Starrag Group

Half-year report
2013

Order intake and sales up - EBIT margin of 5 %

- Order intake up 7 % year-on-year
- Sales increase by 9 %
- EBIT of CHF 9.1 million – 4.6 percentage points
- Net income of CHF 5.7 million – 2.9 percentage points
- Increased order intake and sales expected for overall financial year

CHF m	**2013** 01.01. – 30.06.	2012 01.01. – 30.06. restated [1]	Change
Order intake	206.4	192.9	7.0 %
Sales revenue	199.4	183.4	8.8 %
Earnings before interest and taxes EBIT	9.1	10.9	-16.4 %
EBIT as % of sales revenue	4.6 %	6.0 %	-23.1 %
Net income	5.7	6.9	-17.1 %
Net income as percentage of sales revenue	2.9 %	3.8 %	-23.8 %
Earnings per share (in CHF)	1.67	2.02	-17.3 %
Return on equity ROE	6.1 %	8.6 %	-29.1 %
Cash flow from operating activities	-3.6	12.7	n/a
Capital expenditure in fixed assets	4.8	6.0	-19.8 %
Free cash flow	-8.4	6.6	n/a

CHF m	**30.06.2013**	31.12.2012 restated [1]	Change
Order backlog	249.7	238.6	4.7 %
Total assets	343.1	347.2	-1.2 %
Net cash	10.3	24.9	-58.6 %
Shareholders’ equity	187.2	183.6	2.0 %
Equity ratio	55 %	53 %	3.8 %
Headcount	1'659	1'644	1.0 %

[1] Restated due to the application of the amended IAS 19 - Employee Benefits.

Dear shareholders

Income affected by restructuring measures

In the first half of 2013, the Starrag Group achieved operating results of CHF 9.1 million (previous year: CHF 10.9 million), corresponding to an operating margin of 4.6 % (H1 2012: 6.0 %). This decrease can first and foremost be attributed to restructuring expenditures of CHF 2.1 million which were a consequence of the intensification of the cost reduction measures which primarily made itself felt in the continued low willingness to invest in the target market of wind power.

Before restructuring, the company achieved an EBIT margin of 5.6 % which was slightly above the full-year 2012 financial figure of 5.5 %. The restructuring measures approved and communicated in the first half year were worked out in mutual agreement with the relevant employees' organisations. On balance, the Group is expecting a slightly lower staff headcount at end-2013 than the previous year, though certain personnel increases are being made to strengthen the Group.

Net income was down to CHF 5.7 million from CHF 6.9 million the previous year, which can chiefly be attributed to the above-mentioned restructuring costs. Earnings per share were CHF 1.67 (previous year period: CHF 2.02).

Increased order intake

Order intake stood at CHF 206 million in the first six months, which was 6.8 % up on the corresponding period the previous year. After adjustment for acquisitions and currency effects, order intake was 5.7% lower than in the corresponding period the previous year, which saw the Starrag Group come in well above average for the sector. The German machine tool industry suffered a nominal double-figure decrease in the first semester.

Losses in Asia and in particular in China were more than compensated for by significant gains in the European markets, some of which were related to acquisitions. The Aerospace and Industry sectors improved significantly, while the Transport target market saw a decline. At the end of June 2013, the order backlog stood at CHF 250 million, up around 5 % compared with end-2012.

Increased sales

Sales revenue was increased in the first semester of 2013 by 8.8% to CHF 199 million. The acquisition of Bumotec contributed to this increase, also positive currency influences due to the somewhat stronger euro, whilst an organic decrease of 4.3 percentage points resulted. The book-to-bill ratio (the proportion of order intake/sales) stood at 1.03 in the first half of 2013.

Continued high levels of equity financing

The balance sheet stood at CHF 343 million, some CHF 4 million below the figures at end-2012. Net liquidity of CHF 10.3 million was significantly below end-2012 levels, and this can be attributed to date-related advance purchasing for future orders. The equity ratio of 54.6% at the end of the semester under report remained at the solid high levels that the Group has established in the past.

In terms of fixed assets, CHF 4.8 million were put into improvement investments in the factories and the development and integration of the IT platforms.

Production plant opened in India, EMO to serve as a catalyst

The new production plant in Bangalore was opened as planned in January. A newly developed series of compact machining centres specifically tailored to meet the demands of the emerging markets in the region was also launched, with the first successes in terms of sales expected in the second half of the year. Nevertheless, the Starrag Group is finding itself confronted with increased competition in these markets, stemming particularly from currency-advantaged Japanese providers, whilst the Indian growth market is currently in a period of weakness. Nevertheless, the company can leverage its newly-built technology and customer services centre in Bangalore as an excellent starting point from which to exploit the Asian markets which are full of promise.

Plans to extend capacity at Bumotec, acquired in 2012, by means of a new building are continuing apace. The Starrag Group is also hoping that the EMO – the world's leading metalworking trade fair being held in Hanover, Germany, in September – will prove to be a catalyst, with three new machines set to be unveiled.

Outlook affected by uncertainty

The second half of 2013 for the Starrag Group looks set to be affected by various uncertainties in all target markets with to a certain extent contradictory trends, which the Aerospace sector has already felt keenly in recent times. China's economic growth, which is weaker than it has been in previous years, will present a challenge. Despite this kind of environment however, the Starrag Group forecasts order intake and sales to be above 2012 figures for the full financial year, with EBIT coming it at comparable levels to the previous year.

Our thanks

The Board of Directors and management should like to take this opportunity to thank all employees for the excellent commitment that they have shown. In the period under report, they were once again required to show high levels of availability and flexibility above and beyond their daily tasks. Our thanks also go to our customers around the world for their continued loyalty to the Starrag Group as well as to our suppliers for the constructive manner in which we are all able to work together. Finally we should like to thank you, our shareholders, for the trust that you continue to renew in us.

Where once they were rare occurrences, change and upheaval are now becoming part of our daily challenges. Our Group has long been aware of this and has always actively worked to meet the demands of the various markets. Only thus could we have been able to continually operate as a solid business group and to offer new and innovative products and services to our customers, and provide them with a tangible competitive advantage. This is and shall continue to remain our highest priority.

Walter Fust
President of the Board of Directors

Dr Frank Brinken
CEO

Rorschacherberg, 26 July 2013

Financial commentary

Order intake

Order intake increased nominally in the first half of 2013 by 6.8 % to CHF 206 million. After adjustment for acquisitions and currency effects, this resulted in a decrease of 5.7 % in what is a very challenging market environment, and which saw the Starrag Group come in well above average for the sector. The German machine tool building industry suffered a nominal double-figure decrease in the first semester.

Income statement

Sales revenue developed in a positive manner overall compared with the previous year period, rising by 8.8 %. In particular, this growth was the result of the acquisition of Bumotec. Bumotec was consolidated at the beginning of the year after sales from 1 January to 29 May 2012 had not been included the previous year. Sales revenue was by the positive conversion effect due to the slightly stronger euro, while organically it decreased by 4.3 %. This resulted in a book-to-bill ratio (the proportion of order intake/sales) of 1.03 in the first half of 2013.

Gross profit (sales revenue minus material costs plus/minus changes in self-manufactured products) came in at CHF 121 million or 60.7 % of sales revenue. The gross margin was thus a good 2.8 percentage points above that of the previous year (57.9 % / CHF 106 million), thanks in no small part to Bumotec's higher level of vertical integration fully consolidated for the first time in this six-month period.

Operating profit EBIT fell compared with the previous semester from CHF 10.9 million to CHF 9.1 million, with restructuring expenditures of CHF 2.1 million having a particular effect on adapting capacity to the expected future business volume. The EBIT margin before restructuring came in at 5.6 %, putting it slightly above the level of the 2012 full year (5.5 %). After restructuring costs, the EBIT margin stood at 4.6 %.

The financial result was stable with CHF -1.1 million. Income tax expenditure was down from CHF 2.9 million in the previous semester to CHF 2.3 million, primarily due to lower pre-tax profits. Net profit was down CHF 5.7 million, which can chiefly be attributed to the above-mentioned restructuring costs of CHF 6.9 million the previous year period. Earnings per share were CHF 1.67 (previous year period: CHF 2.02).

Balance sheet

The balance sheet stood at CHF 343 million on 30 June 2013, which was CHF 4.1 million lower than at the end of 2012. Current assets were also down CHF 3.4 million, while fixed assets were more or less unchanged. Free cash flow fell by CHF 13 million, while receivables, down-payments to suppliers and inventories were up by a combined CHF 7.7 million.

Liabilities fell from CHF 164 million to CHF 156 million, with this decrease stemming primarily from date-related lower levels of accrued expenses. Net equity was up by CHF 3.5 million compared with year-end 2012. The increase from the net profit of CHF 5.7 million and from other comprehensive income of CHF 3.9 million was partly offset by a dividend payment of CHF 6.1 million.

Due to the lower balance sheet, the equity ratio was up by 1.7 % with end-2012 to 54.6 %. The Starrag Group continues to benefit therefore from above-average levels of financial flexibility.

Cash flow statement

Cash flow (before changes in net working capital) stood at CHF 14.4 million (previous year: CHF 15.4 million). After the changes in remaining net working capital, this gave an operational cash flow from business activities of CHF -3.6 million (previous year: +CHF 12.7 million).

In terms of fixed assets, CHF 4.8 million were put into improvement investments in the factories and the development and integration of the IT platforms therefore in the first six months there was a negative free cash flow of CHF -8.4 million (previous year: +6.6 million CHF).

From the 2012 net profit, a dividend from capital contributions not subject to Swiss withholding tax of CHF 6.1 million was paid out in April 2013.

Income statement

CHF 1'000	**2013** **01.01. – 30.06.**	2012 01.01. – 30.06. restated [1]	2012 01.01. – 31.12. restated [1]
Sales revenue	199'441	183'378	383'957
Change in self-manufactured products	157	6'432	3'232
Material expenses	-78'561	-83'687	-165'901
Personnnel expenses	-76'646	-65'618	-135'308
Operating expenses	-29'127	-24'833	-54'093
Other operating income	877	1'330	2'503
Earnings before interest, taxes, depreciation and amortization EBITDA	**16'141**	17'002	34'390
Depreciation and amortization	-6'996	-6'066	-13'325
Earnings before interest and taxes EBIT	**9'145**	10'936	21'065
Financial income	769	780	239
Financial expenses	-1'878	-1'947	-2'767
Earnings before tax	**8'036**	9'769	18'537
Income tax	-2'330	-2'888	-5'556
Net income	**5'706**	6'881	12'981
Thereof:			
‣ Shareholders of the company	5'619	6'791	12'802
‣ Minority shareholders	87	90	179
Earnings per share in CHF	1.67	2.02	3.81
Diluted earnings per share in CHF	1.67	2.02	3.81

Statement of comprehensive income

CHF 1'000	**2013** **01.01. – 30.06.**	2012 01.01. – 30.06. restated [1]	2012 01.01. – 31.12. restated [1]
Net income	**5'706**	6'881	12'981
Remeasurements employee benefits	1'742	956	2'298
Income taxes on remeasurements employee benefits	-303	-164	-589
Items not recyclable to the income statement	**1'439**	792	1'709
Cashflow hedges	105	-283	1'064
Income taxes on cashflow hedges	-45	97	0
Currency translation	2'377	-1'854	-1'474
Items recyclable to the income statement	**2'437**	-2'040	-410
Comprehensive income	**3'876**	-1'248	-1'299
Total comprehensive income	**9'582**	5'633	14'280
Thereof:			
‣ Shareholders of the company	9'520	5'510	14'085
‣ Minority shareholders	62	123	195

[1] see note 2 in the notes to the consolidated half-year financial statements

Balance sheet

CHF 1'000	**30.06.2013**	30.06.2012 restated [1]	31.12.2012 restated [1]
Cash and cash equivalents	18'746	32'273	31'645
Receivables	102'881	91'578	100'841
Other financial assets	9'449	6'874	5'968
Current income tax	-	758	-
Inventories	76'636	74'891	72'652
Total current assets	**207'712**	206'374	211'106
Tangible fixed assets	83'779	80'881	83'855
Intangible assets	51'564	52'785	52'248
Total fixed assets	**135'343**	133'666	136'103
Total assets	**343'055**	340'040	347'209

CHF 1'000	**30.06.2013**	30.06.2012 restated [1]	31.12.2012 restated [1]
Financial liabilities	3'461	5'515	1'710
Operating liabilities	32'963	33'432	32'974
Accured expenses and deferred income	71'593	73'018	76'437
Current income tax	5'153	7'994	8'457
Provisions	7'301	7'591	7'887
Total current liabilities	**120'471**	127'550	127'465
Financial liabilities	4'967	5'447	5'042
Deferred income tax	25'083	23'606	24'113
Pension benefit obligations	2'206	5'349	3'948
Provisions	3'165	3'027	2'997
Total non-current liabilities	**35'421**	37'429	36'100
Total liabilities	**155'892**	164'979	163'565
Share capital	28'560	28'560	28'560
Additional paid-in capital	79'772	85'819	85'820
Retained earnings	97'938	83'100	92'313
Other reserve	-20'026	-23'309	-23'934
Total shareholders' equity of the company	**186'244**	174'170	182'759
Minority shareholders	919	891	885
Total shareholders' equity	**187'163**	175'061	183'644
Total liabilities	**343'055**	340'040	347'209

[1] see note 2 in the notes to the consolidated half-year financial statements

Cash flow statement

CHF 1'000	**2013** 01.01. – 30.06.	2012 01.01. – 30.06. restated [1]	2012 01.01. – 31.12. restated [1]
Net income	5'706	6'881	12'981
Income tax expenses	2'330	2'888	5'699
Interest expenses	184	114	243
Interest income	-119	-106	-193
Depreciation and amortization	6'996	6'066	13'325
Change in non-current provisions	-1'615	-947	-335
Other non-cash items	891	527	366
Change in inventory	-3'111	-5'021	-2'602
Change in other non-cash net current assets	-9'622	6'517	1'527
Income tax paid	-5'209	-4'258	-6'082
Cash flow from operating activities, net	**-3'569**	12'661	24'929
Capital expenditure for:			
‣ Business combination	-	-17'303	-17'348
‣ Tangible fixed assets	-3'930	-3'945	-11'741
‣ Intangible fixed assets	-959	-2'226	-3'266
Disposals of fixed assets	63	154	278
Cash flow from investing activities, net	**-4'826**	-23'320	-32'077
Change in current financial liabilitites	1'473	3'887	-135
Repayment of non-current financial liabilities	-142	-140	-281
Interest paid	-228	-294	-142
Interest received	119	106	193
Dividend payment	-6'076	-4'032	-4'109
Cash flow from financing activities, net	**-4'854**	-473	-4'474
Currency translation	350	-323	-461
Net change in cash and cash equivalents	-12'899	-11'455	-12'083
Cash and cash equivalents at beginning of period	31'645	43'728	43'728
Cash and cash equivalents at end of period	**18'746**	32'273	31'645

[1] see note 2 in the notes to the consolidated half-year financial statements

Statement of shareholders'equity

CHF 1'000	Share capital	Additional paid-in capital	Retained earnings	Other reserve	Shareholders' equity of the company	Minority share-holders	Total share-holders' equity
31.12.2011	28'560	89'851	79'485	-22'028	175'868	768	176'636
Restatement [1]	-	-	-	-3'189	-3'189	-	-3'189
01.01.2012	28'560	89'851	79'485	-25'217	172'679	768	173'447
Net income	-	-	6'791	-	6'791	90	6'881
Other comprehensive income	-	-	-	-1'281	-1'281	33	-1'248
Total comprehensive income	-	-	6'791	-1'281	5'510	123	5'633
Share-based payment	-	-	13	-	13	-	13
Dividend payment	-	-4'032	-	-	-4'032	-	-4'032
30.06.2012	28'560	85'819	86'289	-26'498	174'170	891	175'061
31.12.2012	28'560	85'820	92'313	-23'934	182'759	885	183'644
Net income	-	-	5'619	-	5'619	87	5'706
Other comprehensive income	-	-	-7	3'908	3'901	-25	3'876
Total comprehensive income	-	-	5'612	3'908	9'520	62	9'582
Share-based payment	-	-	13	-	13	-	13
Dividend payment	-	-6'048	-	-	-6'048	-28	-6'076
30.06.2013	**28'560**	**79'772**	**97'938**	**-20'026**	**186'244**	**919**	**187'163**

[1] see note 2 in the notes to the consolidated half-year financial statements

Notes to the consolidated half-year financial statements

1. Accounting principles

The unaudited consolidated 2013 half-year financial statements were prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared in condesed from in accordance with IAS 34 Iterim Financial Reporting.

The consolidated half-year financial statements do not contain all of the information found in the Consolidated Financial Statements and should therefore be read in conjunction with the 2012 Consolidated Financial Statements. The accounting standards correspond to those used in the 2012 financial statement (see pages 76 – 79 of the 2012 Annual Report) with the exception of the amended IAS 19 Employee Benefits, which was applied for the first time in the consolidated 2013 half-year financial statements.

The present half-year financial statements contain estimates and assumptions which affect the figures reported and the associated disclosure. Actual results may differ from these estimates.

2. 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 half-year financial statements:

- Increase in personnel expenses and corresponding reduction in the operating profit EBIT of CHF 0.8 million
- Increase in financial expenses of CHF 0.1 million, reduction in income taxes of CHF 0.2 million
- Reduction in net income of CHF 0.7 million, reduction in the earnings per share of CHF 0.21
- Increase in other comprehensive income of CHF 0.8 million, increase in the comprehensive income of CHF 0.1 million
- Increase in employee benefit obligation of CHF 3.9 million, reduction in deferred income tax liabilities of CHF 0.7 million, increase in intangible assets of CHF 0.2 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 3.1 million

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 reduc tion 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

3. Fair value of financial instruments

In order to be able to react to short-term currency fluctuations, derivative currency hedging transactions are used in part and are stated at market value. The calculation of market value is based on their quoted market prices on the balance sheet date (level 2 of the market value hierarchy). The market value stated on 30 June 2013 under other financial assets stood at CHF 0.3 million (prior year period CHF 0.6 million).

The market value of the following balance sheet items corresponds approximately to the carrying amount: cash and cash equivalents, receivables, other financial assets, financial liabilities and operational liabilities.

4. Further information

The Starrag Group is not subject to seasonal or economic fluctuations since the steady realisation of sales and margins are secured even in the event of any short-term fluctuations in order intake by an order backlog which extends over half a year.

Personnel expenses in the first half of 2013 included an extra CHF 2.1 million required to adapt capacity to the business volumes that are anticipated in the future.

5. Approval of the consolidated half-year financial statements

No events have occurred since 30 June 2013 which are significant to the understanding of these half-year financial statements. The consolidated half-year financial statements were approved on 22 July 2013 by the board of directors and released for publishing.

High-precision machine tools for greater productivity

Starrag Group is a global technology leader in manufacturing high-precision machine 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, energy, transport and industrial sectors. In addition to its portfolio of machine tools, Starrag Group provides integrated technology and maintenance services that significantly enhance customer productivity.

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

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

Financial calendar

5 November 2013	Information on third-quarter 2013 results
27 January 2014	Initial information on full-year 2013 results
7 March 2014	Presentation of 2013 results for analysts and the media in Zurich
12 April 2014	Annual general meeting in Rorschacherberg
9 May 2014	Information on first-quarter 2014 results
25 July 2014	Half-year report 2014

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

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