responsible is familiar down to the detail with the specific customer requirements, the supplier environment and developments in technology. Through the close links within the industry, targeted improvements and technical quantum leaps can be initiated.

Group-driven innovation management

Innovation management is organised group-wide and covers cross-brand innovation topics, ensuring an intensive exchange of ideas and experience between the brands and covering topics that are of interest for several group companies. Thus, for example, the development of common components or modular machining systems is managed centrally, with corresponding positive cost effects.

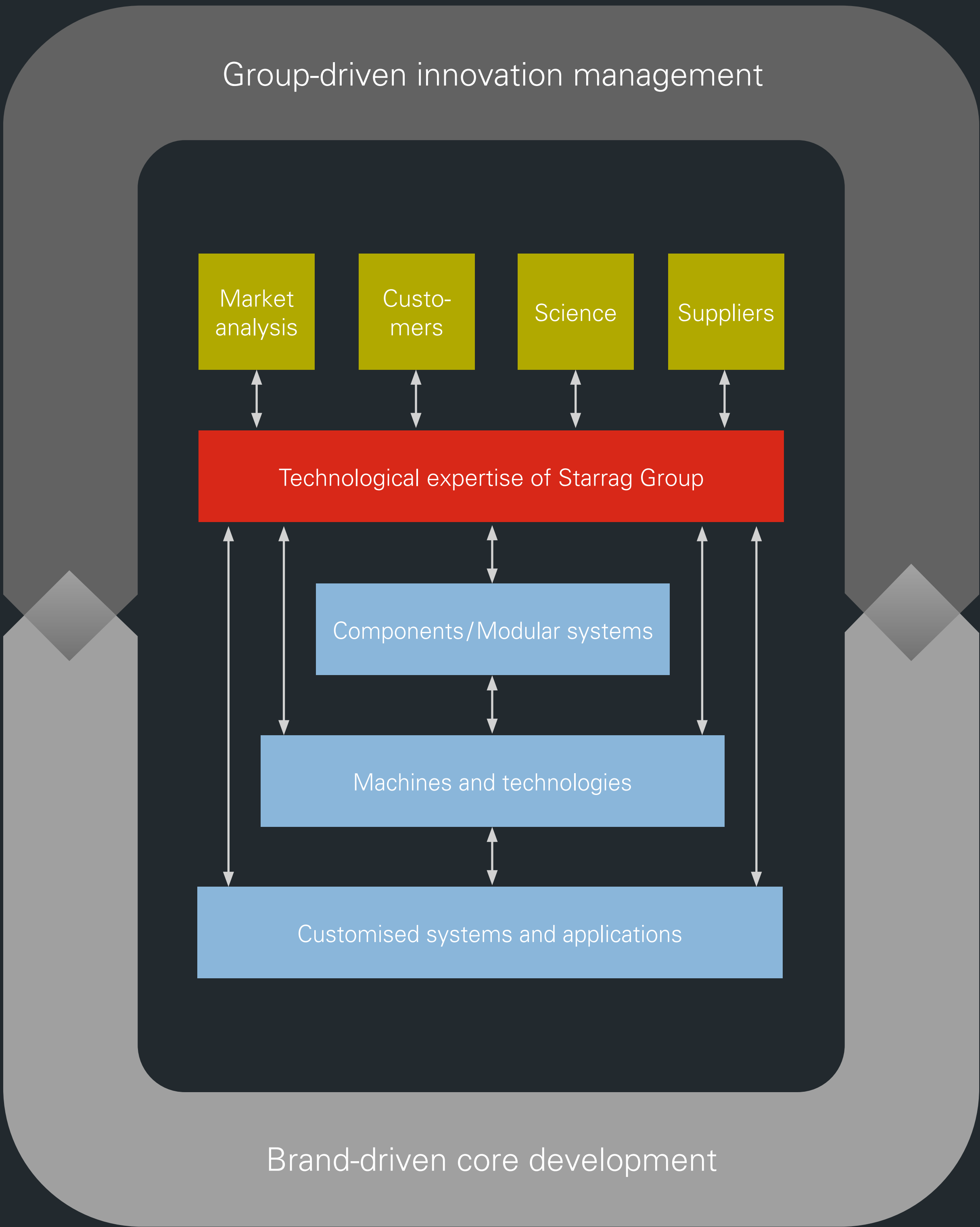
Systematic exchange

A rapid exchange of information about all development topics and market developments has been institutionalized. A group wide prioritisation of the innovation topics to be driven forward across the Group is in place and strictly pursued. The innovation process is strategically coordinated by top-tier management within the mid-term strategic plan.

Internal and external networking

The need to push innovation and to extend the technological edge calls for a holistic view of the research and development process. All available resources are used: from our own individual technical expertise to the Group-wide innovation network and external sources of technology advancement. Starrag Group is continually keeping track of the development in the areas of patents, trade fairs and specialist journals, co-operating intensively with leading universities, cultivating mutual co-operation with customers and suppliers, actively involved in the respective industry associations and making use of the resources of specialised development service providers wherever it is practical. The latter applies both locally to the individual brands and also across the Group. Co-operation with universities focuses on the Technical University RWTH Aachen, the Technical University of Chemnitz, the ETH (Swiss Federal Institute of Technology) Zurich and Advanced Manufacturing Research Centres (AMRC/NAMRC) at the University of Sheffield, UK. This is complemented by the joint development efforts with longstanding supply partners of precision components and systems, CNC control technology, handling systems and tool and fluid systems.

Multi-layer innovation culture:



Staying cool under pressure

"These were real Technology Days". This is what a German specialist editor said about a Starrag presentation in Rorschach. He was particularly impressed by the innovative CO_2 aerosol cooling system for Starrag machine tools presented for the first time at the world's leading trade fair for the industry, the EMO, in September 2013.

The "cryogenic cooling" system developed in co-operation with the Tübingen-based company Walter AG, allows impressive gains in productivity. During the Starrag Group's traditional Technology Days in March 2013, this breakthrough innovation was demonstrated under practice conditions on a 5 axis machining centre producing a turbine blade out special hard to cut steel alloy.

+70 %

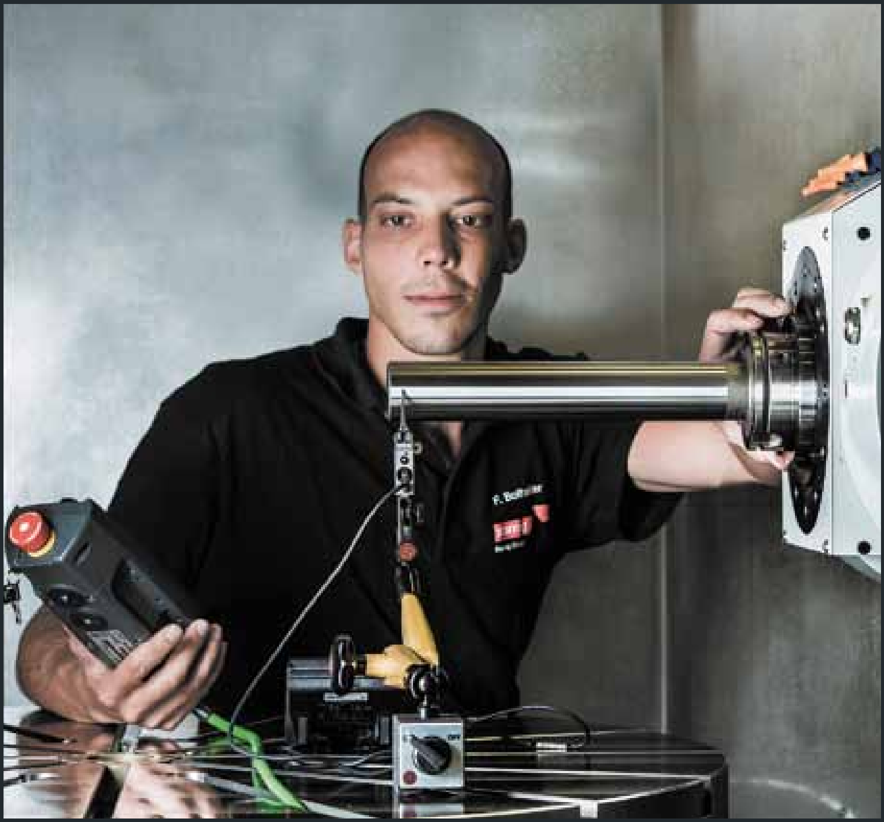
The process of cryogenic cooling developed by Starrag in collaboration with Walter AG achieves a +70 % higher productivity when machining high-tensile materials.

2.66 min

elapsed until 64 % of the material of a high-level alloy tool steel was removed – in comparison to 4.5 minutes needed when applying the usual dry processing method. This was proven during the Technology Days.

40°C

when 160° would be normal. Due to the significantly increased cooling efficiency at the tool, cutting speeds can be substantially raised – from 320 m/min to 400 m/min.



EMO Award

of the German industry journal MM MaschinenMarkt for the innovative process of cryogenic cooling awarded at the world's leading trade fair for the machine tool sector, the EMO, in the "Milling" category.

Revolution from Switzerland

Bumotec's new dynamic S100 multi-machining centre is a major game changer for the serial production of small precision components. It is hardly surprising that the market has welcomed this innovative device with an overwhelming interest. Industry is voicing a growing need for highly dynamic machine tools that are flexible, ergonomic and easy to program, with a high level of precision and productivity suited for individual component manufacturing and long serial production series. The Bumotec S 100 concept avoids the drawbacks of multiple operations on a multitude of single-spindle machines or inflexible complicated to program and set-up transfer machines. Due to the dynamic double-spindle configuration, it is possible to realise previously unachievable productivity gains.

max. 80x80x80

Maximum possible parts dimensions for brass, aluminium or stainless steel components. Shortest setup and cycle times coupled with the highest precision achieved the Bumotec S100multi. These characteristics are demanded by producers in the watch industry, the electronic sector, connector manufacturers and standardized medical devices and implants.

<0.5 sec

chip-to-chip time due to the innovative double spindle concept and high machining dynamics due to linear motors in all axes. A major step in productivity gains!

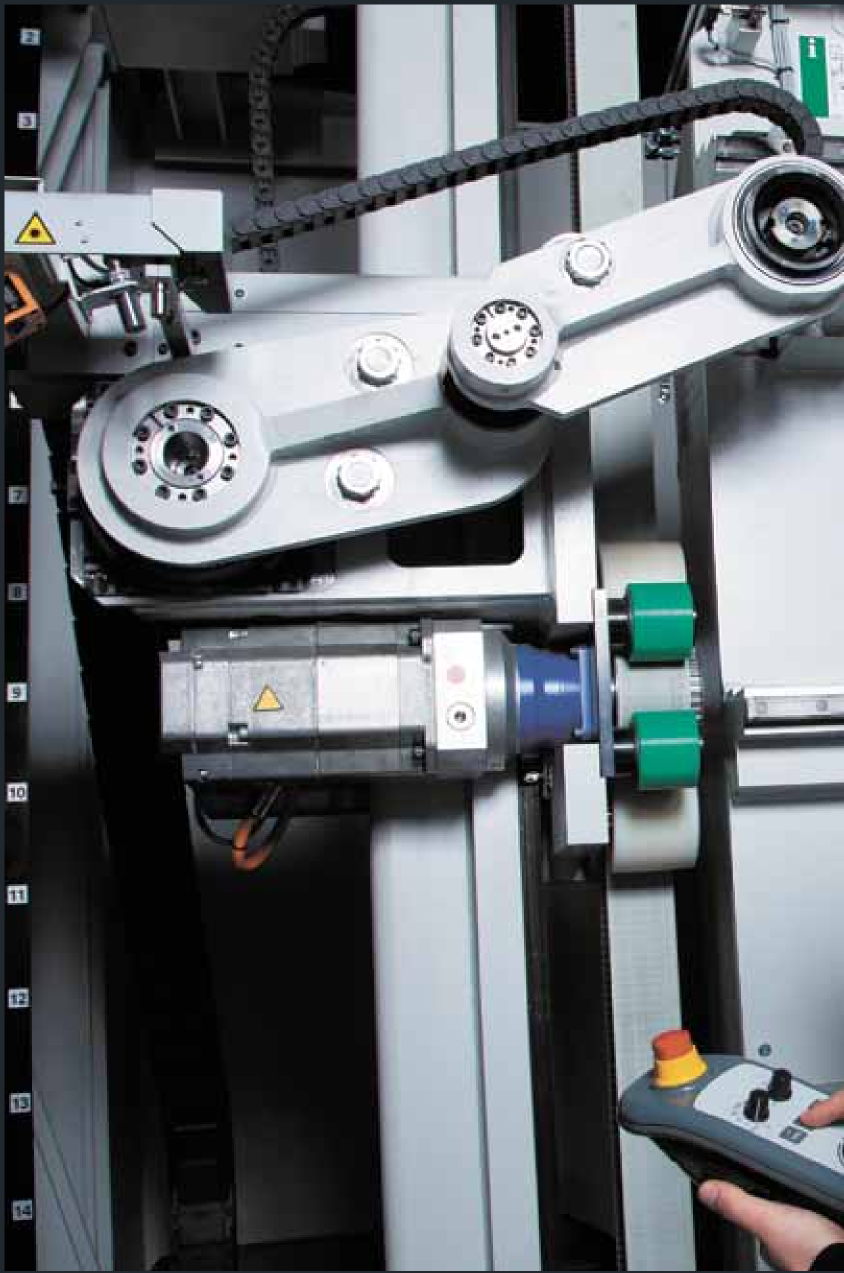
Up to 144

tools, with minimum floor space requirement and multiple tool magazines.

Embedded Services

The close service co-operation of the Starrag Group with a major aircraft manufacturer to maximise machine uptime has evolved over decades. With the acquisition of Dörries Scharmann in 2011, the installed population to be maintained at this site doubled.

In 2013, the Starrag entered into a service agreement with this customer to ensure comprehensive and preventive maintenance under the umbrella of a multi-years co-operation agreement. Based on the agreement Starrag deployed a team of full-time service engineers and support staff to the customers site, supervised by a local on-site manager – a great sign of trust in Starrags capabilities and a significant task for the Starrag Customer Services.



96 %

The Starrag Group was able to achieve over 96% availability in 2013 – far above the expectations.

Award

In 2012, a joint team of the customer and the Starrag Group was already awarded with the chairman's international prize for innovation. This prestigious award recognized a new technology for processing safety-critical aircraft components out of titanium alloys in a very cost-effective process.

Another machine order

The customer placed another machine order in 2013, in order to enhance its production capacity.

Four hours

is the typical response time in the case of a tool-down situation for a three-shift production pattern.

More than 50

machines are serviced by the Starrag Group in the customer's factory.

In the market for the market

Already over 50 % of the machine tools produced globally are consumed in Asia. In order to succeed in these markets, knowledge of local requirements, and a credible local presence, are the key to sustainable success. The Starrag Group therefore has decided some years ago to manufacture machine tools in India.

Following the inauguration of a technology centre started in Bangalore in 2010, Starrag opened a new state of the art production plant in Bangalore in January 2013. This plant is the most modern machine tool plant on the Indian subcontinent. In this plant we are producing a specially developed compact, 4-axis precision horizontal machining centre – the IWK line. The targeted market sectors responded favourably to this new product line, specially designed to meet the climate and power supply challenges in Asia's emerging markets.

Three-point

The base frame has a three point levelling design allowing a quick installation, and allowing our customers a high degree of flexibility in changing their production layout.

Tailored

to the requirements of the Asian market – both in terms of its precision, cost-effectiveness and user-friendliness, supported by a strong local application and after sales network.

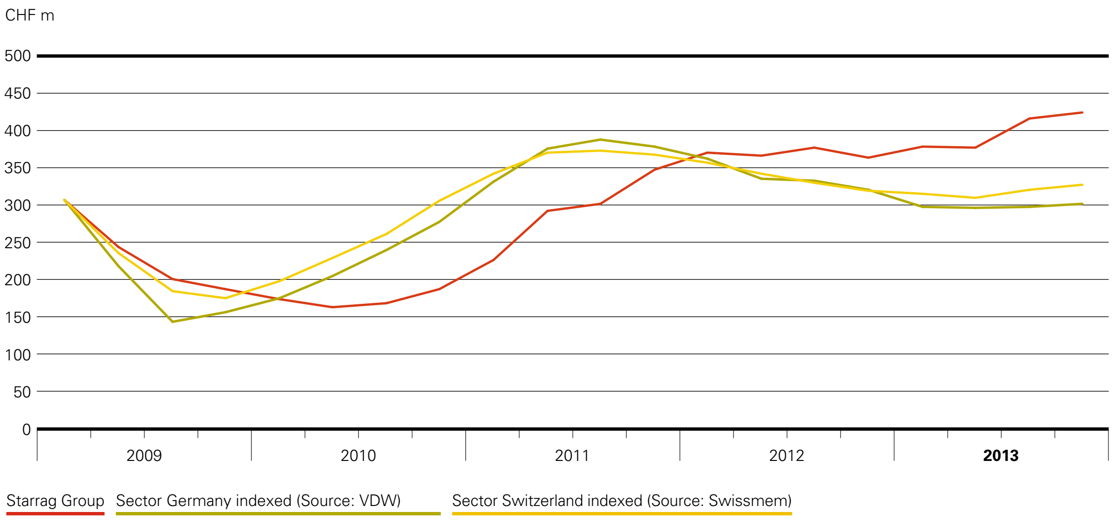
Universally

The products are universally utilisable for precision medium-sized cubic shaped components.

Business performance 2012

From a global perspective, the Starrag Group operated in a complex, economic environment in the financial year 2013, with different trends in different regions and in the different served market segments. In Europe we saw an overall economic trend towards moderate growth, in the Asian and emerging markets we saw slight recession tendencies and currency turbulences, whereas North America economic policy uncertainties had an effect on the global machine tool consumption resulting in a negative trend for orders placed over the entire year. In the 2nd half a certain recovery could be observed. Contrary to the negative industry trend, the Starrag Group

Order intake compared to sector

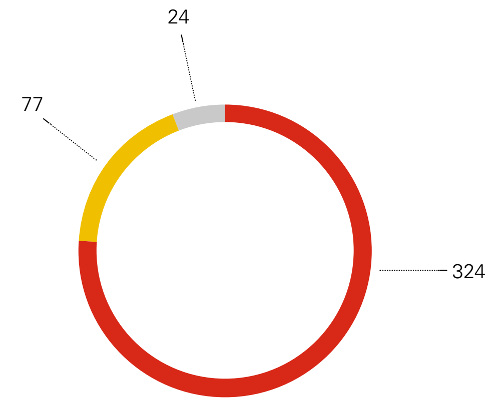


achieved a solid increase in incoming orders primarily due to various large orders gained and partially due to acquisition effects. With regard to our served target markets, the aerospace market clearly showed a positive development. Overall we clearly improved our market position without sacrificing profitability.

Varied developments in target markets

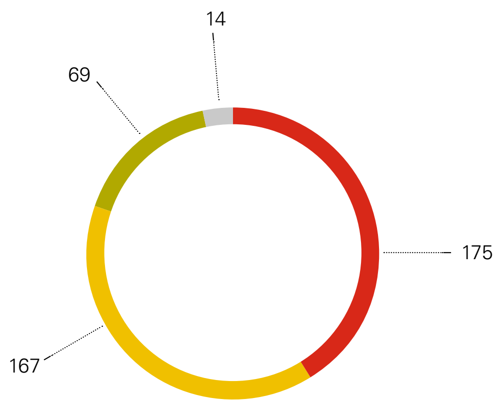
We finished the financial year 2013 with a satisfactory result, taking into account the global economic climate and the one-time restructuring charge. Order intake increased significantly also significantly based on organic growth. Sales revenues increased slightly, operating results before restructuring costs, as well as the net profit, exceeded the levels for the previous year as well. The development within the served target markets shows a very varied picture. Due to various large orders, Aerospace doubled its level of incoming orders. Compared with many preceding years, Aerospace contributed for the first time to 50% of the total group's order intake. Industrial almost maintained the level of order intake of the previous year with Bumotec additionally contributing significantly with its served markets luxury goods and medical. Transport saw fewer new orders, which is attributable to the general lacklustre development of the industrial markets

Order intake by region



CHF m	2013		2012
Europe	324	76 %	58 %
Asia	77	18 %	29 %
North America	24	6 %	14 %

Order intake by market segment



CHF m	2013		2012
Aerospace	175	41 %	30 %
Industrial	167	39 %	38 %
Transport	69	16 %	27 %
Energy	14	3 %	5 %

in Germany and Asia. Due to the great uncertainty about the future energy policy of various key countries, the target market of Energy saw a real drop in investment activity.

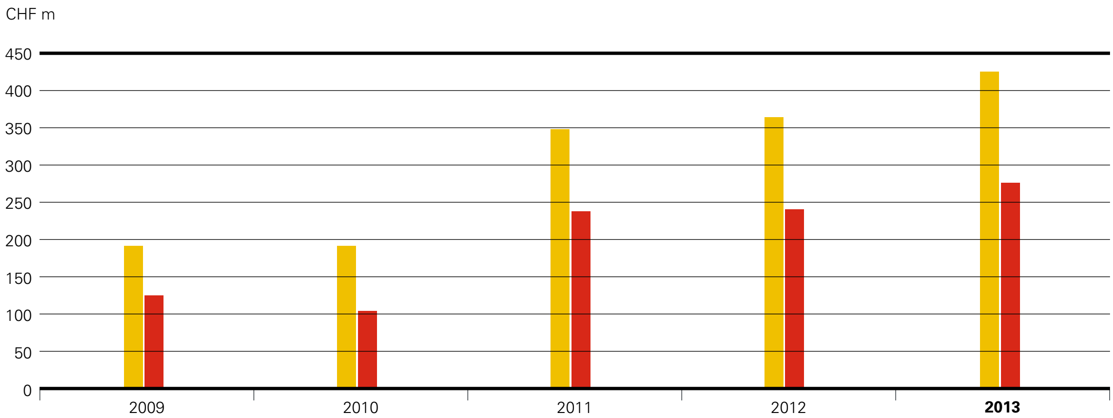
Europe back on the map, Asian business slower

In 2013 we encountered a complex picture from a regional sales perspective. In Europe we saw noticeably more new orders in 2013, driven by various large orders from Western European customers, whereas Eastern Europe was slightly up. In North America, in contrast to the previous year, the order levels were negatively impacted by the ongoing economic and in particular politically based uncertainties. Asia was influenced by lower investments in the Chinese mainland market. On a global scale we succeeded to improve our market position. Due to the positive development in the order levels, our backlog increased by 15 % as at the end of 2013 to CHF 275 million, leading to a good solid foundation position for the current financial year 2014. The backlog is characterised by financially backed orders from globally operating blue chip customers.

High level of order intake and revenues slightly up year-on-year

In 2013 the Group acquired new business worth CHF 425 million, corresponding to a growth rate of 17 % including acquisition and currency effects. Organically we achieved an impressive growth of 9 % in a reclining market. The German machine tool industry association VDW assumes that order intake of its members dropped by 6 %. Due to the acquisition of Bumotec in H1 2012, revenues were slightly above the level of the previous year at CHF 391 million (plus 2 %). With adjustments for acquisition and currency effects sales revenues were impacted negatively by 4 %.

Trend of order intake and order backlog



CHF m	2009	2010	2011	2012	**2013**
Order intake	188	188	348	364	425
Order backlog	124	104	238	239	275

"Homework" done to increase efficiency

The Starrag Group has taken actions already in 2012 to mitigate capacity utilisation differences in individual production sites by introducing short-time working, deploying staff to other locations and transferring certain manufacturing steps to factories with less capacity utilisation. In 2013 we came to the conclusion that the investment levels in the wind energy market will not return to its previous levels and that we had to adapt our capacities to future significant lower volumes. For the implementation we incurred restructuring expenses for the entire year of CHF 3.4 million. These efforts had already in 2013 a slight margin improvement effect, with the full cost improvement becoming tangible in 2014. Due to the higher level of incoming orders in 2013 we expect a solid improvement in capacity utilisation in the various plants in 2014.

The increase of personnel expenses to CHF 148 million, 10 % above the value for the previous year, was the result of the restructuring charge of CHF 3.4 million, the first full-year consolidation of Bumotec acquired in 2012, higher labour unit costs notably in Germany (which could not be passed on to the market) and increased salary levels in emerging countries.

Results sustained

The group achieved an operating result of CHF 22.4 million, before restructuring costs, which measures effectively the operating performance, above that of the previous year and represented 5.7 per cent of sales (previous year: 5.5 per cent of sales). The improvement was driven by higher sales volumes. After restructuring costs, an EBIT of CHF 19.0 million was achieved (-10 %), which translates into an operating margin of 4.9 %. Starrag Group posted a higher net profit of

CHF 13.5 million (previous year CHF 13.0 million) based on improved currency results and a lower tax burden.

Solid financial foundation

The equity ratio again increased by nearly 300 basis points to a solid 56 % in financial year 2013. Due to the pre-financing needs for material spends, free cash flow decreased to CHF -2.3 million, compared with CHF 10.2 million in the previous year. The group still maintains a net liquidity position of CHF 16.1 million. The reduction from CHF 24.9 million was caused by the negative free cash flow and the raised dividend pay-out ratio.

New factory in India

In January, Starrag Group's new state of the art production site in Bangalore was opened as scheduled in conjunction of the leading Indian trade fair for machine tools, IMTEX. At this occasion WMW, one of the ten group brands, launched a newly developed line of compact precision machining centres that are specifically suited to the requirements of the emerging markets (see also the chapter entitled "The art of constant innovation", p. 22). Together with the Technology and Customer Service Centre also set up in Bangalore, we are now in an excellent enhanced position to further develop the promising Asian markets.

Continuous efforts in product innovation and process optimisation of operations

In 2013, our Group continued its substantial invest into the development of new products and processes, for example in an entirely new CO_2 air cooling system, which can increase productivity by up to 70 %. This innovation created great interest at the EMO in Hanover, where we also presented innovative world firsts from our group companies Bumotec and Heckert (see the chapter entitled "Highlights", p. 10). As in previous years we also had a notable presence at all the other leading trade fairs for our industry (the IMTEX Indian Metal-Cutting Machine Tool Exhibition, CIMT – China International Machine Tool Show and Metalloobrabotka Moscow), as well as some other small segment specific targeted trade fairs.

Besides the production plant in Bangalore, a considerable share of our investments was spent for optimising production in the European plants and improving flexibility. The new, group-wide IT infrastructure was finally completed in the year under review, in particular through the full integration of the Dörries Scharmann Group into the group-wide IT network. The Starrag Group has now a global IT system in place which sets a standard for the industry.

We foster a constant learning culture for our employees and have introduced a set of training courses for all levels to improve skills and qualification. In the year under review, a core effort was a training campaign for our service engineers, focussing on raising technical and product knowledge and customer orientation. The apprenticeship programme for the technical training of young Indian employees, carried out jointly with the Swissmem Swiss industry association in accordance with the Swiss Standards for professions involving traineeships, is now going successful into its third year.

Outlook for 2014 with a sense of optimism

Precise forecasts for financial year 2014 are difficult, as they are largely influenced by the investment climate in our target markets. We assume a slight rebound in customer investments in most major markets. This is in line with the German industry association VDW expecting an increase in orders to 10 % in 2014, originating equally from Germany and abroad. We are cautiously optimistic for Europe, whereas we expect for the Asian markets stable order levels at a slightly lower level. The biggest challenge is a prognosis for mainland China. For North America, the Group assumes that economic development will continue to be influenced by the political uncertainties in 2014.

In spite of these global uncertainties, we are relatively optimistic concerning the overall picture. Starrag Group enters into the year 2014 with record solid backlog level, which will be converted with the usual time lag into an increase in sales revenues. Due to the fact that we have also internally sustainably optimised and further improved our cost structure and processes over the past few years, and thus increased efficiency, a greater operating margin may be expected again for the current year. Fundamentally, we continue to aim for an EBIT margin averaging 8 % over a machine tool cycle.

The quote log of Starrag Group is well filled. Turning these quotes into order intake depends largely upon the multi-level decision-making processes of our blue chip customers. In our close contacts with customers, we receive indications that the level of new orders will be at least comparable with the previous year. We are of the opinion that this is a realistic scenario for 2014, due to the various new products and manufacturing process improvements launched to the market in 2013.

Sustainability in the broadest sense of the word

The Starrag Group's industrial and social commitment is long term oriented. We maintain an open dialogue with all stakeholders and consider their needs in a balanced way.
Our strategy to enhance sustainability is based on the economic, social and ecological considerations supporting our financial success.

Results-oriented corporate culture

Economic sustainability is based on a results-orientated corporate culture and supports the 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 performance index proves that we are on the right track. In 2012 (when the latest figures were collated), we were ranked tenth among medium to large-sized companies in the combined evaluation of operating performance and shareholders return (investment performance), and were 15th overall in the past three years. In terms of investment performance alone, the Starrag Group was ranked as high as number three of the Swiss peer group in 2012.

Employee-orientated HR policy

The success of the Starrag Group is based foremost on committed employees who are motivated by working in an open, honest and modern environment and striving to give their very best in terms of performance and customer dedication. Central elements of our management culture are mutual trust, respect for diverse cultures and individuals, regular and timely exchange of information, working collaboratively together, appreciation and promoting the continued development of the individual employee. The Starrag Group undertakes a variety of efforts to increase employee commitment for achieving the company's goals. Employees are kept regularly informed by their managers at all locations about the current state of the business as well as the latest successes and projects, and they also convene twice a year to meet personally the CEO speaking and answering questions at employee meetings. We also publish an in-house magazine entitled “together“ which is published in three languages twice yearly and provides employees with more in-depth information from the various locations and markets.

In order to define a starting point for improving the working environment and motivating 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 peer companies. The Starrag Group came out with very positive results, 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 showing the desired effects. An important result also was the clear identification of certain areas with potential improvement. Measures and actions in these areas had continually been implemented. The high level of employee satisfaction results in an attrition rate over the years well below the industrial average.

We give particular priority to maintaining and improving our employees' skills and expertise. As part of annual formal employee performance review and target agreements, additional training and skills development needs are agreed and corresponding measures being taken. For several years we have been investing into the Starrag Leadership Academy, a group-wide training programme for all management-level employees which supports alignment across cultures and locations and creates a uniform definition of leadership and decision making. These training sessions have considerably strengthened group-wide collaboration between all management-level employees thanks to diversified groups from different locations and functions working together in the academy courses. Other training-based priorities include additional technical training, safety at the workplaces, foreign language skills and coaching in the efficient use of the IT across the group. In the reporting year, in addition to continuation of the Leadership Academy and internal language courses, we have put an emphasis on specific skill development for the assembly departments and the global customers' service group.

Our in-house vocational training plays a central role in developing world class skilled specialist employees. We have been training since years around 180 young apprentices and students every year in more than ten different apprenticeship/internship programs. We have invested in modern, well-equipped training centres at every location where our apprentices are being formed in the three to four years state certified curriculum.
The apprentices who sign up with us at the end enter into a variety of interesting career paths our group can offer. In India, we also participate with other Swiss companies in the Swiss VET (Vocational Educational Training) Programme which is designed to train young talented Indian employees based on the proven and successful 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 our utmost priority together with a systematic health management system. Our aim is to continually improve the working attitude and safety consciousness above the health and safety standard requirements. We take monthly statistics of relevant health and incident 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 2013 and no serious incidents were recorded. The various measures implemented in previous years in terms of safety in the workplace, health management and working atmosphere were systematically continued in 2013 and extended step by step to other locations. Sporting events such as a yearly ski day, bike-to-work months and a company fun run were also held.

Product energy efficiency as central starting point

In the past, and in particular in regions where energy prices are low, too little attention was paid to energy consumption of machine tools. This has changed with rising energy costs, bringing the ecological question about energy consumption of our machines which perform decades of service for our customers into the foreground.
We 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 important decision factors for choosing a preferred supplier, especially for multi machine installations and across the life cycle of a machine system. Starrag was one of the pioneers to take part in the "Blue Competence" campaign run by CECIMO, the European association of machine tool builders association. This programme targets increased

energy efficiency and sustainability in manufacturing technology, and will 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 subsequently reduced production times, an investment in our machinery is particularly efficient for energy-saving objectives.

We are making efforts to improve the energy efficiency of our entire range of machines more through our eeMC (Energy-Efficient Machining Centres) initiative. Typical measures introduced range from implementing energy-efficient engines to minimising the base load loss and using frequency-controlled pumps as well as the regeneration of brake energy. Starrag machines are specifically designed to maintain their high precision over a wide range of temperatures eliminating in some cases the need for energy consuming air conditioning of production plants.

Collaborating in national and international standardisation committees such as "Energy efficiency in machine tools" and the related defining of the new ISO standard 14955 has been an important priority for us. Participating in research projects in various countries to increase the energy efficiency of machines tools means that we can quickly introduce new discoveries and technologies into product developments. 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 stand-by and warm-up settings to reduce the required preheating time. A significant potential to reduce energy consumption without affecting quality and functionality leading to a more intelligent production technology could be identified. The energy-saving potential over time to be attained across the entire production process and infrastructure is believed to be in the double-figure percentage numbers.

The Starrag Group is continually implementing measures to improve its environmental performance at all business and plant locations. This includes ensuring that our own production processes are always energy efficient and minimizing effects on the environment. For all projects involving investments, as well as maintenance, upgrade and renovation of buildings, environmental aspects are always observed alongside cost/benefit considerations. The success is measured and documented, last year was very successful with a reduction of energy consumption at our production locations by 4 % in 2013 to 0.69 GJ per CHF 1'000 net value addition (2012: 0.72 GJ).

A photovoltaic system with a surface area of some 750 m^2 was installed in 2013 at the production site at Rorschach, Switzerland as part of the refurbishment and upgrade of the assembly hall roof, with an expected annual output of around 100 MWh. In our paint shop, environmentally-friendly water-soluble paints which do not contain solvents are used wherever possible. We focus on recyclable materials. Production consumable products such as oils, fats and cutting chips are systematically recycled. We employ special treatments for cooling lubricants to ensure that the latter can be recycled as well.

Corporate Governance

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60 Auditors
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Group structure and shareholders

Management organisation

Board of Directors
Walter Fust, President
Prof. Dr. Christian Belz
Dr. Hanspeter Geiser
Adrian Stürm

CEO
Prof. Dr. Frank Brinken (until 12.04.2014)
Walter Börsch (from 12.04.2014)

Business Unit 1	Business Unit 2	Business Unit 3	Business Unit 4
Dr. Bernhard Bringmann	Dr. Eberhard Schoppe	Dr. Norbert Hennes	Jean-Daniel Isoz
‣ Starrag	‣ Heckert	‣ Berthiez	‣ Bumotec
‣ TTL	‣ WMW	‣ Dörries	‣ SIP
		‣ Droop+Rein	
		‣ Scharmann	

Operations
Dr. Georg Hanrath

Customer Service
Günther Eller

Regional Sales
Walter Börsch

CFO / Corporate Center
Gerold Brütsch

Participation structure

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

Details of share capital and the equity interest held are given in the consolidated financial statements on the page 71 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 2013 was CHF 254.5 million.

Shareholders

There were 740 shareholders registered in the company's share register on 31 December 2013. Distribution by number of shares held was as follows:

More than 100'000 shares	‣ 3 shareholders
10'001 to 100'000 shares	‣ 16 shareholders
1'001 to 10'000 shares	‣ 66 shareholders
1 to 1'000 shares	‣ 655 shareholders

209'377 shares or 6.2 % were not registered in the share register on 31 December 2013 (cleared shares).

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

- Walter Fust, Freienbach, Switzerland 1'848'074 shares, 55.00 %
- Eduard Stürm AG, Goldach, Switzerland 315'840 shares, 9.40 %
- Max Rössler / Parmino Holding AG, Goldach, Switzerland, 190'185 shares, 5.66 %

No disclosure notifications were made during the 2013 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:

- 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 of which Jelmoli Holding AG acquied a majority stake 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.

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

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 Advokaturbureau 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 2013 financial year, seven board meetings with an average duration of 3.5 s 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: Jean-Daniel Isoz, Dr. Norbert Hennes, Gerold Brütsch, Dr. Georg Hanrath, Prof. Dr. Frank Brinken, Günther Eller, Walter Börsch, Dr. Eberhard Schoppe, Dr. Bernhard Bringmann

Prof. Dr. Frank Brinken (1948, Swiss) assumed office as CEO of Starrag Group in 2005 (until 12. April 2014).

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. In 2013, Prof. Dr. Frank Brinken was appointed Honorary Professor at the Technical University of Chemnitz.

Walter Börsch (1959, German) will be CEO of Starrag Group from 12th April 2014 and is Head of Regional Sales since 1st Januar 2014. Before he has been Head of Business Unit 1 since January 2012 until end of 2013 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 as 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 post-graduate studies in marketing at the University of St. Gallen.

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.

Dr. Bernhard Bringmann (1978, German) has been Head of Business Unit 1 since 1st January 2014 with responsibility for the Starrag brand in Rorschacherberg (Switzerland) as well as for the TTL subsidiary in Haddenham (UK).

He joined Starrag in 2008 as Head Test Field. He has occupied different positions, from 2009 Deputy Head of Development, from 2010 Innovation Manager for Starrag Group and since the beginning of 2012 Head of Engineering at Starrag Rorschacherberg. Previously, he had worked at the ETH Zurich as a scientific assistant.

Bernhard Bringmann has a degree in mechanical engineering from ETH Zurich and a Master of Science in Mechanical Engineering from the Rensselaer Polytechnic Institute in Troy/USA. He is Member of the International Academy of Production Engineering CIRP.

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 brands 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, with responsibility for the brand Berthiez in Saint Etienne (France), Dörries and Scharmann in Mönchengladbach (Germany) and Droop+Rein in Bielefeld (Germany).

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 Head of Business Unit 4 since March 2013, with responsibility for the brand Bumotec in Sâles (Switzerland) and SIP in Geneva (Switzerland).

Prior to that, he was Managing Director of SIP Société d'Instruments de Précision SA from 2006. After first working as sales manager for SIP from 2000 to 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.

Dr. Eberhard Schoppe (1955, German) has been Head of Business Unit 2 in Chemnitz since 2004, with responsibility for the brand Heckert in Chemnitz (Germany).

Since 1999 he has been head of Production and Technology and member of management. 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 2013 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
- 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 annuallyin 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 Group Holding AG from the majority shareholder at his normal retirement date in 2013 (60'760 at the price of CHF 35.00, 15'000 at the price of CHF 40.00 and 25'250 at the price of CHF 77.00), insofar as the CEO has not previously ended his working relationship with the Starrag Group by unilateral termination. The CEO will exercise his rights under the option agreement after his retirement, planned for April 2014.
The company has no stock participation programme.

Disclosure of indemnities to the Members of the Board of Directorsand of management

The following information was verified by the auditors as part of the consolidated financial statements (see page 97, explanation 31).
The short-term benefits paid out to non-executive members of the Board of Directors amounted to CHF 299'000 in the year under report (compared-with CHF 316'000 the previous year). The short-termbenefits paid out to management amounted-to CHF 3'732'000 (compared with CHF 2'908'000 the previous year). No post-employment payments, other payments or benefits were made.

CHF 1'000	**2013**					2012				
	Fixed	Variabel	Options	Pension and other	**Total**	Fixed	Variabel	Options	Pension and other	**Total**
Walter Fust	96	15	–	5	116	68	15	–	4	87
Prof. Dr. Christian Belz	36	15	–	4	55	36	15	–	4	55
Dr. Hanspeter Geiser	36	15	–	2	53	36	15	–	4	55
Adrian Stürm	45	15	–	4	64	45	15	–	4	64
Valentin Vogt (until 12. April 2013)	10	–	–	1	11	36	15	–	4	55
Total Board of Directors	**223**	**60**	–	**16**	**299**	221	75	–	20	316
Variable as percentage of total compensation		21%					25%			
Total Executive Board	**2'470**	**938**	**23**	**301**	**3'732**	2'023	587	26	272	2'908
Variable as percentage of total compensation		28%					22%			
Thereof:										
‣ Prof. Dr. Frank Brinken	380	154	23	79	636	365	155	26	92	638
Variable as percentage of total compensation		29%					30%			

The fixed salaries were higher in 2013 due to the enlarged Executive Board by one person and as a result of selective adjustments. The variable salaries have increased due to one-off special premium payments which became due in 2013, in connection with the integration of Dörries Scharmann purchased in 2011.

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 90 (explanation 20).

	Number of shares 31.12.2013		Number of shares 31.12.2012	
Participations of Board of Directors and Management Board:	Shares	Options	Shares	Options
Walter Fust	1'848'074	–	1'845'602	–
Prof. Dr. Christian Belz	2'800	–	1'330	–
Dr. Hanspeter Geiser	2'050	–	2'050	–
Adrian Stürm	26'680	–	26'680	–
Valentin Vogt (until 12. April 2013)	n.a.	–	2'660	–
Total Board of Directors	1'879'604	–	1'878'322	–
Prof. Dr. Frank Brinken	2'800	101'010	2'800	101'010
Gerold Brütsch	300	–	300	–
Günther Eller	200	–	200	–
Total Management Board	3'300	101'010	3'300	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 2013 financial year and charged to the consolidated financial statements for 2013 amounted to CHF 302'900.

Additional fees

Additional non-audit fees paid to Pricewaterhouse-Coopers AG and charged to the consolidated financial statements for 2013 amounted to CHF 227'000 CHF. 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:

- **12.04.2014**
  Annual general meeting in Rorschacherberg (10.30 a.m. in the Mehrzweckhalle Rorschacherberg)

- **09.05.2014**
  Information on first-quarter 2014 results

- **25.07.2014**
  Letter to shareholders on 1H 2014 results

- **04.11.2014**
  Information on third-quarter 2014 results

- **26.01.2015**
  Initial information on full-year 2014 results

- **06.03.2015**
  Presentation of 2014 results for analysts and the media in Zurich

- **24.04.2015**
  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.

Contacts:

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Financial commentary

High level of order intake, steady earnings

- Order intake up by 17 % to CHF 425 million – Revenues up by 2 % to CHF 391 million
- EBIT before restructuring costs up by 6 % to CHF 22 million – operating margin 5.7 %
- Net profit up 4 % to CHF 13.5 million – earnings per share CHF 3.97
- Strong balance sheet thanks to increased equity ratio of 56 % – return on equity 7.1 %
- Profit distribution remaining at CHF 1.80 per share – payout ratio 45 %

CHF m	**2013**	2012 [1]	Change
Order intake	424.9	364.2	+16.7%
Sales revenue	390.7	384.0	+1.7%
Earnings before interest, taxes and restructuring EBITR	22.4	21.1	+6.1%
Operating profit EBIT	19.0	21.1	-10.0%
Net income	13.5	13.0	+3.7%
Earnings per share (in CHF)	3.97	3.81	+4.2%
EBITR as percentage of sales revenue	5.7%	5.5%	n/a
EBIT as percentage of sales revenue	4.9%	5.5%	n/a
Net income as percentage of sales revenue	3.5%	3.4%	n/a
Return on equity (ROE)	7.1%	7.2%	n/a
Cashflow from operating activities	8.8	24.9	-64.8%
Capital expenditure in fixed assets	11.2	32.1	-65.0%
Free cash flow	-2.3	10.2	-122.5%
Profit distribution per share (in CHF) [2]	1.80 [3]	1.80	–

CHF m	**31.12.2013**	31.12.2012 [1]	Change
Order backlog	274.7	238.6	+15.1%
Total assets	348.7	347.2	+0.4%
Net cash	16.1	24.9	-35.3%
Shareholders equity	193.6	183.6	+5.4%
Equity ratio	55.5%	52.9%	+4.9%
Employees at year end	1'667	1'644	+1.4%

[1] Restated due to the application of the amended IAS 19 – Employee Benefits.
[2] In form of a withholding-tax-free distribution from capital contribution reserves.
[3] Proposal by the Board of Directors to the Annual General Meeting.

In the financial year 2013 the Starrag Group achieved a net profit of CHF 13.5 million, representing an increase of 4%. The EBIT margin before restructuring costs was improved by 5.5% to 5.7% of sales revenues. The order intake amounted to CHF 425 million, and is thus 17% up year-on-year. The Board of Directors will request the General Meeting on 12 April 2014 to resolve a profit distribution of CHF 1.80 per share in the form of a distribution of reserves from capital contributions that is exempt of withholding tax. This corresponds to a payout ratio of 45% of the net profit.

Level of incoming orders high

Order intake rose in 2013 by 16 % to CHF 425 million. After adjustment for acquisition and currency effects it was 9.4 % up compared to the previous year. This achievement is in contrast to a drop in the level of incoming orders of 6 % reported by the German industry association VDW for its member companies. Since the order intake was higher than the actual sales revenues, there was a resulting "book-to-bill ratio" (ratio of incoming orders to revenues) of 1.09. Due to the high level of order intake, at CHF 275 million the order backlog was up by 15.1 % or CHF 36 million year-on-year.

Growth of revenues and gross profit

In 2013 Starrag Group achieved sales revenues of CHF 391 million, up 1.7 % compared to the previous year. Adjusted by the currency effect and that of the acquisition of Bumotec, sales revenue dropped by 4.1 %, attributable to a delay in new orders, which, instead of in 2012, as expected, were only placed in the year under review.

The gross profit (sales revenues less material expenses plus/less changes in inventories) amounted to CHF 234 million or 59.9 % of the sales revenues. The gross margin thus lays a significant 2.3 percentage points above the percentage for the previous year (57.6 % or CHF 221 million).

There were positive effects on the gross margin through cost savings and synergies resulting from the acquisition of Dörries Scharmann in 2011, a higher average percentage of completion of the orders processed, and higher margins due to the optimised product mix. Negative effects arose from selective increases in material costs, caused by the continuing high capacity utilisation in the supply chain in 2013.

EBITR operating result: Increased profitability from operations

The earnings before interest, taxes, restructuring costs and depreciation (EBITRDA) was increased by CHF 1.4 million to CHF 35.8 million in the year under review. The earnings before restructuring costs (EBITR) rose from CHF 21.1 million to CHF 22.4 million. This produced an increase in the EBITR operating margin before restructuring from 5.5 to 5.7 per cent of sales revenues.

At CHF 145 million, the personnel expenditure before restructuring was 7 % up compared to the previous year, mainly due to the first full-year consolidation of Bumotec, taken over in late May 2012. Further reasons for the increased personnel expenditure include the increased unit wage costs, notably in Germany (which could not be passed on to the market) and increased salaries in the emerging markets. The proportion of personnel expenditure before restructuring costs increased from 35.2 % to 37.1 % of the sales revenues, which is principally attributable to Bumotec, which operates with a greater level of vertical integration.

Other operating expenses amounted to CHF 55 million, and thus, due to the accounts consolidated with Bumotec for a whole year for the first time, came in at 2.7 % above the figure for the previous year, in spite of the cost cuts achieved. Due to the strict cost management, the other operating expenses could be kept at 14.2 per cent of sales. The depreciation and amortisation expense remained at CHF 13.4 million.

Restructuring completed

As a consequence of stepping up measures to reduce costs, the personnel expenditure was affected by restructuring expenses of CHF 3.4 million, which were primarily imposed due to the ongoing curbed propensity to invest in the target market of wind power. Following restructuring, an operating result EBIT of CHF 19.0 million remained (compared to CHF 21.1 million for the previous year), corresponding to an EBIT margin of 4.9 % (5.5 %).

Investment in product development at a high level

Investments in developing new products remained at consistently high levels. CHF 29.2 million – or 7.5 % of sales revenues – was invested in developing innovative products and processes and for customised product enhancement in the year under review. Once government grants as well as capitalisations and depreciation of development projects are taken into account, CHF 29.1 million net (7.5 % of the sales revenues) was charged to the income statement (compared to CHF 28.8 million net in the preceding year, or 7.5 % of the sales revenues).

Increased net profit and earnings per share

Despite the reduction in the operating result after restructuring, the Starrag Group was able to raise the net profit by 3.7 % to CHF 13.5 million. Earnings per share (EPS) rose by 4.2 % to CHF 3.97.

Net financial expenses decreased and thus improved from CHF 2.4 million to CHF 1 million. The improvement is due to a positive currency result of CHF 0.3 million, after a currency loss of CHF 1.0 million had to be posted in the previous year. In addition, the tax expenditure was lower than in the previous year (CHF 4.5 million compared with CHF 5.6 million). The average tax rate fell accordingly, from 30.0 % to 25.2 %, dropping by 4.8 percentage points. This decrease can be explained by the noticeably increased share of the net profit attributable to countries with a lower tax burden.

Balance sheet continues to be strong

At CHF 349 million, the total assets as at 31 December 2013 remained unchanged in comparison with the previous year.

Current assets increased slightly to CHF 215 million (compared with CHF 211 million the previous year). Cash decreased by CHF 9 million – a reduction which is attributable to the decrease in liabilities as well as advance payments for new and anticipated orders, which also led to the receivables, inventories and other assets being increased by a total of CHF 13 million. The receivables continue to have a healthy maturity structure. In the year under review of 2013, no losses on receivables worthy of mention had to be written off.

Fixed assets rose slightly to CHF 134 million (previous year: CHF 136 million). The investments in the fixed assets amounted to CHF 12 million, and were compensated by depreciation allowances and amortisations of CHF 13 million (previous year: CHF 13 million).

Liabilities were reduced from CHF 164 million to CHF 155 million. The greatest changes originated from the other operating liabilities, which had been extraordinarily high in the previous year for accounting reference-date related reasons, as well as the deferred income, which rose as a result of higher payments received on account of orders from customers. The financial liabilities were reduced slightly to CHF 6 million, whereby the net cash receded in line with the reduction in cash to CHF 16 million.

Equity rose by CHF 8 million to CHF 194 million, driven by the net profit of CHF 14 million, as well as the distribution of dividends of CHF 6 million. CHF 2.3 million could, moreover, be credited to the equity from the revaluation of the pension benefit obligations. Starrag Group's capital structure continues to remain solid. A further increase in the equity ratio to 56 % emerged in the year under review (previous year 53 %).

Free cash flow burdened by preliminary financing of orders

Cash flow from operating activities was reduced by CHF 24.9 million to CHF 8.8 million. The reduction is in particular explained by the increased level of preliminary financing of orders. On the one hand the inventories increased by CHF 8.0 million, while on the other hand, for accounting reference date-related reasons, the extraordinarily high operating liabilities in the previous year were decreased by CHF 4.6 million and the income tax liabilities by CHF 2.0 million. The outflow of funds from investment activity was reduced to CHF 11.2 million following the purchase of Bumotec in the previous year. Due to the low cash flow from operating activities in the year under review, free cash flow amounted to CHF -2.3 million, compared with CHF 10.2 million the previous year. Investments in the fixed assets include CHF 12 million for the acquisition of property, plant and equipment and intangible assets. CHF 7 million of the latter went into the extension and modernisation of the machinery and means of production in the European factories, as well as the development of new technologies or products, and CHF 3 million into the development of IT systems, due amongst other reasons to the complete integration of Dörries Scharmann into the Starrag Group's global network. A further CHF 2 million went into the development of the production plant in India. Overall, CHF 7 million was attributable to investments in replacements and CHF 5 million to investments in expansion.

The outflow of funds from financing activities amounted to CHF 6.8 million, and is predominantly composed of the dividends exempt from withholding tax paid out in April 2013 from capital contributions of CHF 6.1 million. The latter corresponded to a payout ratio of 45 % of the net profit for 2012.

Consolidated income statement

CHF 1'000		2013	2012 restated [1)]
Sales revenue	1,2,3	390'666	383'957
Change in self-manufactured products		1'866	3'232
Material expenses		-158'459	-165'901
Personnel expenses	4	-148'158	-135'308
Operating expenses	5	-55'310	-54'093
Other operating income	6	1'790	2'503
Earnings before interest, taxes, depreciation and amortization EBITDA		32'395	34'390
Depreciation and amortization	1,7	-13'403	-13'325
Earnings before interest and taxes EBIT		**18'992**	21'065
Financial income	8	834	239
Financial expenses	8	-1'799	-2'767
Earnings before tax		**18'027**	18'537
Income tax expenses	25	-4'544	-5'556
Net income		**13'483**	12'981
Thereof:			
‣ Shareholders of company		13'347	12'802
‣ Non-controlling interests		136	179
Earnings per share (in CHF)	9	3.97	3.81
Diluted earnings per share (in CHF)	9	3.97	3.81

Consolidated statement of comprehensive income

CHF 1'000	2013	2012 restated [1)]
Net income	**13'483**	12'981
Remeasurement pension benefits	2'749	2'298
Income taxes on remeasurement pension benefits	-453	-402
Items not recyclable to the income statement	2'296	1'896
Cashflow hedges	616	1'064
Income taxes on Cashflow hedges	-187	-187
Currency translation	-196	-1'474
Items recyclable to the income statement	233	-597
Other comprehensive income	**2'529**	1'299
Total comprehensive income	**16'012**	14'280
Thereof:		
‣ Shareholders of company	15'884	14'085
‣ Non-controlling interests	128	195

[1)] See note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

The enclosed notes are part of the consolidated financial statements.

Consolidated balance sheet

CHF 1'000		31.12.2013	31.12.2012 restated [1]	01.01.2012 restated [1]
Cash and cash equivalents		22'453	31'645	43'728
Receivables	10	103'417	100'841	93'498
Other financial assets	11	7'930	5'968	4'357
Inventories	12	81'002	72'652	67'420
Total current assets		**214'802**	211'106	209'003
Tangible fixed assets	13	83'327	83'855	72'709
Intangible assets	14	50'595	52'248	44'906
Total fixed assets	15	**133'922**	136'103	117'615
Total assets		**348'724**	347'209	326'618

CHF 1'000		31.12.2013	31.12.2012 restated [1]	01.01.2012 restated [1]
Financial liabilities	16	1'483	1'710	527
Operating liabilities	17	26'299	32'974	32'654
Accrued expenses and deferred income	18	81'499	76'437	70'237
Current income tax		4'192	8'457	8'210
Provisions	19	5'780	7'887	8'515
Total current liabilities		119'253	127'465	120'143
Financial liabilities	16	4'866	5'042	6'217
Deferred income tax	25	27'518	24'113	18'968
Provisions	19	2'255	2'997	4'001
Pension benefit obligation	24	1'258	3'948	3'842
Total non-current liabilities		35'897	36'100	33'028
Total liabilities		**155'150**	163'565	153'171
Share capital	20	28'560	28'560	28'560
Additional paid-in capital		79'772	85'820	89'851
Retained earnings		105'683	92'313	79'485
Other reserves	21	-21'397	-23'934	-25'217
Total shareholders' equity of company		192'618	182'759	172'679
Non-controlling interests		956	885	768
Total shareholders' equity		**193'574**	183'644	173'447
Total liabilities and shareholders' equity		**348'724**	347'209	326'618

[1] See note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

The enclosed notes are part of the consolidated financial statements.

Consolidated cashflow statement

CHF 1'000		2013	2012 restated [1]
Net income		13'483	12'981
Income tax expenses	25	4'544	5'556
Interest expenses	8	546	243
Interest income	8	-216	-193
Depreciation and amortization	7	13'403	13'325
Change in non-current provisions		-711	-335
Other non-cash items		-209	509
Change in inventory		-7'959	-2'602
Change in other non-cash net current assets		-7'725	1'527
Income tax paid		-6'385	-6'082
Cashflow from operating activities, net		**8'771**	24'929
Capital expenditure for:			
‣ Acqusition of subsidiaries	33	–	-17'348
‣ Tangible fixed assets		-9'780	-11'741
‣ Intangible fixed assets		-2'341	-3'266
Disposals of fixed assets		909	278
Cashflow from investing activities, net		**-11'212**	-32'077
Change in current financial liabilities		-32	-135
Repayment of non-current financial liabilities		-286	-281
Interest paid		-552	-142
Interest received		216	193
Dividend payment	9	-6'105	-4'109
Cashflow from financing activities, net		**-6'759**	-4'474
Currency translation		8	-461
Net change in cash and cash equivalents		-9'192	-12'083
Cash and cash equivalents at beginning of year		31'645	43'728
Cash and cash equivalents at year end		**22'453**	31'645

[1] See note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

The enclosed notes are part of the consolidated financial statements.

Consolidated statement of shareholders' equity

CHF 1'000	Share capital	Additional paid-in capital	Retained earnings	Other reserves	Shareholders' equity of the company	Non-controlling interests	**Total shareholders' equity**
31.12.2011	28'560	89'851	79'485	-22'028	175'868	768	176'636
Restated [1]	–	–	–	-3'189	-3'189	–	-3'189
01.01.2012 [1]	28'560	89'851	79'485	-25'217	172'679	768	173'447
Net income [1]	–	–	12'802	–	12'802	179	12'981
Other comprehensive income [1]	–	–	–	1'283	1'283	16	1'299
Comprehensive income [1]	–	–	12'802	1'283	14'085	195	14'280
Share-based payment	–	–	26	–	26	–	26
Dividend payment	–	-4'031	–	–	-4'031	-78	-4'109
31.12.2012 [1]	28'560	85'820	92'313	-23'934	182'759	885	183'644
Net income	–	–	13'347	–	13'347	136	13'483
Other comprehensive income	–	–	–	2'537	2'537	-8	2'529
Comprehensive income	–	–	13'347	2'537	15'884	128	16'012
Share-based payment	–	–	23	–	23	–	23
Dividend payment	–	-6'048	–	–	-6'048	-57	-6'105
31.12.2013	**28'560**	**79'772**	**105'683**	**-21'397**	**192'618**	**956**	**193'574**

[1] See note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

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 (Business: Holding company) includes the following directly and indirectly controlled group companies:

- Starrag Group Holding GmbH, Chemnitz, Germany
  (Business: Holding company, nominal capital TEUR 4'500, interest 100 %)
- Starrag Group Holdings Ltd., 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, 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, Chemnitz, Germany
  (Business: Production, nominal capital TEUR 5'113, interest 100 %)
- Starrag India 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 %)
- Dörries Scharmann Technologie GmbH, Mönchengladbach, Germany
  (Business: Production, nominal capital TEUR 21'986, interest 100 %)
- Dörries Scharmann Grundstücks-Vermietungsgesellschaft GmbH & Co. KG, Mönchengladbach, Germany
  (Business: Financing, nominal capital TEUR 10'980, merged with Dörries Scharmann Technologie GmbH as of November 2013)

- FIRMUS Grundstücks-Vermietungsgesellschaft GmbH & Co. KG, Mönchengladbach, Germany (Business: Financing, nominal capital TEUR 9, interest 94 %)
- Dörries Scharmann Technolgie Service Center GmbH & Co. KG, Ichtershausen, Germany (Business: Production, nominal capital TEUR 77, interest 80 %)
- Starrag USA Inc, Hebron, USA (Business: Sales, nominal capital TUSD 30, interest 100 %)
- Starrag UK Ltd., Birmingham, UK (Business: Sales, nominal capital TGBP 1'525, interest 100 %)
- Starrag (Shanghai) Co. Ltd., Shanghai, China (Business: Sales, nominal capital TUSD 200, interest 100 %)
- Starrag Makina Ticaret ve Servis Ltd., Ankara, Turkey (Business: Sales, nominal capital TTRY 5, interest 100 %)
- Starrag RU Ltd., Moscow, Russia (Business: Sales, nominal capital TRUB 2'000, interest 100 %
- Starrag 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 %)
- 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. For more information about this acquisition see note 33 on page 98.

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 creditworthy banks.

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 major 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 (see note 25).

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 (see note 24).

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 other 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, 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. Additionally, the residual value includes revenues and profits which are sustainably expected over long-term based on a residual growth rate. 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 legal entities which are 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. Financing of the plans is through employer's and employees' contributions which are periodically fixed to fully cover the insurance premiums due.

The German companies do not maintain a pension benefit scheme, as personnel are covered by the state pension.

With defined benefit plans, pension benefit obligation equals to the present value of future cash outflows (calculated according to the project credit unit method) using interest rates of corporate or government bonds with a duration in line with the average cash outflow term. Service costs resulting from the actuarial calculations are charged to the personnel expenses. Interest expenses include the interest income on the plan assets less the interest expense from discounting the pension benefit obligation, both at the same interest rate. The periodic remeasurement of the pension obligations is recognized in the other comprehensive income. Overfunding would only be recognized if actually available for future contribution repayments or reductions.

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 of the Starrag Group Holding AG from the majority shareholder at his normal retirement date in 2013 (60'760 at the price of CHF 35.00, 15'000 at the price of CHF 40.00 and 25'250 at the price of CHF 77.00), insofar as the CEO has not previously ended his working relationship with the Starrag Group by unilateral termination. The CEO will exercise his rights from the option agreement after his retirement foreseen for April 2014. 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 2013

- **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 28 (revised)** Investments in associates (for business years starting from 1 January 2013)
- **IAS 36 (revised)** Impairment of Assets (for business years starting from 1 January 2014), applied in advance by 1 January 2013
- **IFRS 7 (revised)** Transfer of Financial Assets (for business years starting from 1 January 2014)
- **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

The first-time application of these standards, with exception of the amended IAS 19 – Employee benefits described in the section below, did not influence the values in the consolidated financial statements. Accordingly, the notes to the consolidated financial statements were extended.

The following new standards and interpretations will become effective in successive periods:

- **IAS 19 (revised)** Employee benefits (for business years starting from 1 January 2014)
- **IAS 32 (revised)** Offsetting Financial assets and financial liabilities (for business years starting from 1 Januar 2014)
- **IAS 39 (revised)** Financial instruments (for business years starting from 1 Januar 2014)
- **IFRS 9** Financial instruments (initial application sill open)
- **IASB** Annual Improvement

Although a systematic analysis has not yet been made, an initial evaluation indicates that, the above changes will have an only marginal influence on the consolidated financial statements.

Application of the amended IAS 19 Employee Benefits

For the financial year beginning 1 January 2013, the amended IAS 19 Employee Benefits was applied for the first time. The periods of comparison in the half-year financial statements have been adjusted accordingly.

The revised standard requires the recognition in other comprehensive income of all measurement changes in the present value of the defined benefit obligation and in the fair value of plan assets immediately in the period in which they occur. The option to defer the recognition of gains and losses, known as the corridor method, has been eliminated. In addition, the amended standard requires calculation of the net interest on the net defined benefit liability (asset) using the discount rate that is used to measure the defined benefit obligation. This removes the current concept of expected return on plan assets where income is credited with the expected long-term yield on the assets in the fund. The amendment of the standard affects the accounting for the pension plans in Switzerland.

The following table shows the effect of the restatement on the items concerned in the 2012 annual financial statement:

- Increase in personnel expenses and corresponding reduction in the operating profit EBIT of CHF 0.7 million
- Increase in financial expenses of CHF 0.1 million, reduction in income taxes of CHF 0.1 million
- Reduction in net income of CHF 0.7 million, reduction in earnings per share of CHF 0.19
- Increase in other comprehensive income of CHF 1.9 million, increase in comprehensive income of CHF 1.2 million
- Increase in the employee benefit obligation of CHF 1.9 million, reduction in deferred income tax liabilities of CHF 0.3 million, reduction in intangible assets of CHF 0.4 million
- Reduction in net equity at the beginning of the period of CHF 3.2 million, reduction in net equity at the end of the period of CHF 1.9 million Switzerland.

Segment information

1. Reporting by business segment

	Machine Tools	
CHF 1'000	**2013**	2012 [1)]
Sales revenues	**390'666**	383'957
Earnings before interest, taxes, depreciation and amortization EBITDA	32'395	34'390
Depreciation and amortization	-13'403	-13'325
Earnings before interest and taxes EBIT	**18'992**	21'065
Operating assets on 31 December	326'271	315'564
Operating liabilities on 31 December	-115'833	-121'246
Net operating assets on 31 December	**210'438**	194'318
Goodwill	19'325	19'094
Capital expenditure in fixed assets	11'214	32'077
Non-cash income	-209	509

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	**2013**	2012
New machines	296'660	293'288
Customer services	94'006	90'669
Total	**390'666**	383'957

3. Sales revenue by geographical segment

CHF 1'000	**2013**	2012
Switzerland	102'756	80'543
Germany	259'501	273'984
Other countries	28'409	29'430
Total	**390'666**	383'957

Additional segment information is disclosed in note 15.

[1)] Restated, see note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

Notes to the income statement

4. Personnel expenses

CHF 1'000		2013	2012 [1]
Wages and salaries		117'789	108'864
Pension benefits	24	2'564	3'113
Social benefits		19'709	18'931
Restructuring costs		3'386	–
Other personnel expenses		4'710	4'400
Total personnel expenses		**148'158**	135'308

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	2013	2012
Sublease income	517	510
Government grants	327	198
Profit from sales of fixed assets	90	42
Other operating income	856	1'753
Total other operating income	**1'790**	2'503

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.

[1] Restated, see note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

7. Depreciation and amortization

CHF 1'000	2013	2012
Buildings	2'255	2'376
Machinery and equipment	4'420	4'043
Other tangible assets	2'123	2'018
Total depreciation of tangible fixed assets	**8'798**	8'437
Brands and customer relations	1'305	1'563
Technology	2'326	2'366
IT software	974	959
Total amortization of intangible assets	**4'605**	4'888
Total depreciation and amortization	**13'403**	13'325

8. Financial result

CHF 1'000	2013	2012 [1]
Interest income	216	193
Interest expenses	-546	-243
Currency losses/gains	296	-998
Other financial expenses	-931	-1'480
Total financial result, net	**-965**	-2'528
Thereof:		
‣ Financial income	834	239
‣ Financial expenses	-1'799	-2'767
Result from available-for-sale financial instruments	196	44

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 2013, the number of shares was 3'360'000 (prior year 3'360'000). Based on the net result attributable to the shareholders of the company of CHF 13.3 million (prior year CHF 13.0 million [1]) net earnings per share amount to CHF 3.97 (prior year CHF 3.81). 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 2014, 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 1.80 from reserves from capital contributions was paid for the 2012 financial year.

[1] Restated, see note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

Notes to the balance sheet

10. Receivables

CHF 1'000		31.12.2013	31.12.2012
Trade receivables		27'076	36'175
Receivables from construction contracts	22	65'550	57'157
Other receivables		10'791	7'509
Total receivables		**103'417**	100'841
Thereof:			
‣ not due		93'823	82'742
‣ past due < 90 days, not impaired		6'539	11'383
‣ past due ≥ 90 days, not impaired		948	3'723
‣ impaired		2'107	2'993
Therof:			
‣ CHF		25'950	23'147
‣ EUR		65'920	67'945
‣ USD		5'361	4'593
‣ other		6'186	5'156

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		2013	2012
Allowance for doubtful receivables at beginning of year		3'038	3'697
Change in consolidated companies	33	–	204
Increase		96	369
Decrease		-1'644	-568
Use		-101	-559
Currency translation		26	-105
Allowance for doubtful receivables at end of year		**1'415**	3'038

11. Other financial assets

CHF 1'000		31.12.2013	31.12.2012
Prepayments to suppliers		5'367	3'495
Deferred expenses		1'502	1'880
Cashflow hedges	27	1'061	593
Total other financial assets		**7'930**	5'968

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

12. Inventories

CHF 1'000	31.12.2013	31.12.2012
Raw materials and components	36'115	33'492
Work in progress	35'759	32'128
Finished products	9'128	7'032
Total inventories	**81'002**	72'652

In 2013 a charge of CHF 1.3 million resulting from an inventory valuation adjustment was recorded (prior year CHF 1.2 million).

13. Tangible fixed assets

		2013				2012			
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		80'373	48'393	8'223	136'989	69'618	43'785	6'523	119'926
Change in consolidated companies	33	–	–	–	–	5'932	2'055	472	8'459
Additions		2'931	4'511	2'360	9'802	5'715	4'107	2'370	12'192
Disposals		-223	-2'139	-430	-2'792	-104	-1'782	-604	-2'490
Currency translation		-540	93	15	-432	-788	228	-538	-1'098
Gross value at year end		**82'541**	**50'858**	**10'168**	**143'567**	80'373	48'393	8'223	136'989
Accumulated depreciation at beginning of year		19'797	28'436	4'901	53'134	17'497	26'274	3'446	47'217
Depreciation	7	2'255	4'420	2'123	8'798	2'376	4'043	2'018	8'437
Disposals		-209	-1'420	-297	-1'926	-9	-1'771	-551	-2'331
Currency translation		106	119	9	234	-67	-110	-12	-189
Accumulated depreciation at year end		**21'949**	**31'555**	**6'736**	**60'240**	19'797	28'436	4'901	53'134
Net book value at beginning of year		60'576	19'957	3'322	83'855	52'121	17'511	3'077	72'709
Net book value at year end		**60'592**	**19'303**	**3'432**	**83'327**	60'576	19'957	3'322	83'855
Fire insurance value at year end		185'240	155'857		341'098	177'702	143'541		321'244

14. Intangible assets

CHF 1'000		2013 Goodwill	2013 Brands and customer relations	2013 Technologie	2013 IT Software	2013 Total	2012 Goodwill [1]	2012 Brands and customer relations	2012 Technologie	2012 IT Software	2012 Total [1]
Gross value at beginning of year		19'094	17'614	27'269	10'434	74'411	16'978	11'949	24'372	9'407	62'706
Change in consolidated companies	33	–	–	–	–	–	2'247	5'773	1'264	125	9'791
Additions		–	–	1'369	972	2'341	–	–	1'805	1'461	3'266
Disposals		–	-1'204	–	-79	-1'283	–	–	–	-514	-514
Currency translation		231	175	305	81	785	-131	-108	-172	-45	-456
Gross value at year end		**19'325**	**16'585**	**28'943**	**11'401**	**76'254**	19'094	17'614	27'269	10'434	74'793
Accumulated amortization at beginning of year		–	2'117	11'618	8'428	22'163	–	557	9'304	7'939	17'800
Amortization	7	–	1'305	2'326	974	4'605	–	1'563	2'366	959	4'888
Disposals		–	-1'204	–	-85	-1'289	–	–	–	-436	-436
Currency translation		–	14	108	58	180	–	-3	-52	-34	-89
Accumulated amortization at year end		**–**	**2'232**	**14'052**	**9'375**	**25'659**	–	2'117	11'618	8'428	22'163
Net book value at beginning of year		19'094	15'497	15'651	2'006	52'248	16'978	11'392	15'068	1'468	44'906
Net book value at year end		**19'325**	**14'353**	**14'891**	**2'026**	**50'595**	19'094	15'497	15'651	2'006	52'248

The goodwill impairment test was conducted using the following parameters:

CHF 1'000	31.12.2013 Carrying amount of goodwill	31.12.2013 Residual growth rate	31.12.2013 Discount rate, pre-tax	31.12.2012 Carrying amount of goodwill [1]	31.12.2012 Residual growth rate	31.12.2012 Discount rate, pre-tax
Business Unit 1	762	1 %	11.1 %	768	1 %	12.7 %
Business Unit 2	1'049	1 %	10.2 %	1'034	1 %	12.2 %
Business Unit 3	15'267	1 %	10.2 %	15'045	1 %	12.2 %
Business Unit 4	2'247	1 %	10.7 %	2'247	1 %	9.4 %
Total	**19'325**			19'094		

Sensitivity analyses regarding the residual growth rate (no residual growth rate) and the discount rate (increase by two percentage points) as the key elements of the impairment test gave no reason to revise the initial assessment of the impairment test.

15. Fixed assets

CHF 1'000	**31.12.2013**	31.12.2012 [1]
Switzerland	39'878	39'269
Germany	82'719	85'567
Other countries	11'325	11'267
Total	**133'922**	136'103

[1] Restated, see note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

16. Financial liabilities

CHF 1'000	**31.12.2013**	31.12.2012
Current financial liabilities	1'483	1'710
Non-current financial liabilities	4'866	5'042
Total financial liabilities	**6'349**	6'752
Thereof in:		
‣ EUR	6'194	6'334
‣ CHF	155	418
Market value	6'349	6'752
Contractual Cashflows	**8'494**	9'155
Thereof:		
‣ due within 1 year	1'758	2'020
‣ due within 2 to 5 years	2'758	2'716
‣ due thereafter	3'978	4'419
Average interest rate	1.8%	4.7 %
Unused credit lines	72'306	75'675

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 2013 and 2012 the financial covenants have been satisfied.

17. Operating liabilities

CHF 1'000	**31.12.2013**	31.12.2012
Trade liabilities	18'420	18'703
Other operating liabilities	7'806	13'895
Advance payments received	73	376
Other operating liabilities	**26'299**	32'974
Thereof:		
‣ due within 6 months	26'299	28'842
‣ due thereafter	–	4'132

18. Accrued expenses and deferred income

CHF 1'000		**31.12.2013**	31.12.2012
Construction contracts	22	49'466	37'239
Project costs		11'260	18'303
Personnel expenses		12'869	12'058
Commissions		291	256
Cashflow hedges	27	418	505
Other		7'195	8'076
Total accrued expenses and deferred income		**81'499**	76'437

19. Provisions

	2013		
CHF 1'000	Warranty	Other provisions	**Total**
Value at beginning of year	10'186	698	10'884
Increase	3'403	–	3'403
Decrease	-1'407	–	-1'407
Use	-4'695	-244	-4'939
Currency translation	91	3	94
Value year end	**7'578**	**457**	**8'035**
Thereof:			
‣ Current	5'323	457	5'780
‣ Non-current	2'255	–	2'255

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	31.12.2013	31.12.2012
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

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

	31.12.2013	31.12.2012
‣ Walter Fust	55.0%	54.9 %
‣ Eduard Stürm AG	9.4%	9.4 %
‣ Max Rössler / Parmino Holding AG	5.7%	5.5 %

	Number of shares 31.12.2013		Number of shares 31.12.2012	
Participations of Board of Directors and Management Board:	Shares	Options	Shares	Options
Walter Fust	1'848'074	–	1'845'602	–
Prof. Dr. Christian Belz	2'800	–	1'330	–
Dr. Hanspeter Geiser	2'050	–	2'050	–
Adrian Stürm	26'680	–	26'680	–
Valentin Vogt (until 12. April 2013)	n.a.	–	2'660	–
Total Board of Directors	1'879'604	–	1'878'322	–
Prof. Dr. Frank Brinken	2'800	101'010	2'800	101'010
Gerold Brütsch	300	–	300	–
Günther Eller	200	–	200	–
Total Management Board	3'300	101'010	3'300	101'010

Other notes

21. Other reserves

CHF 1'000	Remeasurement pension benefit	Cashflow Hedges	Currency translation	**Total other reserves**
31.12.2011	–	-889	-21'139	-22'028
Restated [1]	-3'189	–	–	-3'189
01.01.2012	-3'189	-889	-21'139	-25'217
Other comprehensive income [1]	1'896	877	-1'490	1'283
Comprehensive income [1]	**1'896**	**877**	**-1'490**	**1'283**
31.12.2012	-1'293	-12	-22'629	-23'934
Other comprehensive income	2'296	435	-194	2'537
Comprehensive income	**2'296**	**435**	**-194**	**2'537**
31.12.2013	**1'003**	**423**	**-22'823**	**-21'397**

22. Construction contracts

CHF 1'000	**2013**	2012
Revenue from construction contracts	303'209	-293'901

CHF 1'000		**31.12.2013**	31.12.2012
Accrued contract costs and recognized profit		228'429	212'565
Advance payments received		-212'345	-192'647
Net value from construction contracts		**16'084**	19'918
Thereof:			
‣ Receivables	10	65'550	57'157
‣ Accrued expenses and deferred income	18	-49'466	-37'239

23. Research and development

Expenditure for research and development amounts to CHF 29.2 million or 7.5 % of sales revenue (prior year CHF 29.0 million, 7.5% of sales revenue). After consideration of government grants as well as capitalization and depreciation of development projects, the income statement was charged with CHF 29.1 million, 7.5% of sales revenue (prior year net CHF 28.8 million or 7.5 % of sales revenue).

[1] Restated, see note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

24. Pension benefits

CHF 1'000	2013	2012 [1]
Current service costs	2'358	1'977
Past service costs	–	813
Settlements	-172	–
Total current service costs	2'186	2'790
Interest expense	79	118
Total pension benefit expense	**2'265**	2'908

CHF 1'000	31.12.2013	31.12.2012 [1]
Pension benefit obligation	58'954	59'567
Faire value plan assets	-57'696	-55'619
Recognized pension benefit obligation	**1'258**	3'948

CHF 1'000	2013	2012 [1]
Plan assets, beginning of year	55'619	54'217
Change in consolidated companies	–	8'944
Interest income (based on discount rate)	1'113	1'325
Return on plan assets (excluding interest income based on discount rate)	2'302	65
Employees' contributions	4'471	3'629
Employer's contributions	2'205	2'115
Paid benefits	-6'877	-4'407
Settlements	-1'137	-10'269
Plan assets, end of year	**57'696**	55'619
Thereof:		
‣ Surrender value of insurance contracts	50'962	49'833
‣ Equity funds	3'589	3'187
‣ Bond funds	2'002	2'411
‣ Other investments	1'143	188

[1] Restated, see note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

CHF 1'000	2013	2012 [1]
Pension benefit obligation, beginning of year	59'567	58'059
Change in consolidated companies	–	10'554
Current service costs	2'358	1'977
Past service costs	–	813
Settlements	-1'309	-10'269
Interest expense	1'191	1'444
Employees' contributions	4'471	3'629
Paid benefits	-6'877	-4'407
Actuarial gains/losses (Changes in demographic assumptions)	1'619	-3'318
Actuarial gains/losses (Changes in financial assumptions)	-2'066	1'085
Pension benefit obligation, end of year	**58'954**	59'567

CHF 1'000	2013	2012 [1]
Return on plan assets (excluding interest income based on discount rate)	2'302	65
Actuarial gains/losses (Changes in demographic assumptions)	-1'619	3'318
Actuarial gains/losses (Changes in financial assumptions)	2'066	-1'085
Revaluation Pension benefits	**2'749**	2'298

CHF 1'000	2013	2012
Actuarial assumptions:		
Discount rate	2.50 %	2.00 %
Salary increase	1.00 %	1.00 %
Mortality rate	BVG 2010 GT	BVG 2010 GT
Average remaining service time	9.9	9.7

A 0.25% increase or decrease in the discount rate would lead to an increase or decrease of the pension benefit obligation by 2.39 %. A 0.25 % increase or decrease in the salary increase would lead to an increase or decrease of the pension benefit obligation by 0.55 %. The discount rate and the salary increase rate were identified as significant assumptions. Each change in the significant assumption was analysed independently.
Estimated employer's contributions 2014 are CHF 2.2 million.
In order to reduce insurance premiums and the actuarial risks, settlements (esp. change in insurer) were made.

[1] Restated, see note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

25. Income tax expenses

CHF 1'000	2013	2012 [1]
Earnings before income tax	18'027	18'537
Tax expenses at anticipated tax rate of 17 %	-3'041	-3'156
Tax expenses at other tax rates	-58	-1'988
Debits /credits from prior reporting periods	-673	540
Non-deductable expenses/ non-taxable income	-251	-476
Non-capitalized tax loss carry forward	-521	-476
Recognized income tax expenses	**-4'544**	-5'556
Thereof:		
‣ Current income tax expenses	-2'041	-5'785
‣ Deferred income tax expenses	-2'503	229

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

CHF 1'000	31.12.2013	31.12.2012 [1]
Receivables	14'429	11'475
Fixed assets	12'257	12'582
Other	911	418
Tax loss carry forward	-1'814	-1'554
Value adjustment	1'735	1'192
Total deferred income tax	**27'518**	24'113

On 31 December 2013 there are off balance sheet tax losses carried forward of CHF 7.5 million (prior year CHF 7.8 million), whereof none expire within one to three years (prior year CHF 1.3 million) CHF 5.2 million expire within four to seven years (prior year none) and CHF 2.3 million expire after more than seven years (prior year CHF 2.3 million). Deferred tax assets on tax loss carry-forward of CHF 1.7 million (prior year CHF 1.2 million) have not been capitalized.
On 31 December 2013 there are temporary differences associated with investments in subsidiaries of CHF 33.4 million (prior year CHF 26.9 million) for which deferred tax liabilities have not been recognized. Deferred tax liabilities on temporary differences associated with investments in subsidiaries of CHF 0.3 million (prior year 0.2 CHF million) have not been recognized.

CHF 1'000		2013	2012 [1]
Deferred taxes at beginning of year		24'113	18'968
Change in consolidated companies	33	–	4'939
(Income)/Expense for deferred taxes		2'503	-229
Deferred taxes on fair-value changes of Cashflow Hedges recognized in equity		640	589
Currency translation		262	-154
Deferred taxes at end of year		**27'518**	24'113

[1] Restated, see note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

26. Loaded assets

CHF 1'000	31.12.2013	31.12.2012
To ensure financial liabilities in the amount of... the following assets are mortgaged: land and buildings	4'912	5'121
‣ Book value	9'841	10'225
‣ Liability	8'843	8'714

27. Derivative financial instruments

CHF 1'000	31.12.2013	31.12.2012
Forward currency exchange contracts: Contract value	**34'165**	**38'177**
Replacement value:		
‣ positive 11	1'061	593
‣ negative	-418	-505

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

Assuming the euro was 5 % weaker vs. the Swiss franc at 31.12.2013, and all other parameters being equal, the profit after tax would have been the same (prior year CHF 0.3 million). Conversely, in the opposite case, the profit after tax would have been the same (prior year CHF 0.3 million).
Equity would have increased by CHF 3.0 million (prior year CHF 2.9 million), in the opposite case, would have been CHF 3.0 million (prior year CHF 2.9 million lower.

Assuming the U.S. dollar was 5 % weaker vs. the Swiss franc at 31.12.2013, 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 0.2 million (prior year CHF 0.2 million) or, in the opposite case, would have been CHF 0.2 million (prior year CHF 0.2 million) lower.

29. Operating lease liabilities

CHF 1'000	**31.12.2013**	31.12.2012
‣ Due within 1 year	2'344	2'752
‣ Due to 2 to 5 years	2'007	2'129
Total operating lease liabilities	4'351	4'881

CHF 1'000	**2013**	2012
Expenses for operating lease liabilities debiting to the income statement amount to	3'345	3'197

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

30. Other commitments

CHF 1'000	**31.12.2013**	31.12.2012
Purchase commitment towards suppliers	69'350	53'839
Contractual commitments for capital expenditure	5'066	1'502

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.

31. 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 299 (prior year kCHF 316). The current remunerations for the Executive Board in the reporting year added up to kCHF 3'732 (prior year kCHF 2'908). There were no payments or other benefits and remunerations after termination of employment contracts.

CHF 1'000	**2013**					2012				
	Fixed	Variabel	Options	Pension and other	**Total**	Fixed	Variabel	Options	Pension and other	**Total**
Walter Fust	96	15	–	5	116	68	15	–	4	87
Prof. Dr. Christian Belz	36	15	–	4	55	36	15	–	4	55
Dr. Hanspeter Geiser	36	15	–	2	53	36	15	–	4	55
Adrian Stürm	45	15	–	4	64	45	15	–	4	64
Valentin Vogt (until 12.04.2013)	10	–	–	1	11	36	15	–	4	55
Total Board of Directors	**223**	**60**	–	**16**	**299**	221	75	–	20	316
Variable as percentage of total compensation		21%					25%			
Total Executive Board	**2'470**	**938**	**23**	**301**	**3'732**	2'023	587	26	272	2'908
Variable as percentage of total compensation		28%					22%			
Thereof:										
‣ Prof. Dr. Frank Brinken	380	154	23	79	636	365	155	26	92	638
Variable as percentage of total compensation		29%					30%			

The fixed salaries were higher in 2013 due to the enlarged Executive Board by one person and as a result of selective adjustments. The variable salaries have increased due to one-off special premium payments which became due in 2013, in connection with the integration of Dörries Scharmann purchased in 2011.

32. Exchange rates

CHF 1'000	2013	2012
Average rates (for income statement and Cashflow statement)		
1 EUR	1.2430	1.2177
1 USD	0.9368	0.9477
1 GBP	1.4649	1.5012
1 CNY	0.1524	0.1502

CHF 1'000	31.12.2013	31.12.2012
Year end rates (for balance sheet)		
1 EUR	1.2373	1.2193
1 USD	0.8970	0.9229
1 GBP	1.4787	1.4913
1 CNY	0.1480	0.1482

33. 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** [1]
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	-1'610
Deferred income tax	-4'939
Acquired net assets	**36'753**
Goodwill	2'247
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.

34. Events after balance sheet date

The consolidated financial statement was approved and released for publishing by the Board of Directors on 4 March 2014. Furthermore, it is subject to the shareholders' approval at the annual general meeting which will take place on 12 April 2014.

[1] Restated, see note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

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 99), for the year ended 31 December 2013.

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 2013 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 Auditor in charge	Audit expert

St. Gallen, 4 March 2014

Income statement

CHF 1'000	**2013**	2012
Revenue from group companies	12'565	21'122
Financial income	4'916	4'316
Revenue	**17'481**	25'438
Personnel expenses	-280	-295
Administrative expenses	-741	-689
Depreciation and amortization	-4'101	-2'330
Financial expenses	-472	-1'239
Tax expenses	-23	-31
Net income	**11'864**	20'854

Balance sheet

CHF 1'000		31.12.2013	31.12.2012
Cash and cash equivalents		14	30
Receivables – third parties		–	3
Receivables – group companies		6'297	1'731
Deferred expenses		42	8
Total current assets		**6'353**	1'772
Loans – group companies		71'685	70'929
Investments	1	110'838	111'688
Total fixed assets		**182'523**	182'617
Total assets		**188'876**	184'389

CHF 1'000		31.12.2013	31.12.2012
Liabilities – group companies		24'830	26'146
Other liabilities		2	28
Accrued expenses and deferred income		300	287
Total current liabilities		**25'132**	26'461
Total liabilities		**25'132**	26'461
Share capital		28'560	28'560
Legal reserve from capital contributions since 1997	2	79'009	85'057
Other legal reserve		1'222	1'222
Retained earnings from prior years		43'089	22'235
Net result		11'864	20'854
(Total retained earnings)		(54'953)	(43'089)
Total shareholders' equity		**163'744**	157'928
Total liabilities and shareholders' equity		**188'876**	184'389

Notes

1. Investments

- Starrag Group Holding GmbH, Chemnitz, Germany
  (Business: Holding company, nominal capital TEUR 4'500, interest 100 %)
- Starrag Group Holdings Ltd., Birmingham, UK
  (Business: Holding company, nominal capital TGBP 50, interest 100 %)
- Starrag 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, Hebron, USA
  (Business: Sales, nominal capital TUSD 30, interest 100 %)
- Starrag (Shanghai) Co. Ltd., Shanghai, China
  (Business: Sales, nominal capital TUSD 200, interest 100 %)
- Starrag Group Finance Limmited, St. Peter Port, Guernsey
  (Business: Finance, nominal capital TGBP 10, interest 100 %)
- Starrag Makina Ticaret ve Servis Ltd., Ankara, Turkey
  (Business: Sales, nominal capital TTRY 5, interest 100 %)
- Starrag RU Ltd., Moscow, Russia
  (Business: Sales, nominal capital TRUB 2'000, interest 100 %)
- Starrag France SARL, Laperche, France
  (Business: Sales, nominal capital TEUR 8, interest 100 %)
- Starrag India Private Limited, Bangalore, India
  (Business: Production, nominal capital TINR 655'000, 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 %)

2. Legal reserves from capital contribution (from 1997)

Declared reserves from capital contributions (from 1997) at 31 December 2013 amounted to CHF 79'009'000, of which CHF 75'796'161 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.

3. Sureties, guarantees and pledges

CHF 1'000	**31.12.2013**	31.12.2012
Sureties	301'624	298'998
Guarantees	1'141	3'681

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.

4. Authorized 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 90 of the annual report.

5. Remunerations

This information is disclosed under note 31 of the consolidated financial statements on page 94 of the annual report.

6. 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	2013
Retained earnings from prior year	43'089
Net income	11'864
To be carried forward	**54'953**

Proposed appropriation of legal reserve from capital contributions

CHF 1'000	2013
Legal reserve from capital contributions from 1997	79'009
Withholding tax free distribution of CHF 1.80 per share	6'048
To be carried forward	**72'961**

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 102 to 106), for the year ended 31 December 2013.

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 2013 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 comply 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 Auditor in charge	Audit expert

St. Gallen, 4 March 2014

Five-year overview

CHF m	2013	2012 [1]	2011	2010	2009
Order intake	424.9	364.2	348.3	188.3	187.7
Order backlog at year end	274.7	238.6	237.5	103.9	124.3
Sales revenue	390.7	384.0	354.4	199.2	252.5
Earnings before restructuring, interest, taxes, depreciation and amortization (EBITRDA)	35.8	34.4	31.1	16.3	21.9
Earnings before interest, taxes, depreciation and amortizalion (EBITDA)	32.4	34.4	31.1	16.3	21.9
Earnings before restructuring, interest and taxes (EBITR)	22.4	21.1	19.1	10.1	15.4
Earnings before interest and taxes (EBIT)	19.0	21.1	19.1	10.1	15.4
Net income	13.5	13.0	10.9	8.1	11.5
EBITR as percentage of sales revenue	5.7%	5.5%	5.4%	5.1%	6.1%
EBIT as percentage of sales revenue	4.9%	5.5%	5.4%	5.1%	6.1%
EBIT as percentage of net operating activities	9.4%	11.8%	15.4%	8.2%	13.7%
Net income as percentage of sales revenue	3.5%	3.4%	3.1%	4.1%	4.5%
Cashflow from operating activities	8.8	24.9	19.2	32.2	34.1
Capital expenditure	11.2	32.1	69.9	4.2	5.0
Free Cashflow	-2.3	10.2	9.3	28.0	29.2
Employees at year end	1'667	1'644	1'420	739	783
Net operating assets	210.4	194.3	163.1	84.8	112.7
Total assets	348.7	347.2	326.6	169.4	179.4
Net cash	16.1	24.9	37.0	31.1	10.4
Shareholders' equity	193.6	183.6	176.6	108.5	114.7
Equity ratio	55.5%	52.9%	54.1%	64.1%	63.9%
Return on equity (ROE)	7.1%	7.2%	7.6%	7.3%	11.2%
Earnings per share in CHF	3.97	3.81	3.52	3.27	4.61
Share price at year end in CHF	75.75	61.60	49.55	69.00	55.10
Profit distribution per share in CHF	1.80 [2]	1.80	1.20	1.00	1.50
Total shareholder return (TSR), 1 year	25.9%	26.7%	-26.7%	27.9%	10.9%
Total shareholder return (TSR), 3 years	5.2%	6.2%	1.7%	-0.6%	8.7%
Total shareholder return (TSR), 5 years	9.2%	-2.4%	3.6%	7.8%	13.9%

[1] Restated, seee note application of the amended IAS 19 – Employee benefits on page 81 of the consolidated financial statements.

[2] Proposal of the Board of Directors to the annual general meeting on 12 April 2014 in the form of a withholding-tax-free distribution from capital contribution reserves.

Financial calendar

12 April 2014	Annual general meeting in Rorschacherberg
9 May 2014	Information on first-quarter 2014 results
25 July 2014	Letter to shareholders on 1H 2014 results
4 November 2014	Information on third-quarter 2014 results
6 January 2015	Initial information on full-year 2014 results
6 March 2015	Presentation of 2014 results for analysts and the media in Zurich
24 April 2015	Annual general meeting in Rorschacherberg

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

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