starrag

Starrag Group

Annual Report 2014

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High-precision machine tools for greater productivity

The Starrag Group is a global technology leader in manufacturing high-precision machine tools for milling, turning, boring, and grinding of work-pieces made from metallic, composite, and ceramic materials. Principle customers are internationally active companies in the Aerospace & Energy, Transportation & Industrial Components and Precision Engineering sectors. Our portfolio of tool machines is complemented by a range of technology and services, and enables the customer to make substantial progress in productivity.

The products are marketed under the following strategic brands: Berthiez, Bumotec, Dörries, Droop+Rein, Heckert, Scharmann, SIP, Starrag, TTL and 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 subsidiares in numerous other countries.

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

Dear shareholders

The overall global economic environment has once again become more challenging in the 2014 financial year, emphasized not least by increasing geopolitical uncertainty. In this environment, the global machine tool industry also observed a somewhat flat development, because in many cases, customers deferred investment decisions. For the Starrag Group, business varied greatly between the different regions, while there were no major changes in terms of industries. Overall, this resulted in a slightly lower order intake of CHF 407 million, or 4.1 % less than in 2013; currency-adjusted the decrease was 3.3 %. Sales revenue could be slightly increased by 0.6 % to CHF 393 million (currency-adjusted 1.6 %).

The operating result was CHF 19 million, unchanged to the previous year, resulting in an EBIT margin of 4.9 percent of sales revenue, which was also unchanged to 2013. Net income of CHF 14 million or 3.7 % of sales revenue was higher than in the previous year. Earnings per share was CHF 4.26, which represents an increase of 7.3 % compared to the previous year. With a practically unchanged equity ratio of 55 %, our Group still remains financially very solid.

Reorganization for increased growth and revenue

In recent years, our measures for a continuous improvement in efficiency and productivity have primarily been focussed on the production side, which was also due to the various acquisitions. With a view to the downstream value creation chain, in the reporting year, we decided to align our Group more consistently and specifically to the various customer groups with their different requirements, in order to respond to the future challenges of the market more effectively, and above all more rapidly. In place of the former business units, therefore, on 1st January 2015 a new organization came into place with the three operational business units Aerospace & Energy, Transportation & Industrial Components, and Precision Engineering, which also represent our strategic target markets. In this organization, each business unit carries full business responsibility for clearly defined market segments (see page 25) and the corresponding product brands.

As part of this realignment and in the interest of defining clear responsibilities, the regional sales teams have also been organized along the lines of the new business units. As the fourth operational business unit, Customer Service is still responsible for all after-sales services such as spare parts and repairs, as well as the development of new service products.

With the reorganisation, we are ultimately aiming for the sustainable achievement of the medium-term growth and profitability targets. As a result of this realignment, sales revenue in the coming years throughout the Group shall grow by over 5 % (currency-adjusted); for the EBIT margin a minimum target of 8 % over the cycle has been set. We are certain that as a result of the continuous optimization and improvement measures of recent years in all areas, together with the reorganization described above, our Group has the potential to achieve this target.

Successful trade fair participation and awards

The high points of the past financial year included our successful exhibition stands at two major industry trade fairs. At the leading American trade show IMTS held in Chicago in September, we were pleased to note the high visitor numbers suggesting an economic recovery in the United States. The Starrag Group presented two machine tools for applications in the market segment Med Tech and Micromechanics, which stand out due to their combination of high precision and productivity. Both were met with a very positive reception.

At the AMB in Stuttgart, which also took place in September and which has become the leading trade fair for German-speaking countries alongside the EMO, the Starrag Group was once again awarded the prize for innovation by German trade journal "MM Maschinenmarkt". The award was presented in the "multifunctional machines" category, for a technology developed by the Group that makes finishing of workpiece surfaces redundant.

At the "Sachsenmetall" forum in June, our company Heckert was awarded the second prize for the best training organisation in the federal state of Saxony. In July, the Starrag Group in Rorschach welcomed around 180 participants from over 20 export countries to the "Airfoil Technology Days" where they presented the latest technological innovations for the market segments Aero Engines and Power Turbines.

The capacity expansion for Bumotec is proceeding according to plan. Together with SIP, currently located in Geneva, the company will move its location from Sâles to nearby Vuadens in 2016. Here, both brands will continue to manufacture high-quality machine tools for the production of ultra-high precision components for the Luxury Goods, Med Tech, and Micromechanics market segments in particular.

Changes to the Board of Directors and Executive Board

At the 2014 Annual General Meeting, Hanspeter Geiser made the decision to step down from the Board of Directors after 20 years. At the same time, Daniel Frutig and Frank Brinken were elected as new Board members. Frank Brinken had previously managed the Group as CEO for nine years. As his successor, the Board of Directors appointed Walter Börsch, previously responsible for Business Unit 1. Bernhard Bringmann took his succession as head of Business Unit 1 as of 1st January 2014.

Following this reorganization, as of 1st January 2015, the Executive Board is now composed of the following members: Walter Börsch (CEO and Regional Sales), Norbert Hennes (Aerospace & Energy), Eberhard Schoppe (Transportation & Industrial Components), Jean-Daniel Isoz (Precision Engineering), Günther Eller (Customer Service), Georg Hanrath (Operations) and Gerold Brütsch (CFO/Corporate Center).

Outlook for 2015 uncertain on several fronts

The global economic perspectives for 2015 are highly uncertain and a forecast is therefore just as difficult. Overall, an on-going modest investment activity of the customers has to be factored in. A further unknown is the unforeseeable impact of the Swiss National Bank's decision to float the Swiss Franc in January 2015. A lot will depend on the developments of the Franc over the coming months. Regardless of this, the current progress of the Swiss Franc exchange rate against the Euro has already made further cost savings necessary. It is true that by comparison across the industry, the Starrag Group is faced with below average exposure to exchange rate fluctuations. However, the proportion of costs that are incurred in Francs across the Group is above the corresponding share of revenues.

In light of this currency situation, our estimates for 2015 are deliberately based on local currencies. Accordingly, we expect to be able to retain the total order value at approximately the same level, although this may prove a challenging target. In terms of sales, we predict (once again in local currencies) a slightly higher value than in 2014. Following the floating of the Swiss Franc in January 2015 due to the circumstances already described above, whereby the portion of costs in Francs across the Group exceeds the corresponding share of turnover, the operating margin could be below 2014.

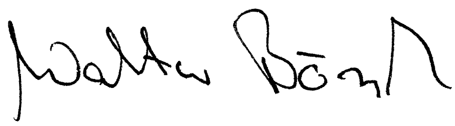
Dividend

With the objective of maintaining an ongoing and attractive dividend policy, the Board of Directors proposes an unchanged dividend of CHF 1.80 per share to the Annual General Meeting on 24th April. This represents a dividend payout ratio of 42 % and based on the 2014 closing price for our shares of CHF 64.50, a dividend yield of 2.8 %. The dividend payout ratio increased in the previous year is set to remain in the range of 35 % to 50 %.

Thank you

The Board of Directors and the Executive Board extend their sincere thanks to all employees for the tireless work they once again put in in 2014, and which is the base of the success of the Starrag Group. Furthermore, an enormous thank you also goes to our customers and suppliers, as well as to you, our estimated shareholders, for your valuable cooperation and the trust you have placed in us throughout the past fiscal year.

Walter Fust
Chairman of the Board of Directors



Walter Börsch
CEO

At a glance

Slight decline in total order value – Operating income maintained – Considerably higher net profit

- Order intake down by 4 % to CHF 407 million – sales up by 1 % to CHF 393 million
- EBIT up 1 % to CHF 19 million – operating margin 4.9 %
- Net profit up 7 % to CHF 14.4 million – profit per share CHF 4.26
- Solid balance with 55 % equity ratio – return on equity 7.5 %
- Unchanged dividend payout of CHF 1.80 per share – dividend payout ratio 42 %

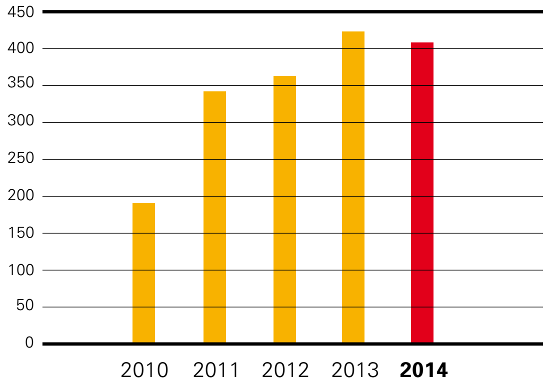
CHF m	**2014**	2013	Change
Order intake	407.3	424.9	-4.1%
Sales revenue	393.2	390.7	0.6%
Operating profit EBIT	19.1	19.0	0.8%
Net income	14.4	13.5	7.0%
Earnings per share (in CHF)	4.26	3.97	7.3%
EBIT as percentage of sales revenue	4.9%	4.9%	n/a
Net income as percentage of sales revenue	3.7%	3.5%	n/a
Return on equity (ROE)	7.5%	7.3%	n/a
Cashflow from operating activities	7.3	8.8	n/a
Capital expenditure in fixed assets	14.6	11.2	30.1%
Free cash flow	-7.2	-2.4	n/a
Profit distribution per share (in CHF) [1]	1.80 [2]	1.80	–

CHF m	**31.12.2014**	31.12.2013	Change
Order backlog	287.6	274.7	4.7%
Total assets	356.3	348.7	2.2%
Net cash	2.4	16.1	n/a
Shareholders equity	195.9	193.6	1.2%
Equity ratio	55.0%	55.5%	n/a
Employees at year end	1'617	1'667	-3.0%

[1] In the form of a (withholding tax-free) dividend payout of reserves from capital invested.
[2] Proposal from the advisory board to the General Meeting.

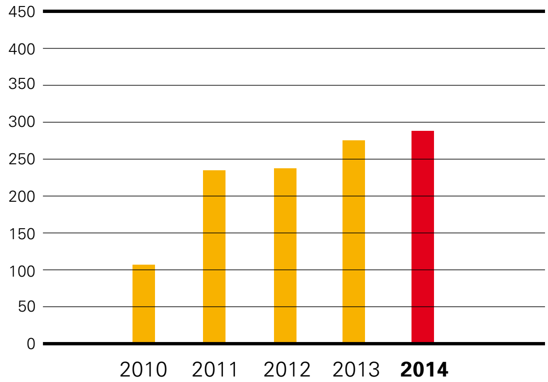
Order intake

CHF m



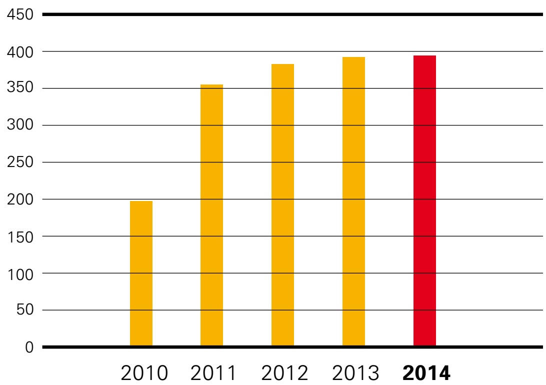
Order backlog

CHF m



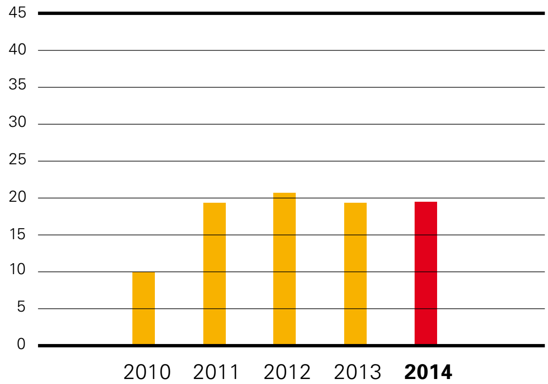
Sales revenue

CHF m



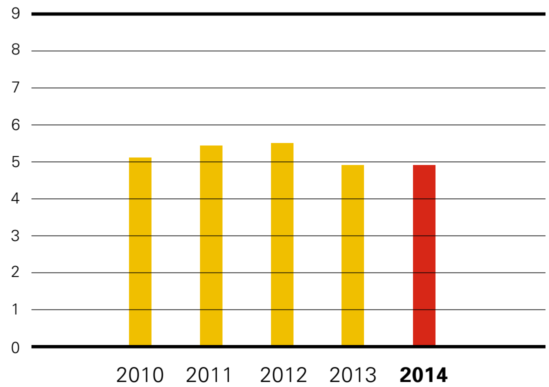
Operating profit EBIT

CHF m



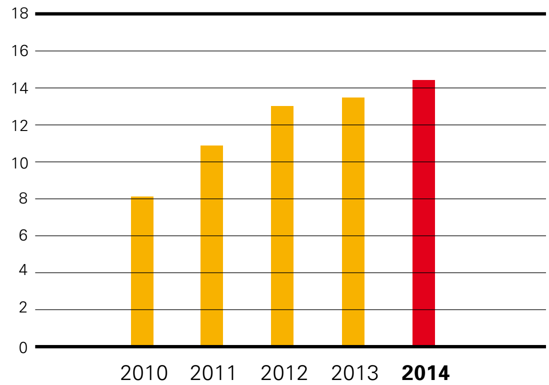
EBIT as percentage of sales revenue

%



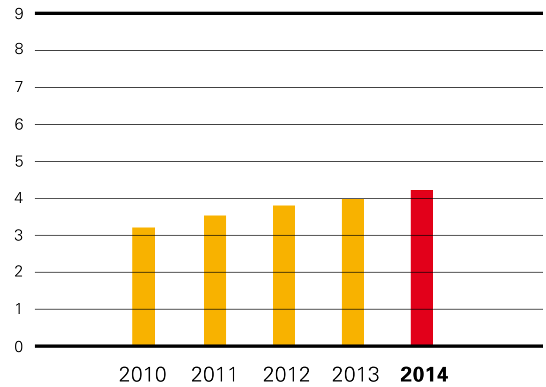
Net income

CHF m



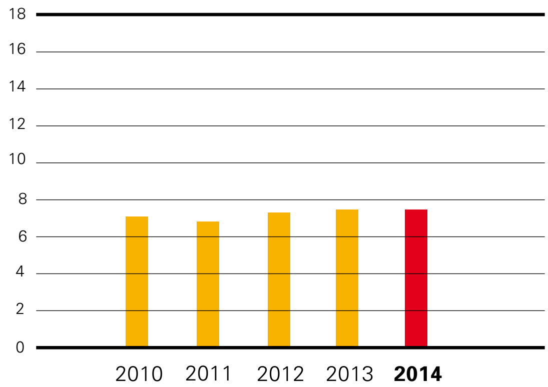
Earnings per share

CHF



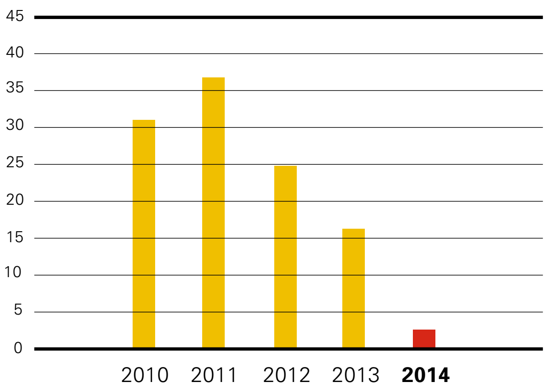
Return on equity

%

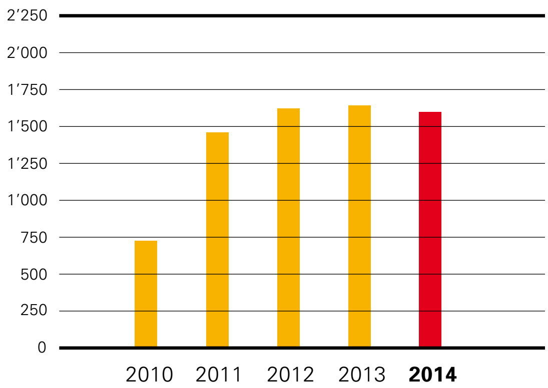


Net cash

CHF m

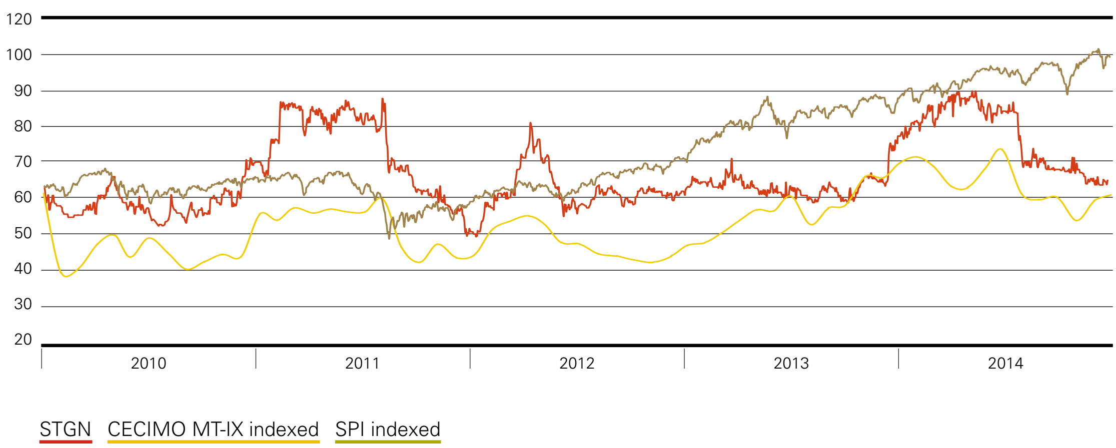


Employees at year end



Share price

CHF



Highlights

New factory construction for Bumotec and SIP on track

As a part of the planned capacity expansion, in the middle of September the groundbreaking ceremony took place for the new Bumotec and SIP factory. With this building, the companies will move their headquarters from their locations in Sâles and Geneva respectively, to nearby Vuadens, where, from 2016, on a surface area of 20 000 m^2, they will continue to manufacture ultra-high precision machine tools for the production of high-value components, primarily for the luxury goods, medical technology, and micromechanics market segments. In a long-term planning strategy, the capacity was deliberately dimensioned to leave space for additional growth, so initially a part of the surface area will be rented to other companies.

The new production facility will be a groundbreaking ecological development. The air-conditioning, which tolerates temperature fluctuations of just plus/minus one degree Celsius due to the high demands of the manufacturing processes, uses mainly renewable energies in the form of geothermal probes and a solar system that covers an extensive area of the roof. The Starrag Group is therefore taking its corporate responsibility seriously by employing construction methods designed for sustainability. As is well known, the Starrag Group is among the green pioneers in the industry through its many years of involvement in the "Blue Competence" initiative of the German Engineering Association (VDMA).

Heckert scores as an exemplary training organisation

At the SACHSENMETALL forum held in Dresden in June, Heckert was recognized as the second best training organisation in the state of Saxony in 2014. The selection process took account of the quota of training places, the performance of the businesses in terms of career and study orientation, school sponsorship programs, and mentoring during the training period. Sachsenmetall is the umbrella organization for companies in the metal and electrical industries in Saxony, which generates over 60 percent of the total industry turnover for this state, and is therefore a driving force of the Saxony economy.

"The best possible basic technical training will become increasingly important. For the challenging tasks facing us in the networked world, we must inspire even more young people, because our industry needs competent skilled personnel, and also offers attractive jobs. The prizewinners demonstrate the great potential that we have in Saxony", emphasized Association president Andreas Huhn at the prizegiving ceremony.

Innovation prize for lateral thinking

At the AMB trade fair held in Stuttgart in September, the Starrag Group was once again awarded the prize for innovation by German trade journal "MM Maschinenmarkt". The award was presented in the "multifunctional machines" category, for a technology developed by the Group that negates the need for finishing workpiece surfaces. This success demonstrates that we can gain competitive advantages with the right products.

"The MM award has now been presented to our Group for the second time" explains a delighted CEO Walter Börsch. "It is proof that lateral thinking pays off and leads to novel solutions for our customers." Explained in simple terms, the new technology is similar to the so-called "whetting" process in agriculture, in which the blade of a scythe or sickle is smoothed and sharpened using a hammer. In this case, the "hammer" is an electrically driven specialist tool that is used to form the workpiece to the final contour with µ precision. Subsequent polishing is no longer required.

High-speed innovation

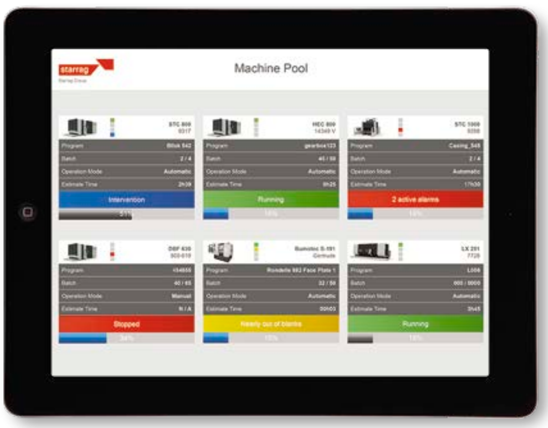
Torque motors are electrical direct drives that enable high speed and torque in the drive chain without mechanical elements. Over the last decade, Berthiez has successfully equipped a larger number of vertical grinding machines with these drives. The result is that the disruptive influences of a mechanical drive on the surfaces are no longer a problem during precision grinding.

In 2012, the first Berthiez TVU 2000/160 vertical lathes featuring a torque motor drive delivering up to 10,000 Nm and 350 rpm were sold. Further orders for this innovative concept were received in 2014.

Due to its high feed torque, the torque motor combines the functions of turning, milling, and positioning on its own. This greatly simplifies the drive concept, since the number of components and mechanical assemblies is significantly reduced, which in turn leads to increased reliability and benefits with regard to maintenance.

Successful participation in AMB trade fair in Stuttgart

The AMB trade fair in Stuttgart has increasingly become the leading trade fair for the machine tool industry in German-speaking countries. Of course, the Starrag Group had to be there once again in 2014 and its many highlights attracted a lot of customer interest. The HEC 500 U5 horizontal machining centre, which features the ideal axis configuration for efficient machining of chucking components that require both milling and turning, attracted a lot of interest. The Bumotec S191 for machining ultra-high precision components for the luxury goods, medical technology, and micromechanics segments also demonstrated its strengths. As a final touch, to dot the “i” in innovation, so to speak, "Starrag Connect" was also presented for the first time, offering a new solution for monitoring whole machine parks. This platform-independent system visualizes the current status of machines for convenient viewing on smart phones and tablets.



Innovative Open House at Heckert

With the motto “Heckert Machining Centers – Intelligence in Cutting”, Heckert invited customers and other interested visitors to Chemnitz in April to present the latest technological developments in the areas of milling, boring, and turning. Heckert demonstrated its leading role in the target market of Transportation & Industrial Components through intelligent machine configurations and skilful integration of technology. In order to remain competitive and ensure technological advances, Heckert has formed cooperative partnerships with several institutions including the technical university of Chemnitz and the Fraunhofer Institute for Machine Tools and Forming Technology, located in the immediate vicinity.

During the event, numerous new innovations were presented to the 250 qualified guests from the industry. Heckert has set a striking standard with the five-axis HEC 500 D U5 MT horizontal machining centre, which features an NC swivel head and an NC rotary table with maximum speed of 900 rpm.

Spare parts available within 24 hours for all customers in Asia

Following the opening of the regional logistic centres in China in 2009 and the USA in 2010, the Starrag Group's new Korea Logistic Center was put into operation in 2014. This enables the rapidly increasing numbers of machine tools in South Korea to be supplied with time-critical spare parts and provides even faster delivery throughout Asia. The centre is open 24 hours per day, and the Starrag Group guarantees delivery to Asian industrial centres within 24 hours. This is possible thanks to the excellent flight connections from Seoul and the storage of parts in the free trade area. Stocks of spare parts in the regional warehouses are continually maintained at the currently required level due to the continuous production flow (ramp-up). All spare parts are classified according to risk.

Company profile

History

The company was founded in 1897 under the name of “Henri Levy Mechanische Werkstätte” in the Swiss Rorschacherberg region and was the only company producing threading machines for the textile industry at the time. Following the decline of the textile industry around the time of the First World War, the company began manufacturing milling machines in 1920. Five years later, the company was renamed Starrfräsmaschinen AG. In the mid-1930s, the company started the production of copy milling machines for the turbine, aircraft, and mould and die manufacturing segments.

In the post-war years, the company established itself by producing the world's first five-axis milling machine. In 1998, the company was listed on the stock exchange for the first time. In the same year, Starrfräsmaschinen AG took over Heckert Werkzeugmaschinen GmbH in Chemnitz, which had emerged from the previous “Wanderer Werke”. Heckert was the first company to have developed a highly-automated, flexible manufacturing system in the 1970s, to great international acclaim.

Following the merger, the company changed its name to StarragHeckert. In 2000, the company formed a holding structure under the umbrella of “StarragHeckert Holding AG”. This was followed by the acquisition of British company Toolroom Technology Limited (TTL), a manufacturer of adaptive milling technology, primarily for jet engine repairs, and Geneva-based SIP (Société d'Instruments de Précision SA), internationally renowned for its jig boring machines.

In January 2011, StarragHeckert took over the German “Dörries Scharmann Gruppe” with its famous brands Berthiez, Dörries, Droop+Rein and Scharmann. At this stage the brand concept was updated, and the company has since been known as the “Starrag Group”.

In May 2012, the Starrag Group acquired Bumotec SA (Freiburg, Switzerland), a specialist in high-precision multifunctional machine tools for complete machining of small workpieces, including full after-sales services. With this acquisition, the Starrag Group had acquired access to the high-growth markets of watches, jewellery, precision engineering, and medical technology.

At the start of 2013, the company opened its first production plant in Asia. In Bangalore (India), horizontal machining centres specifically designed for the needs of emerging markets are manufactured.

Vision

The Starrag Group is the preferred partner of international customers in the target markets of Aerospace & Energy, Transportation & Industrial Components, and Precision Engineering. The comprehensive range of precision machines in the higher quality segment, which is continually updated and includes competent technology and service support, helps the customer in making relevant and lasting advances in productivity.

Business model to reflect the market under one roof

In addition to organic growth, the Starrag Group has become a Group that has combined a complete technological portfolio of competences in precision machining since the turn of the century, particularly as a result of organic growth as well as its various acquisitions of medium-sized and larger companies. The various expansion steps have always followed the logic, that the new must always usefully complement the old, and thereby reinforce the competitiveness of the Group as a whole.

The range of business activities now covers all major cutting processes for small, medium-sized, and large workpieces made from metallic, composite, and ceramic materials. Overall, this results in a wide coverage of competences that only a few providers are able to draw on.

Individual customer orientation is the top priority

The top priority is always customer-orientation, which in turn requires flexible, adaptable manufacturing solutions. The Starrag Group therefore offers a high degree of individual, customer-specific manucaturing systems according to the individual, and therefore sometimes widely varying requirements of our customers. Here, not only the individual machines, but also flexible manufacturing system solutions are increasingly coming to the fore, which involves the customer-specific flexible integration of production systems. In this sense, each delivered machine can therefore be viewed as a new product.

The product range currently includes ten strong, well-known brands that are differentiated by specific competences (see page 16). In terms of distribution, due to the sophisticated nature of the products, the Group primarily focuses on direct sales coupled with high technological competence and complemented by external sales agents who identify the demand in their specific regions.

The international customers of the Starrag Group value short and direct communication channels. The Group therefore has a presence in all major industrial centres around the globe. The experienced local sales, application, and customer service specialists are familiar with the local cultures and customs, and are able to react rapidly. They can guarantee a close and lasting customer relationship based on trust. The global service team is being continually expanded and is constantly undergoing further professional development. The global logistics system with its optimized transport channels and decentralized spare parts warehouses ensures fast and efficient parts supply. The intensive customer

contact through to delivery and commissioning of the machines, as well as afterwards, facilitates a full and ongoing review of customer satisfaction, particularly since the Starrag Group generally serves a relatively small number of large customers. Customer care is supported by a global CRM system.

The Group acts as a common factor for high quality standards and generates synergies along the value chain from development, products and sales, through to service. This includes, for example, the development of standard modular kits from which each brand can then benefit as part of their specific product development.

Product development with the customer

By comparison with the industry, the Group regularly invests a greater than average proportion of turnover in the development of new products, components, and processes with a view to securing their position as a technology leader. Innovation is viewed as a central driving force for business. The Starrag Group has development centres in Switzerland, Germany, France, Great Britain, and India.

The application engineers in the local sales companies work hand-in-hand with the customers and report their requirements back to the development centres. This accelerates the innovation process, thereby generating immediate added value for both the customer and the company.

The Starrag Group protects its technological developments with a broad patent portfolio. Trends and new products from across the industry are analysed systematically and the findings are used for our own development. Important information is also gained from the regular major trade fairs held in Europe, North America, and Asia, and this is used as a basis for identifying implications for our own development planning. Thanks to active monitoring of product life cycles and technological trends, as well as learning from the business experiences of major customers, new developments can be introduced at an early stage in order to expand our technological advantage.

Development work carried out by the Group is supported by close cooperation with leading technical universities and research institutes. Professors Reimund Neugebauer (President of the Fraunhofer Association) and Christian Brecher (RWTH Aachen), two university luminaries in machine tool engineering, work on the supervisory board of Dörries Scharmann, and help to secure the company's technology leadership.

Challenging customer industries with potential for the future

The Starrag Group concentrates on specific applications in three target markets with high demands: Aerospace & Energy, Transportation & Industrial Components, and Precision Engineering. Each business unit carries full business responsibility for clearly defined market segments and the related product brands.

For all market segments, we offer clearly defined application solutions that guarantee sustainable success for our customers. The grouping of the market segments into the above-mentioned three target markets provides the ideal prerequisites for this. Similar technological requirements that may sometimes be fulfilled by the same machines and technologies offer internal synergies and therefore benefits for the customer. For example, the competence to process modern engine blades for the Aero Engines segment also enables us to manufacture the increasingly complex blades required for today's stationary gas turbines in the Power Turbines segment.

Aerospace & Energy

The Aerospace & Energy target market includes the market segments Aero Engines, Aero Structures, Power Turbines, Large Components, and Oil /Gas / Fluids with the primary product brands Berthiez, Dörries, Droop+Rein, Scharmann, Starrag and TTL.

Market segment Aero Engines

Aeroplane engines are subject to continuous further development and improvement in order to meet demands for greater efficiency, lower kerosene consumption, and lower noise emissions. As a long-term partner to the engine industry, the Starrag Group has the competence to cover the resulting requirements for manufacturing solutions such as ever-greater precision in the cutting of increasingly challenging raw materials for the production of turbine elements such as engine blades, blisks and casings.

In the area of engine reconditioning, the repair of blades and blisks plays an important role, since these are produced from very expensive raw materials and semi-finished products, making repair preferable to the production of new components. With the help of TTL software and engineering solutions, flow components such as these can be overhauled in a fully-automated, reliable, and cost-effective process.

Market segment Aero Structures
Larger aircraft, rising kerosene prices, and an increasing environmental awareness call for lighter, quieter, more cost-efficient, and more economical aeroplanes with lower emissions and immissions. For aircraft manufacturers and their suppliers, this results in a trend for ever-more complex and larger, integrated structural components that have to be manufactured reliably within narrow tolerances and within short cycle times under constant process monitoring.

There is therefore an ever greater demand for integral components with complex geometries that can be manufactured in five-axis machining. The services offered by the Starrag Group range from heavy-duty cutting of high-tensile titanium alloys to high-speed cutting of aluminium through to precision machining of aerospace-specific transmission housings made from sophisticated metal alloys.

Highly stressed landing gear components, critical primary structural components in the area of the fuselage, steering gear, and wings, turbine elements such as engine blades, blisks, casings, fuel systems, high-precision gyroscope components, and reliable electrical connection and sensor components are examples of structural parts that are manufactured for all aerospace programs throughout the world day-in, day-out using our machines.

Market segment Power Turbines
In the area of turbo machine engineering, the Starrag Group not only has the most years of experience in the machining of high-precision flow components such as turbine blades, but also in creating complex housings for steam and gas turbines. The combination of multiple machining technologies in one machine is also becoming increasingly important. The components to be manufactured must satisfy increasingly stringent requirements: they are becoming more complex and are increasingly manufactured from materials that are difficult to machine.

Market segment Large Components
The pursuit of energy-efficient solutions, – including exploration, power generation, large engine and aircraft manufacturing, shipbuilding, and large tool construction – results in an increasing demand for larger and more precise components. The machining of these workpieces, which often weigh several 100 tonnes, not only makes our experience in the construction of large machinery, but also our knowledge of the optimal machining and handling strategy essential.

Market segment Oil/Gas/Fluids
In the field of oil and gas exploration, large ball stop valves for gas and oil pipelines, complex boring heads, and other safety components are manufactured on our machines. The Starrag Group offers specific technical solutions such as interchangeable milling heads which offer the customer proven competitive advantages. This segment covers the whole value chain from extraction and conveying (upstream), to transport and storage (midstream) through to further processing and refinement (downstream). The spectrum of products and customers is similarly broad - from classical end products such as pumps, valves, and compressors to boring equipment for the extraction of raw materials. The products named above are also used in petrochemical plants, in the field of transport and water treatment, and many other industry sectors.

Berthiez
High-precision cylindrical grinding: outstanding solutions for the aircraft engine and roller bearing industry based on specialised vertical lathes and grinding machines.

Dörries
Synonymous with powerful lathes: high-performance vertical turning machines ranging from single-column machines with a diameter of more than 1.6 metres, to large gantry machines with a 12-metre turning diameter, 10-metre turning height and weighing up to 450 tonnes.

Droop+Rein
Maximum precision for large workpieces: machine tools for machining large to very large workpieces (up to 250 t in weight) such as diesel engines, power plant components, and large aircraft engines components.

Scharmann
Complete machining solutions with the shortest possible cycle times: specialist solutions for light and heavy machining, and the complete machining of very large workpieces based on high-performance, automatically interchangeable head attachments.

Starrag
Maximum precision flow components: five-axis, robust, and high tensile-strength machines with high metal removal rates for maximum precision manufacturing of turbines, compressor blades, impellers, blisks, and complex structural components.

TTL
The Home of Adaptive Machining: internationally renowned, software-supported manufacturing solutions for the machining and repair of components for gas turbines and aircraft engines.

Transportation & Industrial Components

The target market Transportation & Industrial Components includes the market segments Heavy Duty Vehicles & Engines, On-Road Vehicles, and Industrial Components with the product brands Heckert and WMW.

In the target market Transportation & Industrial Components , the benefits of our machining centres really stand out. The applications that we focus on in this area are based on the unique bandwidth of our ranges of horizontal machining centres. Depending on the task at hand, we offer solution packages from the Heckert and WMW product ranges. The application technicians benefit from this pooling of expertise when it comes to the development of optimum production strategies for their customers. When developing complex and high-precision workpieces in particular, our engineering skills are of immeasurable benefit to the customer.

Market segment Heavy Duty Vehicles & Engines
The Starrag Group machining centres specialise in the machining of drive components such as transmission and engine components, axles, and other prismatic chassis components. These are produced in a highly-productive process, ideally in small and medium-sized series. To reduce manufacturing times and increase workpiece quality, complete machining with the minimum possible clamping is becoming increasingly important.
We have responded to this trend with the use of quills and our newly developed continuous swivel heads. In this segment, the Group concentrates on agricultural vehicles, construction machinery, railway technology, and large diesel engines for stationary applications.

Market segment On-Road Vehicles
This segment includes machining centres for the production of high-precision vehicle components for cars, trucks, buses, and motorcycles. The trend for electric mobility has also opened up new application possibilities. The focus is on the series manufacturing of precision components such as cylinder blocks and heads, transmission housing, crankshafts, and other drive train components made from aluminium, steel, or cast iron alloys. Customers attach particular importance to reducing unit costs. The use of automation solutions for workpiece handling between the different stages of machining, and the integration of test, cleaning, and Meeting facilities, results in cost-effective holistic solutions.

Market segment Industrial Components
In the market segment Industrial Components – which includes, for example, components for machine tools, packaging machines, printing machines, and plastics machines, as well as hydraulic and pneumatic aggregates – there is also a trend towards more complex workpieces. The engineers' quest for optimum components requires new, innovative manufacturing concepts that simplify the production process with maximum precision and guaranteed quality, and which increase cost-effectiveness, and are extremely flexible in operation. The Starrag Group meets these requirements with machining centres which are tailored to the customer's requirements and combine different machining technologies in a single machine.

Heckert
The perfect balance between long-lasting precision and productivity: scaled range of high-precision and highly-productive horizontal machining centres for milling, turning, and boring of medium and high quantities of workpieces.

WMW
Machining centres for emerging markets: horizontal machining centres for rapidly developing emerging nations.

Precision Engineering
The target market Precision Engineering includes the market segments of luxury goods, medical technology, and micromechanics, with the product brands Bumotec and SIP.

Market segment Luxury Goods
In the luxury goods segment, the complex spectrum of base materials ranges from hard ceramics to precious metals and stainless steel. Frequent changes in the manufactured products and the ever smaller lot sizes require the utmost in manufacturing flexibility. As many machining steps as possible must be performed in the same clamping position in order to achieve the necessary precision and surface quality for the expensive end products. The Starrag Group offers machining solutions for most watch and jewellery components.

Market segment Medical Technology
In the medical technology sector, the cost pressure is manifested in healthcare which the Starrag Group helps to ease with the manufacture of implants, medical instruments, and dental components. Bumotec machining solutions enable the simplification of machining steps and shortening of the production chain while also guaranteeing the essential high technical safety and regulatory standards.

Market segment micromechanics
The micromechanics sector is distinguished by trends such as miniaturisation and a reduction in the number of parts in mechatronic components, which leads to more complex parts and even higher demands in terms of precision. Ultra-high precision machining centres made in Switzerland and the combination of various machining technologies such as milling and turning in a single clamping position represent solid competitive advantages for the Starrag Group in this dynamic market segment for the machining of items such as fuel systems, high-precision gyroscope components, and reliable electrical connection and sensor components.

Bumotec
Multifunctional machine tools for high-precision complete machining of small workpieces in sectors such as watches and jewellery, medical technology and microtechnology.

SIP
Uncompromising commitment to precision: jig boring machines and machining centres for the maximum accuracy requirements of research institutes, aerospace companies, the aircraft industry, and leading precision engineering firms.

Clear strategic alignment

The strategic success factors of the Starrag Group can be summarized as follows:

- Concentration on the top quality segment
- Technological leadership
- Qualified and motivated employees
- Focus on clearly defined target markets and market segments with corresponding product brands
- Solid financial basis
- High internal flexibility, particularly in difficult times,
- and increasingly innovative, customer-oriented solutions.

This strategy has proven reliable, even in difficult times and beyond the individual economic cycle. The Starrag Group is the only machine tool manufacturer listed on the stock exchange to have achieved positive results throughout the latest recession, and to consistently pay dividends to shareholders.

To secure its long-term existence, the Starrag Group is also striving for continued profitable growth with an EBIT margin of at least 8 % on average over several years and across economic cycles. In addition to the potential price increase, shareholders should also participate in the success of the Group thanks to an attractive dividend payout quota of 35 % to 50 % of net profit.

While growth in recent years was primarily driven by acquisitions, over the next few years the Group plans to consistently utilise the Group-wide synergy potential and focus on organic growth as a priority, with target annual growth of over 5 % in the medium term. The concentration on organic growth does not exclude further acquisitions in individual cases. However, this must always meet the basic prerequisites for strategic fit, an interesting market and product portfolio, and cultural fit. In so doing, the Starrag Group relies on a proven, stringent analysis process.

High level of flexibility demanded

In future, an even more volatile environment with even more pronounced market fluctuations must be expected. This requires greater flexibility from the company. Internally, this means that processes and procedures must be improved further as an ongoing task in order to increase productivity. This is the purpose of the global Business Process Management solution, which simplifies and standardises group-wide processes wherever practical. Defined key processes are checked and improved regularly. The most balanced distribution of risks possible with regard to markets and regions, as well as a solid financing structure, should ensure growth and innovation.

International presence

Our Group already holds strong market positions in Europe, Asia and North America. In geographic terms, sales markets will shift further towards Asia, which currently already purchases more than half of the machine tools produced worldwide. The Starrag Group wishes to take part in this growth through local production in India, but also through further expansion of the sales and service organisation in the most important Asian industrial nations. Following on from the technology and customer service centre already built, for example, a new manufacturing plant was opened in Bangalore in early 2013. Various major trends indicate further organic growth for our group in this region: a growing need for mobility, the rising demand for renewable and conventional energy, the necessity for investment in infrastructure and the mechanisation of agriculture, as well as increasing demand for consumer products.

In conclusion, the Starrag Group expects growth that, in the medium term, will surpass that of the European machine tool industry as a whole. The sales share accounted for by Asian customers is likely to approach half in the coming years. We are still sticking to the basic strategy of playing a leading role in all three target markets; Aerospace & Energy, Transportation & Industrial Components, and Precision Engineering.

Starrag Production System

Flexible production in new locations

The Starrag Group manufactures its machines and production systems in nine production plants in Switzerland, Germany, France, Great Britain and India. They all form part of our "Starrag Production System" production network and are clearly assigned to our three target markets Aerospace & Energy, Transportation & Industrial Components, and Precision Engineering (cf. following pages).

Our development and technology centres are also situated in these locations. This ensures that all our technological expertise is used to the maximum across the entire group. In addition, the system enables capacity and risk to be balanced.

This system reflects our conviction that, not only sales, but also the upstream stages in the value creation chain, must be as near to the market as possible for successful market development – true to our motto: product development with the customer.

Aerospace & Energy

Berthiez St-Etienne, France

Transportation & Industrial Components

Precision Engineering

Bumotec Opening 2016 Vuadens, Switzerland

Dörries Scharmann — Mönchengladbach, Germany


Droop+Rein — Bielefeld, Germany

Starrag — Rorschacherberg, Switzerland


TTL — Haddenham, Great Britain

Heckert — Chemnitz, Germany

WMW — Bangalore, India

Bumotec — Sâles, Switzerland


SIP — Geneva, Switzerland

Customer-oriented market development – just as accurate as our products

When developing markets, the Starrag Group relies on clearly defined market segments in order to meet the specific requirements of the different customer groups precisely.

Three target markets – Aerospace & Energy, Transportation & Industrial Components, Precision Engineering – which are served by a total of ten strategically coordinated brands, which, for their part, cover the entire range of technologies of the Starrag Group: this is the basis of our business model. Since our customers operate in various sectors within the individual target markets, each with differing application needs, this also makes corresponding refinement necessary in terms of market development.

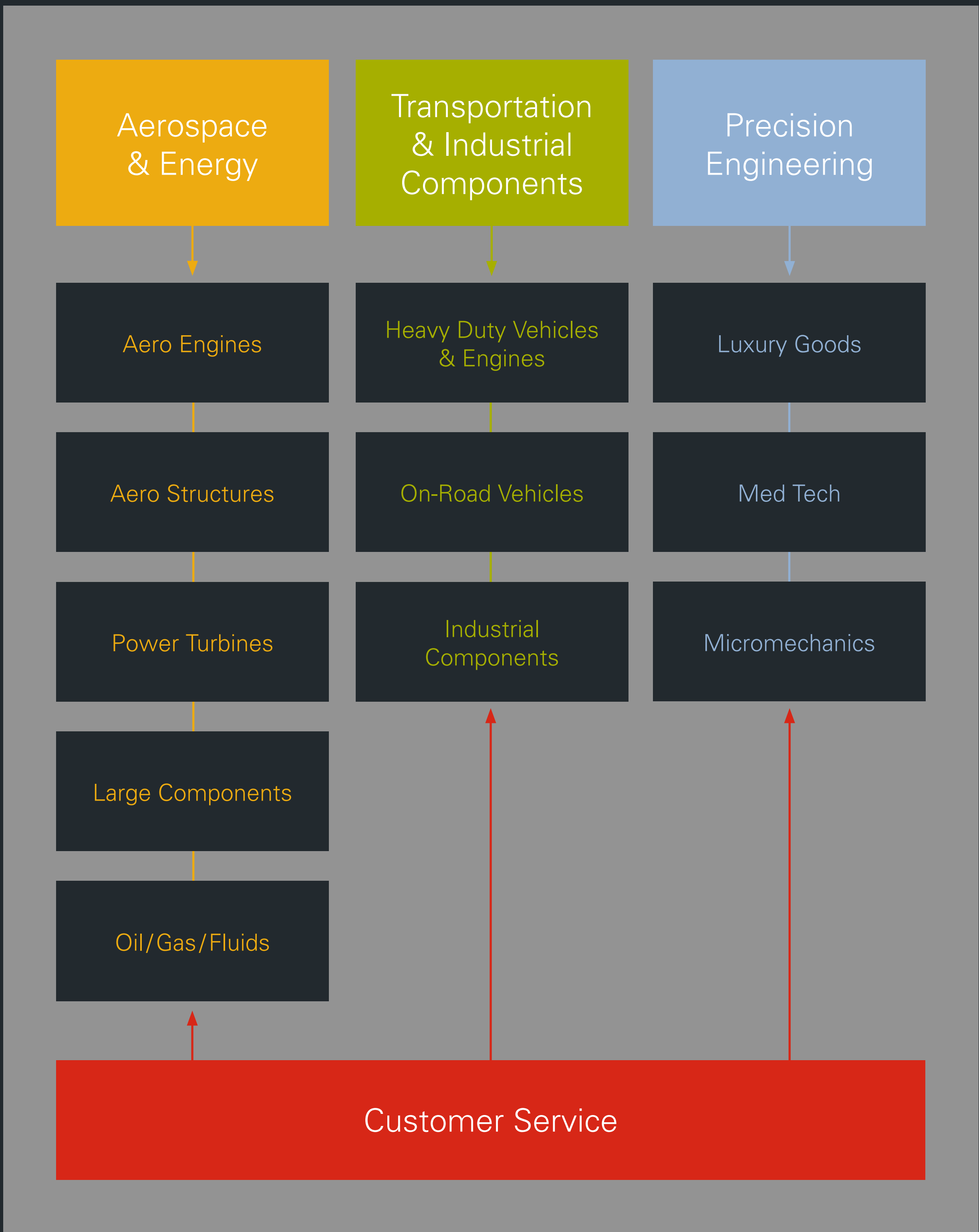
Taking the production of gearbox housing for helicopters in the target market Aerospace & Energy, for example, the requirements are different to those required for the heavy-duty machining of high-strength titanium alloys for aerostructure components. Furthermore, in the target market Precision Engineering, the requirements of customers in the medical technology industry are not the same as those in the luxury goods sector or for other small precision components.

In order to fully meet these different requirements at all times, the Starrag Group has defined eleven clearly delineated market segments (cf. adjacent figure). The differentiation is based on a careful analysis of global markets, taking account of market attractiveness and segment-specific trends, as well as the core competencies of the Starrag Group.

For customers, the formation of this cluster has the advantage that they work with the Starrag Group specialists who are right for them from the start. Due to their many years of experience, these specialists are very familiar with the particular requirements of their market segment and are therefore able to propose the correct solution quickly. The customer also benefits from the internal training modules which have been coordinated with this system group-wide and guarantee both high and uniform standards. The effectiveness and efficiency of this strictly market-oriented approach is ultimately reflected in the fact that each segment is clearly assigned to a member of the management who bears overall responsibility for the satisfaction of the customer and, therefore, for market success and business results.

On the following pages, we will introduce you to successful applications from each target market.

Three target markets – eleven market segments

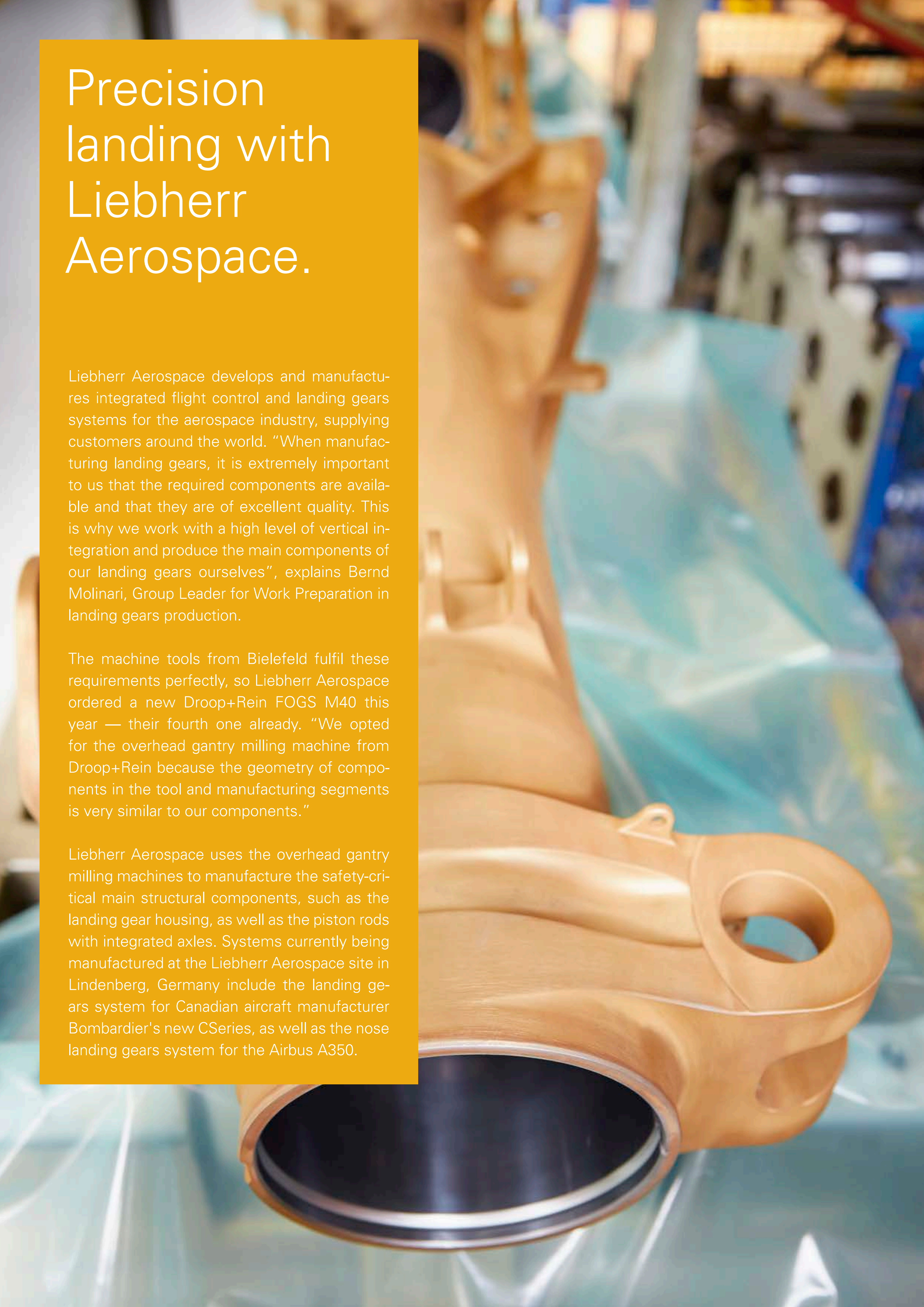


Precision landing with Liebherr Aerospace.

Liebherr Aerospace develops and manufactures integrated flight control and landing gears systems for the aerospace industry, supplying customers around the world. "When manufacturing landing gears, it is extremely important to us that the required components are available and that they are of excellent quality. This is why we work with a high level of vertical integration and produce the main components of our landing gears ourselves", explains Bernd Molinari, Group Leader for Work Preparation in landing gears production.

The machine tools from Bielefeld fulfil these requirements perfectly, so Liebherr Aerospace ordered a new Droop+Rein FOGS M40 this year — their fourth one already. "We opted for the overhead gantry milling machine from Droop+Rein because the geometry of components in the tool and manufacturing segments is very similar to our components."

Liebherr Aerospace uses the overhead gantry milling machines to manufacture the safety-critical main structural components, such as the landing gear housing, as well as the piston rods with integrated axles. Systems currently being manufactured at the Liebherr Aerospace site in Lindenberg, Germany include the landing gears system for Canadian aircraft manufacturer Bombardier's new CSeries, as well as the nose landing gears system for the Airbus A350.



Just 12 to 30 µm

The prescribed tolerance for bores. For formed parts and bearings, the prescribed tolerance is 20 to 50 µm.

30 work steps:

The number of work steps it takes to machine blanks into the finished component. The first step involves removing an allowance of 15 mm. The smoothing and high-speed smoothing processes follow this, along with other machining processes such as boring and line boring, and grinding and hard milling after the heat treatment stage.

Over 80%

How much the dimensions of the forging blank are reduced by during the cutting process. The finished landing gear components weigh just over 120 kg.

The best price/ performance ratio.

Bopparder Maschinenbau-Gesellschaft BOMAG offers a comprehensive program of compactors, including machinery for soil and asphalt compaction. Annually, around 15'000 pre-finished vibratory rollers, so-called “drums”, are produced in different sizes.

The machining of plate washers, which are already permanently welded into the roller body, is particularly demanding. In order to operate at the highest technical and economic level, BOMAG equipped this sector with a new Heckert HEC 1600 P 150 machining centre.

Production manager Kai Riedel explains the investment: “Every production sector must stand up to comparison with external suppliers, both technically and economically. Therefore, particularly for new purchases, we set high requirements in terms of efficiency and compare the offers very thoroughly.” In this way, the new horizontal machining centre in particular should be more productive than the two existing boring mills and have a technical availability of at least 95 percent.

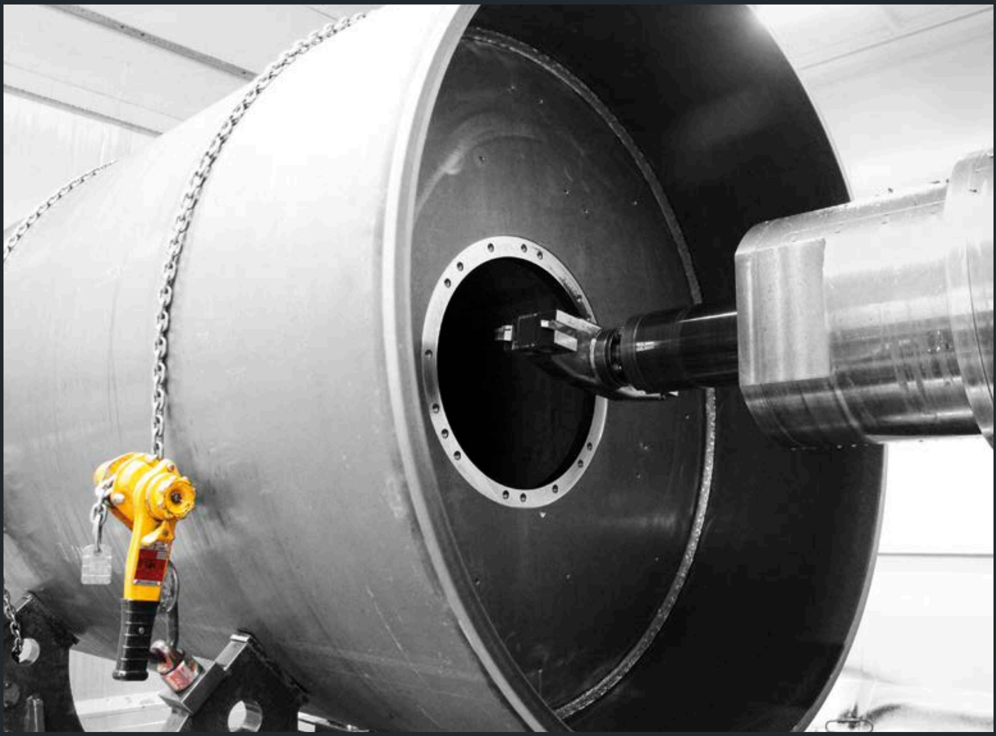
With the HEC 1600 P 150, Heckert was able to offer a machine that could be configured precisely to the tasks in the drum factory. Gangolf Wobido, member of the management team: “Besides another new, albeit considerably smaller machining centre, the HEC 1600 is the most precise machine in the whole drum factory. Due to this we no longer need to finish-bore some fits, rather we can circular mill them. This is considerably more cost-effective.”

13'000 kg

is the maximum weight of drums manufactured on HEC 1600.

Up to 1'500 mm

diameter and 2'160 mm workpiece length can be machined on HEC 1600.



180 tool pockets:

The number available in the magazine of the HEC 1600 system installed.

Precision in movement.

Since its beginnings the University of Sheffield in England has been a world leader in metalworking and engineering research. The centrepiece is the AMRC (Advanced Manufacturing Research Center), which combines industry expertise and practical solutions with university innovations in close collaboration with industrial companies.

Bumotec held a customer day in order to demonstrate with the S191 how it is possible to significantly increase productivity and efficiency by using the Bumotec machine. Around 100 participants accepted the invitation and took the opportunity to see the innovative machine in use and to become familiar with the highly effective technology.

The S-191 Linear series represents the highest level of precision and reliable repeatability when machining, for example, watch components made of gold, platinum, or silver, or medical implants and instruments, as well as small precision parts. Linear technology, which ensures backlash-free, repeatable precision in the µm range in the S-191 turnmill centre, plays an important role in this. Due to the combination of the rapid linear drive with a high-resolution Renishaw measurement system and the stabilised cooling circuit for all heat-generating elements, the S-191 Linear achieves excellent values and it is not only regular customers from the watch industry who find them impressive. The machines in this series are suitable for turning, milling and other machining operations (such as grinding) for individual parts or from a bar in a clamping process. Due to the versatile modular design, all kinds of machine can be assembled from the standardised kit – including a centre with seven axes and three spindles.

2,5 µm:

The level of precision offered by the S191 in day-to-day operation.

40'000 rpm:

The speed achieved by the high-speed spindle.

100 experts

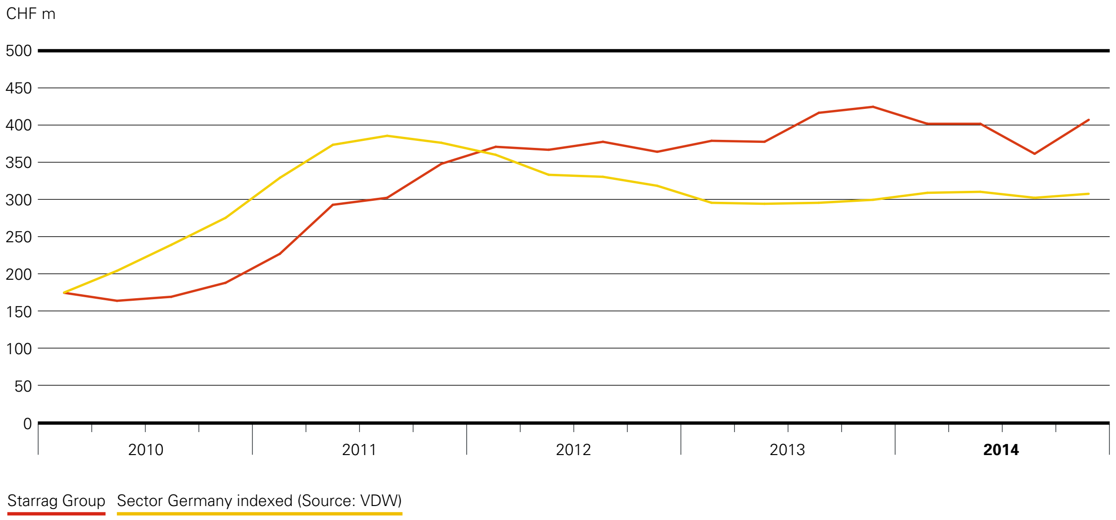
received detailed explanation of the highlights of the S191.

Annual report 2014

Defying the difficult environment

Also in 2014, the global economic environment was very challenging. While in Europe, in contrast to the previous year, the economy slowed noticeably and investment activity decreased, Asian markets gained momentum again, and positive prospects were solidified in North America. Although the global machine tool industry expected a certain recovery in the second half of 2013, this development was not confirmed in the year under review, meaning that the order intake of German machine tool manufacturers was only slightly above the level of the previous year (4 %). In this environment the Starrag Group achieved a slightly lower order intake. The reduction can be explained by the various major orders in the previous year.

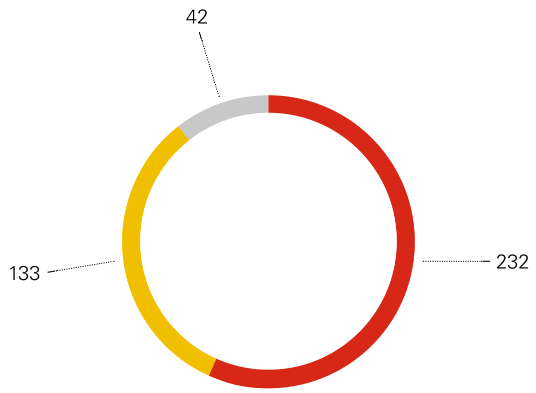
Order intake compared to sector



No striking changes by industry

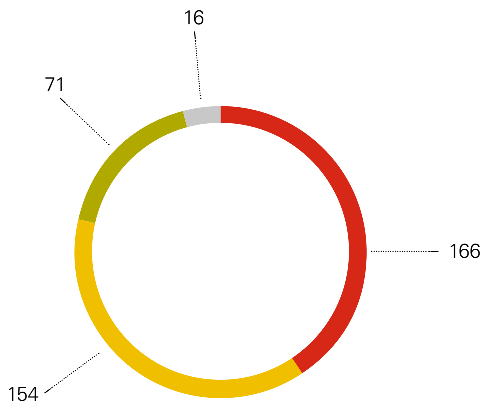
In terms of order intake by industry, there were no striking shifts, either in absolute values or in structural terms. After an extraordinarily good year in 2013, Aerospace had a slightly lower order intake. In the industrial sector overall, new orders were below the level of the previous year, although the target market Precision Engineering grew once again. Transportation finished slightly better; as expected, Energy tended to remain weak as a result of the uncertain energy policy outlook. As in the previous year, with a joint total of 80 %, the majority of order intake came from Aerospace and Industrial.

Order intake by region



CHF m	2014		2013
Europe	232	57 %	324
Asia	133	33 %	77
America	42	10 %	24

Order intake by market segment



CHF m	2014		2013
Aerospace	166	41 %	174
Industrial	154	38 %	164
Transport	71	18 %	68
Energy	16	4 %	19

For the first time, one third of the order intake from Asia

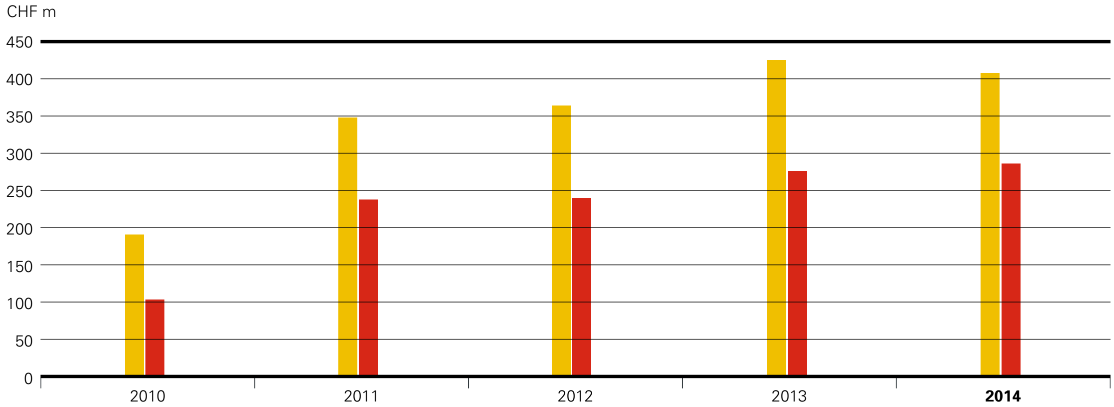
With an order intake of CHF 133 million (increased by 73 %), the Asian markets contributed over a third of new orders group-wide for the first time. This is not least due to a pick-up in the final quarter and the once more increased order intake from Chinese customers. North America also developed positively, albeit from a still unsatisfactory level. In contrast to the previous year, the order intake from Europe declined considerably, which can be explained by individual large orders in 2013. Apart from that, a lower investment activity was observed among European industrial clients, including, not least, from Germany.

As in the previous year, the order backlog grew further and at the end of the year in review amounted to CHF 288 million or 5 % more than at the end of 2013. At 1.04., the book-to-bill ratio (the ratio of orders received to sales revenue) once again reached a targeted value above 1.

Order intake: strong final quarter - slight decline over the whole year

After a double-digit decline in order intake had been recorded in the nine-month comparison, a strong final quarter resulted in an overall decline of 4.1 % to CHF 407 million over the whole of 2014. Currency adjusted, the decline amounted to 3.3 %. Sales for the year under review totaled CHF 393 million – a figure 0.6 % higher than for 2013. Currency adjusted, the increase amounted to 1.6 %.

Trend of order intake and order backlog



CHF m	2010	2011	2012	2013	**2014**
Order intake	188	348	364	425	407
Order backlog	104	238	239	275	288

Operating result maintained – Considerably higher net income

The operating result before interest and tax EBIT, at CHF 19.1 million, was slightly above the previous year's figure of CHF 19.0 million and represented an unchanged 4.9 percent of sales. This result was, above all, aided by the CHF 4.7 million reduction in personnel costs as a result of the capacity adjustments implemented in the previous year. On the other hand, the margins were lower primarily because of the lower degree of completion of orders in progress which resulted in the unchanged operating margin of 4.9 percent of sales. The net income of CHF 14.4 million exceeded the previous year's figure (CHF 13.5 million) by 7.0 %, mainly because of a reduced tax rate.

Solid financing

The equity ratio was practically unchanged at 55 %. The free cash flow declined to CHF -7.2 million (previous year CHF -2.4 million) due to the pre-financing of customer orders and the somewhat higher level of capital expenditure. Net cash fell to CHF 2.4 million from CHF 16.1 million in the previous year because of the negative free cash flow and the dividend paid.

Numerous innovations once again

Again in 2014, Starrag Group continued to make substantial investments in new products and processes. Overall, the level of capital expenditure, at CHF 14.6 million, was 30 % higher than the previous year, which is primarily a result of investment in the new Bumotec plant. On the "Airfoil Technology Days" in Rorschach, we "premièred" the LX 021, a small special-purpose machine for the complete machining of turbine blades which perfectly combines the know-how of Starrag and Bumotec. We were awarded the Award for Innovation by the German specialist magazine MM (Maschinenmarkt) for a new technology that enables the workpiece to be shaped to the final contour with µm precision (cf. page 11). With the motto "Intelligence in cutting", Heckert also presented interested experts with a première: a new five-axis machining centre with a tilting head and a new tool magazine for up to 570 tools (cf. page 13).

In 2014, we were, of course, represented at the major trade fairs IMTS (Chicago) and AMB (Stuttgart). Visitors showed great interest in our machines and technological innovations. In India we concluded the development of the new series of compact machining centers which are specifically tailored to the requirements of the promising Asian markets where we expect to stimulate sales for us in the medium term. In human resources the crosslocation assignment of staff between the various locations was intensified to improve capacity balancing. Furthermore, we invested in the targeted training of our qualified specialists.

Unpegging of the Swiss Franc

The Starrag Group was also surprised by the timing of the Swiss National Bank's decision to abandon the ceiling on the value of the Euro at CHF 1.20. It is true that by comparison across the industry, the Starrag Group is faced with below average exposure to exchange rate fluctuations. Therefore, only around a quarter of sales revenue is generated in Swiss plants and materials are purchased in the Eurozone wherever possible. However, the proportion of the costs that are incurred in Francs with around 24 % is above the corresponding share of revenues of 22 %. In addition, it has to be assumed that the price pressure will increase notably in competition with foreign suppliers.

Challenging outlook for 2015

In view of the continuing global economic and geopolitical uncertainty, with their effects on the investment activity of our users are very hard to predict, it is extremely difficult to make a forecast for the current financial year. In addition, the probability of making correct predictions is heavily limited by the unpegging of the Franc in January 2015. According to current forecasts we expect Europe's economy to continue to develop cautiously. In contrast, we are not only optimistic about the future of emerging Asian markets in the short-term but also in the medium term. In North America the economic recovery is expected to continue.

With a view to the industries, we expect Aerospace to continue to develop positively. With regard to Industrial and Transportation, expectations for the various segments are mixed, and Energy is likely to continue its weak trend. To conclude, and based on the local currency, we expect our order intake to remain at a similar level, and sales revenue to increase slightly. Following the floating of the Swiss Franc in January 2015 due to the circumstances already described above, whereby the share of costs in Francs across the Group exceeds the corresponding share of turnover, the operating margin could be below 2014. The Starrag Group has therefore decided upon a set of measures to at least partially compensate for this negative effect.

Robust potential for long-term profitable growth

In recent years the Starrag Group has continually improved efficiency and productivity by constantly optimising processes and procedures and making substantial investments in state-of-the-art production technologies. Our production system, supported by the new IT infrastructure, designed to be implemented group-wide, is at the cutting edge of technology. With the reorganization introduced as of 1st January 2015 (cf. page 24) we are focusing the attention of the Starrag Group on the downstream value creation chain processes in order to meet the different requirements of the various customer groups even better and thus respond the future challenges of the market more effectively, and above all more rapidly.

Developing new and improving existing products and services ensures a strong position of Starrag Group to face tomorrow's competition. We have considerable potential for long-term profitable growth, and we will exploit it systematically in the coming years. For this reason, we are confident to reach our medium-term targets of growth and revenue, namely an average increase in turnover of over 5 % and an EBIT margin of at least 8 % over a machine cycle.

A broadly defined concept of sustainability

The industrial and social commitment of the Starrag Group is set up for the long term. We maintain an open dialogue with all stakeholders and consider their needs in a balanced way. Measures to enhance sustainability are based on the economic, social and ecological environment.

Result-oriented corporate culture

Economic sustainability is based on a result-oriented corporate culture and is intended to increase the enterprise value in the long-term to 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.

Employee-oriented HR policy

The success of the Starrag Group is essentially based on committed employees who are motivated by working in an open and modern environment and striving to give their best in terms of performance and customer dedication. The central elements of our management culture are therefore mutual trust, respect, regular exchange of information, cooperation, 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 target. Employees are regularly informed by their managers and at least once a year also by the CEO personally, at all locations, about the current state of business current topics and projects. Furthermore, the employee magazine "together", which is distributed worldwide twice a year to all employees, provides more in-depth information from the various locations and markets.

In the year under review, we again conducted a worldwide employee survey together with a specialized consulting company with the aim of further improving the working environment for our employees. After valuable potential for improvement had been identified and implemented following the previous survey in 2011, selective optimization measures were again defined and implemented this time in close collaboration with employees and employee representatives. 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 in the Starrag Leadership Academy, a group-wide training programme for all management-level employees which supports alignment across cultures and locations and creates a common understanding 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 training courses. The academy has now been expanded to our international regional offices. Their managers are trained in English and French. Other training-based priorities include additional technical training, safety at the workplaces, foreign language skills and coaching in the efficient use of the IT tools across the group. In the reporting year, in addition to continuation of the Leadership

Academy and internal language courses, further efforts were made to enhance the training of skilled workers. In so doing, the focus was on actively shaping succession planning for retiring skilled workers and the further improvement of internal professional training.

Our in-house vocational training plays a central role in developing world class skilled specialist employees. As in the past years, around 190 young apprentices and students in more than ten different apprenticeship/internship programmes are part of our vocational training. We have invested in modern, well-equipped training centers at every location. In the reporting year we invested into production machines and an in-house training center in Chemnitz. Where possible, tainees with a good performance assessment are firmly employed after completing their apprenticeship. In India, we 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 system.

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 2014 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 2014 and extended step by step to other locations. The employees at Rorschach thankfully received a fully equipped fitness room. Sporting events such as a yearly ski day, bike-to-work months and a company fun run were also held.

Product energy efficiency as a central starting point

In the past, and especially in regions with low energy prices, only little attention was paid to energy consumption. We expect energy consumption to play a greater role in terms of overall production costs in the future. The energy efficiency of machine tools could become one of the most important factors in the calculation of economic efficiency over the life cycle of a machine system. Therefore, the Starrag Group decided early to participate in the "Blue Competence" campaign of the European association of machine tool builders CECIMO and the two national industry associations German Machine Tool Builders' Association (VDW) and Swissmem. 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 to achieve energy-savings.

Under our own eeMC (energy efficient Machining Center) label, the entire range of machine systems were made more energy-efficient. Typical measures introduced range from implementing energy-efficient engines to minimizing 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 standardization committees such as "Energy efficiency in machine tools" and the related defining of the new ISO standard 14 955 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 clearly in the double-figure percentage numbers.

The Starrag Group is continuously 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. Last year was very successful with a reduction of energy consumption at our production locations by 19 % in 2014 to 0.56 GJ per CHF 1'000 net value addition (2013: 0.69 GJ), thanks to the different refurbishments and the mild winter.

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. 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.

In the year under review, the Chemnitz production site started to implement an energy management system. The first step was to replace the existing lighting in a production hall with modern, energy-efficient LED lighting with a daylight-dependent control system, reducing considerably electricity consumption for lighting. At the same time, the average level of illuminance and the uniformity of the illumination in the production hall increased significantly.

Corporate Governance

Group structure and shareholders

Management organisation

Board of Directors
Walter Fust, Chairman
Prof. Dr. Frank Brinken, Vice-Chairman
Prof. Dr. Christian Belz
Daniel Frutig
Adrian Stürm

CEO
Walter Börsch

Aerospace & Energy	Transportation & Industrial Components	Precision Engineering
Dr. Norbert Hennes [1]	Dr. Eberhard Schoppe [2]	Jean-Daniel Isoz [3]
Market Segments: ‣ Aero Engines ‣ Aero Structures ‣ Power Turbines ‣ Large Components ‣ Oil/Gas/Fluids	**Market Segments:** ‣ Heavy Duty Vehicles & Engines ‣ On-Road Vehicles ‣ Industrial Components	**Market Segments:** ‣ Luxury Goods ‣ Med Tech ‣ Micromechanics
Brands: ‣ Berthiez ‣ Scharmann ‣ Dörries ‣ Starrag ‣ Droop+Rein ‣ TTL	**Brands:** ‣ Heckert ‣ WMW	**Brands:** ‣ Bumotec ‣ SIP

Customer Service
Günther Eller

Regional Sales
Walter Börsch

Operations
Dr. Georg Hanrath

CFO / Corporate Center
Gerold Brütsch

[1] As from 31.12.2014 Aerospace & Energy replaces the former Business Unit 1 under the lead of Dr. Bernhard Bringmann for the brands Starrag and TTL as well as the former Business Unit 3 under the lead of Dr. Norbert Hennes for the brands Berthiez, Dörries, Droop+Rein and Scharmann.
[2] As from 31.12.2014 Business Unit 2.
[3] As from 31.12.2014 Business Unit 4.

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 Service Center GmbH & Co. KG** Ichtershausen / DE
      - **FIRMUS Grundstücks-Vermietungsgesellschaft 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 page 77 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 2014 was CHF 216.7 million.

Shareholders

There were 820 shareholders registered in the company's share register on 31 December 2014. Distribution by number of shares held was as follows:

More than 100'000 shares	‣ 2 shareholders
10'001 to 100'000 shares	‣ 17 shareholders
1'001 to 10'000 shares	‣ 66 shareholders
1 to 1'000 shares	‣ 735 shareholders

319'332 shares or 9.5 % were not registered in the share register on 31 December 2014.

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

- Walter Fust, Freienbach, Switzerland 1'803'074 shares, 53.66 %
- Eduard Stürm AG, Goldach, Switzerland 311'079 shares, 9.26 %
- Max Rössler/Parmino Holding AG, Goldach, Switzerland, 194'035 shares, 5.77 %

The following notifications were made during the 2014 financial year in accordance with Art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading:

- 27.05.2014: Frank Brinken, Rotkreuz, Switzerland, 1.42 %

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 %

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 pooling 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 12 April 2016. 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 three years under report, the share capital of Starrag Group Holding AG has not changed.

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 acquired a majority stake in 1994, which later sold Dipl. Ing. Fust AG to Coop in 2007. Walter Fust has been a member of the Board of Directors of Tornos Holding AG in Moutier, Switzerland since April 2014. 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: Prof. Dr. Frank Brinken, Adrian Stürm, Prof. Dr. Christian Belz, Walter Fust, Daniel Frutig

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.

Prof. Dr. Frank Brinken (1948, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since April 2014.

He previously served as CEO of Starrag Group since 2005. Before he was Chairman of the Board and delegate President 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. Prof. Dr. Frank Brinken has been a member of the Board of Directors of Calorifer AG in Elgg, Switzerland since 2002. Prof. Dr. 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.

Daniel Frutig (1962, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since April 2014.

From 2011 to February 2014 Daniel Frutig was CEO of AFG Arbonia-Forster-Holding AG. From 2005 to 2011 he headed the global Support Services Division of the British Compass Group, based in UK. From 2003 to 2005, Daniel Frutig was CEO of Swisscom Immobilien AG, from 1998 to 2003 he served as Associate Partner for the consultancy firm Accenture, finishing as global head of the Services & Technology business. Before, Daniel Frutig worked at Sulzer AG, where he started his career in 1987. Daniel Frutig graduated in 1987 as a heating, ventilation and climate technology engineer from the University of Lucerne. He earned an MBA from the University of St. Gallen in 1994 and completed the Top Management Executive Program at INSEAD in Fontainebleau in 2004/05. 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. 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.

Maximum number of permissible mandates

The members of the Board of Directors may hold not more than four additional mandates in companies listed on an official stock exchange and ten additional mandates in unlisted companies. The following mandates are not subject to the aforementioned limitations:

1. Mandates in companies that are controlled by the company;
2. Mandates held at the request of the company or companies controlled by it; no member of the Board of Directors or the Executive Board shall hold more than ten such mandates;
3. Mandates in companies that do not satisfy the requirements of Art. 727 para. 1 CO, and mandates in associations, foundations, charitable organisations, trusts, employee welfare foundations and other comparable structures; no member of the Board of Directors or the Executive Board shall hold more than fifteen such mandates.

Mandates shall mean mandates in the supreme governing body of a legal entity that is required to be registered in the Swiss commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed to be a single mandate.

Elections and term of office

The members of the Board of Directors are elected annually at the Annual General Meeting. There are no term limits for Board members.

Internal organizational structure

The Board of Directors shall constitute itself, unless otherwise provided by law. The Chairman shall convene meetings of the Board of Directors if and when the need arises or upon the written request of any other member. Except in urgent cases, calling notices for meetings are to be sent out five days before the scheduled date of the meeting, stating the items for discussion.

Minutes are to be kept of the discussions, and are to be signed by the Chairman and the Secretary. The Board of Directors appoints a Secretary, who need not be a member of the Board of Directors. A majority of the Board of Directors must be present in order for resolutions to be validly adopted. No attendance quorum is required for the sole declaration of the execution of a capital increase and the subsequent amendment of the Articles of Association. Resolutions shall be passed by a simple majority of the votes cast. In the event of a tie vote, the Chairman, who shall always cast a vote, shall have the casting vote. Resolutions can also be passed in writing by way of circular letter, provided no member requests an oral discussion of the item in question. Resolutions adopted in this way are to be included in the minutes.

There are usually six board meetings a year, each lasting about five hours. Members of the Executive Board will be called in to these meetings if and when necessary. Board resolutions and elections are decided by a majority of votes cast. In the event of a tie vote, the Chairman has the casting vote. Resolutions can also be adopted by way of circular letter, provided no member requests oral deliberations. During the 2014 financial year the Board of Directors held six meetings and the average duration was 5 hours.

The duties and powers of the Compensation Committee are presented in the Compensation Report (page 61). The Board of Directors has not established any other committees. At our midsized company, the duties typically assigned to standing committees are performed by the Board of Directors as a whole. Moreover, the Executive Board regularly consults with the Chairman and individual directors on an informal basis regarding important aspects of specific topics.

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 found on page 80.

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.

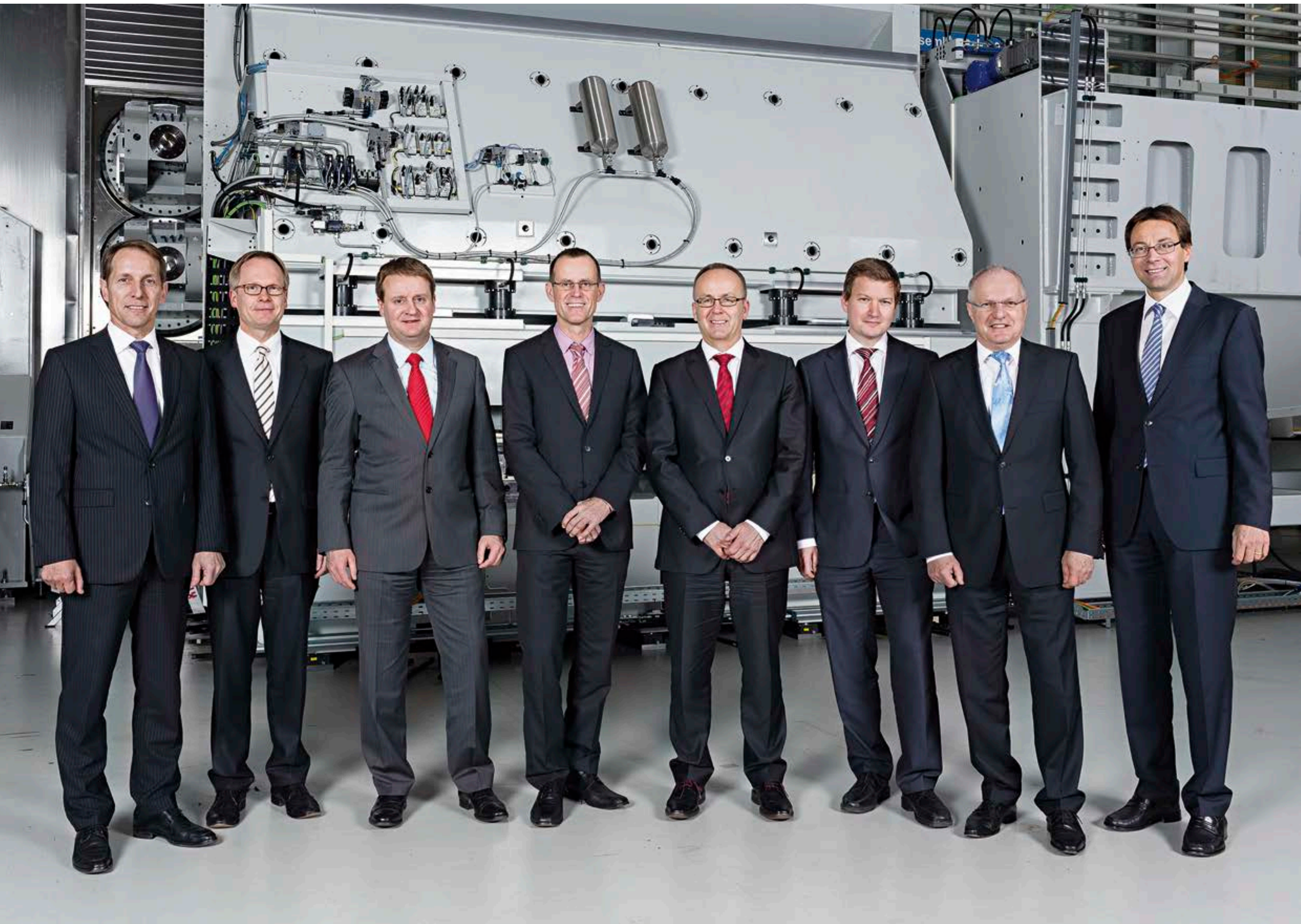
The codex implies certain simplifications for medium and small companies as well as for companies with active majority shareholders.

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. Georg Hanrath, Dr. Norbert Hennes, Günther Eller, Walter Börsch, Dr. Bernhard Bringmann, Dr. Eberhard Schoppe, Gerold Brütsch



Walter Börsch (1959, German) has been CEO of Starrag Group since April 2014 and since January 2014 Head of Regional Sales. Before he has been Head of the former 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, 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.

Gerold 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 (1977, German) was Head of the former Business Unit 1 from 1st January until 31st December 2014 with responsibility for the Starrag brand in Rorschacherberg (Switzerland) as well as for the TTL subsidiary in Haddenham (UK). The Business Unit 1 was incorporated in the new Business Unit Aerospace & Energy on 1st January 2015. Bernhard Bringmann will continue to be responsible for managing the Starrag factory in Rorschacherberg within the new operating unit Aerospace & Energy segment, and will be responsible for the Aero Engine and Power Turbine market segments as well as for key functions within the Aero Structure business.

He joined Starrag in 2008 as Head Test Field. He has occupied different positions, from 2009 Deputy Head of Development, from 2010 Innovation Manager and since the beginning of 2012 Head of Engineering at Starrag. 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 Starra 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 Aerospace & Energy since 1st January, with responsibility for the brands Berthiez, Dörries, Droop+Rein, Scharmann, Starrag and TTL covering the market segments Aero Engines, Aero Structures, Power Turbines, Large Components and Oil-Gas-Fluids.

Before, he was responsible for the former Business Unit 3 for the brand Berthiez in Saint Etienne (France), Dörries and Scharmann in Mönchengladbach (Germany) and Droop+Rein in Bielefeld (Germany) since 2011. In 2002 he was appointed head of engineering at Dörries Scharmann since 2002, from 2005 with responsibility for production and sales, and in 2006 he assumed the position of CEO. From 1999 to 2002 he held various management positions with Dörries Scharmann in development and construction.

Norbert Hennes studied machine tool engineering at Aachen University, earning a post-graduate degree from the Laboratory for Machine Tools and Production Engineering (WZL).

Jean-Daniel Isoz (1959, Swiss) has been Head of Business Unit Precision Engineering since 1st January 2015, with responsibility for the brands Bumotecand SIP covering the market segments Luxury Goods, Micromechanics and Med Tech.

Before, he was responsible for the former Business Unit 4 for the brand Bumotec in Sâles (Switzerland) and SIP in Geneva (Switzerland). From 2006 he was Managing Director of SIP Société d'Instruments de Précision SA. 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.

Jean-Daniel 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 Transportation & Industry Components since 1st January 2015, with responsibility for the brands Heckert and WMW covering the market segments Heavy Duty Vehicles & Engines, On-Road Vehicles and Industrial Components.

Before, he was responsible for the former Business Unit 2 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.

Maximum number of permissible mandates

The members of the Executive Board may hold not more than four additional mandates in companies listed on an official stock exchange and ten additional mandates in unlisted companies.

The following mandates are not subject to the aforementioned limitations:

1. Mandates in companies that are controlled by the company;
2. Mandates held at the request of the company or companies controlled by it; no member of the Board of Directors or the Executive Board shall hold more than ten such mandates;
3. Mandates in companies that do not satisfy the requirements of Art. 727 para. 1 CO, and mandates in associations, foundations, charitable organisations, trusts, employee welfare foundations and other comparable structures; no member of the Board of Directors or the Executive Board shall hold more than fifteen such mandates.

Mandates shall mean mandates in the supreme governing body of a legal entity that is required to be registered in the Swiss commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed to be a single mandate.

Acceptance of mandates/appointments outside the company by members of the Executive Board requires prior approval by the Board of Directors.

Management contracts

There are no management contracts with companies outside Starrag Group.

Compensation, participation and loans

Information to compensation and loans are specified in the remuneration report (page 63 to 66) and information regarding participation can be found in note 20 of the consolidated financial statements (page 94).

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

The Articles of Association contain no provisions on convening General Meetings that deviate from the law. A notice convening a General Meeting must be sent in writing to shareholders at least 20 days before the scheduled date of the General Meeting.

Extraordinary General Meetings are to be called upon resolution of a General Meeting of shareholders or the Board of Directors, or at the request of the auditors, or if shareholders representing at least 3 percent of the share capital request in writing that a General Meeting be called, specifying the agenda items to be discussed and the proposals to be voted on.

Agenda

The notice convening a General Meeting shall state the agenda items and the motions of the Board of Directors as well as any proposals by shareholders who have duly requested that a General Meeting be called or that an item be included in the agenda. Shareholders representing an aggregate par value of at least CHF 500'000 may request that an item be included on the agenda of a General Meeting. Such inclusion must be requested in writing at least 40 days prior to the next scheduled General Meeting, specifying the agenda items to be discussed and shareholder proposals to be voted on.

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.

The record date for the inscription of registered shareholders into the share register in connection with the attendance of the General Meeting will be set on a date shortly before the statutory period on the convocation of the General Meeting.

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 one year by the General Meeting. The current term of office expires at the Annual General Meeting in 2015. The auditor in charge, Beat Inauen, was first assigned auditing responsibilities with the auditing of the 2012 annual report. The maximum period as auditor in charge based on the legal rotation principle is seven years for Swiss companies.

Audit fees

Audit fees paid to PricewaterhouseCoopers AG during the 2014 financial year and charged to the consolidated financial statements for 2014 amounted to TCHF 303.

Additional fees

Additional non-audit fees paid to Pricewaterhouse-Coopers AG and charged to the consolidated financial statements for 2014 amounted to TCHF 60. 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:

- **24.04.2015**
  Annual General Meeting in Rorschach
  (5.00 p.m. Rest, Stadthof, Rorschach)

- **08.05.2015**
  Information on first-quarter 2015 results

- **24.07.2015**
  Letter to shareholders on 1H 2015 results

- **03.11.2015**
  Information on third-quarter 2015 results

- **29.01.2016**
  Initial information on full-year 2015 results

- **04.03.2016**
  Presentation of 2015 results for analysts and the media in Zurich

- **23.04.2016**
  Annual General Meeting in Rorschacherberg

Related information and documents will be published on our website www.starrag.com to the extent possible.

Official announcements and invitations will be sent by post to shareholders using the addresses recorded in the share register. Public announcements prescribed by law are made by publication in the Swiss Official Gazette of Commerce.

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Compensation Report

Compensation report

Introduction

This compensation report contains information on the compensation of the members of the Board of Directors and the Executive Board which was previously included in the Corporate Governance reporting. The report was prepared in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations (OaEC), which came into effect on 1st January 2014. Furthermore, the report is consistent with the Swiss Code of Best Practice for Corporate Governance of the Swiss Business Federation economiesuisse and Chapter 5 of the Appendix to the SIX Exchange Regulation Corporate Governance Directive.

The information included under the headings "Remuneration" and "Loans and credits" was audited by the statutory auditors.

Compensation policy and principles

The Starrag Group ensures comprehensive transparency regarding the compensation of members of the Board of Directors and the Executive Board. Within the Starrag Group, compensation is based on the principles of value-based corporate management with the aim of ensuring that managers are paid in line with the market so ensuring that qualified managers can be recruited and remain with the company in the long-term. Individual tasks and performance, the course of the company's business, the conditions in the respective global sales market and the local labour market, as well as salary comparisons with similar positions with respect to the function and business activity, size and internationality of the employer, are all taken into account when determining the level of remuneration of the members of the Board of Directors and the Executive Board. These criteria are individually applied to each member of the Executive Board using reasonable discretion. No benchmark studies were conducted in the year under review.

Responsibilities in determining the compensation

The responsibilities in determining the level of remuneration are regulated on the basis of the Ordinance against Excessive Compensation with respect to Listed Stock Corporations (OaEC) and in the Articles of Association and Organisational Regulations of Starrag Group Holding AG.

General Meeting

The General Meeting has the non-transferable power to:

- select and dismiss members of the Compensation Committee;
- approve the level of compensation of the Board of Directors and the Executive Board;
- statutorily determine the principles governing the performance-related compensation of the members of the Board of Directors and the Executive Board, as well as other provisions of the Articles of Association in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations.

Each year, the ordinary General Meeting approves the maximum total compensation of the Board of Directors for the period until the next ordinary General Meeting as well as the maximum total compensation of the Executive Board for the financial year following the General Meeting.

Furthermore, the General Meeting retrospectively approves the compensation report in a non-binding advisory vote.

Board of Directors

Subject to the powers of the General Meeting, the Board of Directors is responsible, on the propsal of the Compensation Committee, for determining the level of compensation that is to be paid to the members of the Board of Directors and the members of the Executive Board. In particular, on the proposal of the Compensation Committee it has

the following tasks and responsibilities:
- Defining the compensation system for the members of the Board of Directors and the Executive board in accordance with the Articles of Association;
- Reviewing the fixed compensation of the members of the Board of Directors and the Executive Board and determining the same within the framework of the total compensation approved by the General Meeting;
- Determining any additional compensation to the members of the Board of Directors for special tasks and special bonuses for special services within the framework of the total compensation approved by the General Meeting;
- Determining plans for the variable profit sharing to the members of the Board of Directors and the Executive Board in accordance with the Articles of Association and within the framework of total compensation approved by the General Meeting;
- Preparation of the compensation report.

Compensation Committee

The Compensation Committee shall have the following duties and powers (fundamental principles):
- Drafting and periodic review of the compensation policy and principles of Starrag Group and periodic review of the implementation thereof, and submission of proposals and recommendations to the Board of Directors;
- Preparation of all relevant decisions of the Board of Directors relating to the compensation of the members of the Board of Directors and the Executive Board, and submission of proposals to the Board of Directors concerning the nature and amount of the annual compensation of the members of the Board of Directors and the Executive Board, and preparation of a proposal for the maximum overall amount of compensation.

The Compensation Committee was elected for the first time at the General Meeting of 12th April 2014, until which time the full Board of Directors had performed the tasks of the Compensation Committee. It held its first formal meeting in early 2015 and assuming its statutory duties.

The Board of Directors and Compensation Committee assumed their tasks in the past financial year without engaging external advisors. The members of the Compensation Committee abstain from making decisions concerning their own compensation, unless the decision on compensation relates to all members of the Board of Directors equally.

Compensation elements

The members of the Board of Directors each receive a fixed compensation and a variable share of profits. The Board of Directors can award further compensation to individual members for additional activities (participation in committees ,etc.).

The members of the Executive Board each receive a fixed compensation and a variable share of profits. The Board of Directors can pay special bonuses for special services.

The assessment base for the variable share of profits paid to the members of the Board of Directors and the Executive Board is the net profit, reduced by a minimum return on equity. The amount of the minimum return on equity and the shares of the individual members of the Board of Directors and the Executive Board in the assessment base and any additional details (payout conditions and payout date, possible limitations on the variable share of profits, etc.) are determined by the Board of Directors. If the net profit is below the specified minimum return on equity, the variable share of profit does not apply unless a minimum share of profits is agreed in individual contracts. In the year under review, the variable share of profits for the members of the Executive Board had an upper limit, whereby the limit was not reached.

The fixed compensation is paid monthly in cash. The variable share of profit is paid annually in cash after the consolidated financial statements have been approved by the General Meeting.

The company does not have a stock ownership plan.

Pension benefits are only paid to members of the Board of Directors and the Executive Board within the framework of domestic and foreign pension plans and comparable plans of the company or its group companies. The benefits to the insured persons and employer's contributions are defined in the plans mentioned above and the correspon-ding regulations.

For members of the Executive Board appointed after the maximum total amount was approved, there is an additional amount as defined in Article 19 OaEC of 40 % of the approved total amount for the Executive Board. Compensation may be paid by the company or the corresponding group company for activities in companies that are directly or indirectly controlled by the company. Such compensation must be consolidated at group level and are included in the voting on compensation by the General Meeting.

Company loans and credits to a member of the Executive Board or company guarantees or other sureties for commitments of a member of the Executive Board must not exceed three times the annual salary of the respective member of the Executive Board.

There will be no benefits for members of the Board of Directors and/or the Executive Board in connection with their departure from the company.

Remuneration

CHF 1'000	**2014**					2013				
	Fixed	Variabel	Options	Pension and other	**Total**	Fixed	Variabel	Options	Pension and other	**Total**
Walter Fust, chairman	129	27	–	6	162	96	15	–	5	116
Prof. Dr. Christian Belz	50	27	–	5	82	36	15	–	4	55
Prof. Dr. Frank Brinken, Vizepräsident (until 12 April 2014)	87	19	–	6	112			n/a		
Dr. Hanspeter Geiser (until 12 April 2014)	14	–	–	1	15	36	15	–	2	53
Daniel Frutig (until 12 April 2014)	33	19	–	4	56			n/a		
Adrian Stürm	64	27	–	5	96	45	15	–	4	64
Valentin Vogt (until 12 April 2013)			n/a			10	–	–	1	11
Total Board of Directors	**337**	**119**	–	**27**	**523**	223	60	–	16	299
Variable as percentage of total compensation		24%					21%			
Total Executive Board	**2'385**	**545**	**–**	**379**	**3'309**	2'470	938	23	301	3'732
Variable as percentage of total compensation		19%					28%			
Thereof:										
‣ Prof. Dr. Frank Brinken (until 12 April 2014)			n/a			380	154	23	79	636
‣ Walter Börsch	368	133	–	88	589			n/a		
Variable as percentage of total compensation		27%					29%			

Compensation are reported on a gross basis (including employee contributions to pension plans and social contributions). The reported pension and social contributions include the employer contributions.

In the year under review, short-term compensation paid to non-executive members of the Board of Directors amounted to TCHF 523 (previous year TCHF 299). Short-term compensation to the Executive Board amounted to TCHF 3'309 (previous year TCHF 3'732). No benefits or other compensation were paid following termination of the working relationship.

Notes regarding remuneration

The column for fixed compensation for the Board of Directors includes compensation for special duties fulfilled by the Board of Directors. Compensation to the members of the Board of Directors was higher in 2014 because there was one person less on the Board of Directors from April 2013 to April 2014. In addition, the compensation for the members of the Board of Directors was reviewed in the third quarter of 2013 with effect from January 2014.

The fixed salaries of the Executive Board were lower in 2014 because the Executive Board was reduced by one person. The effect of this was partially counterbalanced by the fact that the position of CEO was occupied by two people until 12th April 2015 due to the succession of Prof. Dr. Frank Brinken. The variable compensation paid to the Executive Board was reduced considerably due to the lower profit-sharing for the 2014 financial year and as a result of the one-off special bonuses that became due in 2013 in connection with the Integration of Dörries Scharmann, which was purchased in 2011.

An option contract between the majority shareholder and the former CEO had been in place since 2004. The majority shareholder granted the CEO the right to purchase 101'010 registered shares in Starrag Group Holding AG from the majority shareholder upon his normal retirement in 2013 (60'760 at a price of CHF 35.00, 15'000 at a price of CHF 40.00 and 25'250 at a price of CHF 77.00), provided that the CEO had not previously unilaterally terminated his employment relationship with the Starrag Group. In May 2014, the former CEO exercised the rights granted to him under the option contract.

All compensation has been stated on an accrual basis in line with the International Financial Reporting Standards (IFRS).

Loans and credits

In the year under review, as well as in previous years, the Starrag Group granted no loans or credits to current or former members of the Board of Directors or the Executive Board. Nor did the Starrag Group grant any compensation or loans or credits to persons related to current or former members of the Board of Directors or the Executive Board at conditions which are not standard market conditions.

Report of the statutory auditor

Report of the statutory auditor
to the General Meeting
Starrag Group Holding AG
Rorschacherberg

We have audited the remuneration report (pages 63 to 66) dated 5 March 2015 of Starrag Group Holding AG for the year ended 31 December 2014.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of Starrag Group Holding AG for the year ended 31 December 2014 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Beat Inauen	Martin Graf
Audit expert Auditor in charge	Audit expert

St. Gallen, 5 March 2015

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Financial Report

Financial commentary

Slight decline in total order value – Operating income maintained – Considerably higher net profit

- Order intake down by 4 % to CHF 407 million – sales up by 1 % to CHF 393 million
- EBIT up 1 % to CHF 19 million – operating margin 4.9 %
- Net profit up 7 % to CHF 14.4 million – profit per share CHF 4.26
- Solid balance with 55 % equity ratio – return on equity 7.5 %
- Unchanged dividend payout of CHF 1.80 per share – dividend payout ratio 42 %

CHF m	**2014**	2013	Change
Order intake	407.3	424.9	-4.1%
Sales revenue	393.2	390.7	0.6%
Operating profit EBIT	19.1	19.0	0.8%
Net income	14.4	13.5	7.0%
Earnings per share (in CHF)	4.26	3.97	7.3%
EBIT as percentage of sales revenue	4.9%	4.9%	n/a
Net income as percentage of sales revenue	3.7%	3.5%	n/a
Return on equity (ROE)	7.5%	7.3%	n/a
Cashflow from operating activities	7.3	8.8	n/a
Capital expenditure in fixed assets	14.6	11.2	30.1%
Free cash flow	-7.2	-2.4	n/a
Profit distribution per share (in CHF) [1]	1.80 [2]	1.80	–

CHF m	**31.12.2014**	31.12.2013	Change
Order backlog	287.6	274.7	4.7%
Total assets	356.3	348.7	2.2%
Net cash	2.4	16.1	n/a
Shareholders equity	195.9	193.6	1.2%
Equity ratio	55.0%	55.5%	n/a
Employees at year end	1'617	1'667	-3.0%

[1] In the form of a (withholding tax-free) dividend payout of reserves from capital invested.
[2] Proposal from the advisory board to the General Meeting.

In the financial year 2014 the Starrag Group achieved a net income of CHF 14.4 million, representing an increase of 7%. The EBIT margin could be held at 4.9% of sales revenue. Order intake reached CHF 407 million and is therefore 4% below the above-average high figure for the previous year. The Board of Directors proposes to the General Meeting of 24th April 2015 a profit distribution of CHF 1.80 per share in the form of a withholding tax-free distribution of reserves from capital contributions. This corresponds to a payout ratio of 42% of net income.

Order intake slightly below the strong previous year

In 2014 order intake fell by 4.1 % to CHF 407 million. Adjusted for currency, it was 3.3 % below the previous year's figure. Following previous year high order intake, this decrease compares with a slight increase of 4 % as announced by the German trade association VDW for its members, after the Starrag Group had outperformed the industry trend by 23 % in the previous year. Since the order intake was higher than sales revenue, the book-to-bill ratio (ratio of orders received to sales revenue), at 1.04, once again reached a targeted value above 1. As a result of the high order intake, the order backlog was CHF 288 million; 4.7 % or CHF 13 million higher than the figure as of the end of the previous year.

Increase in sales revenue and gross profit

In 2014 the Starrag Group achieved sales revenue of CHF 393 million. This corresponds to a growth of 0.6 %. Adjusted for the currency effect, sales revenue increased by 1.6 % as a result of the high order intake in the previous year.

Gross profit (sales revenue less material expenses plus/minus changes in self-manufactured inventories) amounted to CHF 231 million or 58.8 % of sales revenue. The gross margin was therefore 1.1 percentage points below the high figure of the previous year of 59.9 %, which was at 57.6 % in 2012.

The gross margin was positively influenced by cost savings and synergies, as well as higher margins due to the changed product mix. Negative effects arose from selective increases in material costs and a lower average percentage of completion of orders in progress.

Unchanged operating result

Earnings before interest, taxes and depreciation (EBITDA) increased by CHF 0.8 million to CHF 33.2 million in the reporting period. The operating profit EBIT increased by CHF 0.1 million to CHF 19.1 million. This results in an unchanged EBIT margin of 4.9 percent of sales.

At CHF 143 million, personnel expenses were 3.2 % below the previous year. This cost saving can be attributed to the reduction in capacity and the omitted restructuring costs of CHF 3.4 million from the previous year, which had been charged as personnel expenses. Other reasons for increases in personnel expenses include increased unit labour costs, specifically in Germany (which could not be passed on to the market) and increased salary levels in emerging markets. The proportion of personal expenditure fell from 37.9 % to 36.5 % of revenue, which can essentially be attributed to the capacity adjustment implemented in 2013.

Other operating expenses amounted to CHF 57 million and therefore, as a result of higher order-related costs, 3.0 % higher than in the previous year. As targeted, savings were achieved in indirect operating costs. Overall, there was a slight increase in operating expenses as a percentage of sales from 14.2 to 14.5 %. Depreciation and amortization increased to CHF 14.0 million as a result of focused investments.

High level of investment in development

Investments in developing new products remained at consistently high levels. CHF 30.8 million or 7.8 % of sales revenues was invested in developing innovative products and processes and for customised product enhancements in the year under review. After government grants as well as capitalizations and deprecation of development projects are taken into account, CHF 30.8 million net (7.8 % of the sales revenues) was charged to the income statement (compared to CHF 29.1 million net in the preceeding year, or 7.5 % of sales revenues).

Significant increase in net income and earnings per share

Despite the virtually unchanged operating result, the Starrag Group increased net income by 7.0 % to CHF 14.4 million. Earnings per share (EPS) increased by 7.3 % to CHF 4.26. Net financial costs were lowered from CHF 1.0 million to CHF 0.9 million. Furthermore, at CHF 3.8 million, tax expenses fell below the figure for the previous year (CHF 4.5 million). Accordingly, the average tax rate decreased from 25.2 % to 20.7 % or by 4.5 percentage points. This decrease can be explained by the considerably increased profit share in countries with a lower tax burden.

Balance sheet remains healthy

At CHF 356 million, the balance sheet total was slightly above the figure for the previous year (CHF 349 million) on 31st December 2014.

Current assets increased to CHF 223 million (previous year CHF 215 million). Cash and cash equivalents decreased by CHF 11 million. This can be attributed to a reduced level of advance payments for orders in progress and a targeted build-up of stocks to ensure global availability of spare parts, as well as an increase in the stock of machines that can be delivered at short notice, including those on display in demonstration centers. The maturity structure of receivables remains healthy. In the year under review 2014, no notable losses on receivables had to be written off.

Fixed assets remained unchanged at CHF 134 million. Investments in fixed assets amounted to CHF 15 million and were offset by depreciation and amortisation of CHF 14 million (previous year CHF 13 million).

Liabilities rose from CHF 155 million to CHF 160 million. The most significant change resulted from the increase in pension benefit obligations. As a consequence of the low interest rate on the cut-off date, these had to be increased by CHF 4 million in accordance with the International Financial Reporting Standards (IFRS), although they were re-insured in full by a first-class Swiss insurance company on the balance sheet date. Furthermore, there was a slight increase in short-term financial liabilities of CHF 3 million due to the reduced level of advance payments received for orders in progress.

Equity increased by CHF 2 million to CHF 196 million, driven by the net income of CHF 14 million minus the dividend distribution of CHF 6 million. In addition, the re-evaluation of pension benefit liabilities reduced equity by 3.3 CHF million. The capital structure of the Starrag Group remains solid. In the year under review the equity ratio remained stable at 55 % (previous year 56 %).

Free cash flow hit by prefinancing of orders

The cash flow from operating activity was slightly reduced from CHF 8.8 million to CHF 7.3 million. In 2014 the operating cash flow was impacted by a reduced level of advance payments for orders in progress, as well as the increase in inventories to ensure shorter delivery times for sales of spare parts and new machines.

The cash flow for investment activity increased to CHF 14.6 million (previous year CHF 11.2 million) as a result of the expansion of the capacity of Bumotec, which began in mid-September. As a result of the reduced cash flow combined with the increase in investments, the free cash flow amounted to, CHF -7.2 million, in comparison with CHF -2.4 million in the previous year. Capital expenditure for fixed assets included CHF 8 million for investment in land and buildings for Bumotec's new plant and for energy-saving renovation measures for existing factory buildings. In addition, CHF 5 million were capitalized to expand and modernise the machinery and production equipment in the plants, and to develop new technologies and products, and CHF 3 million was used to expand the IT systems by further integrating the global Starrag Group network and further expanding the IT services to even better support the business processes. In total, CHF 7 million was spent on replacement investments and CHF 8 million on expansion investments.

The outflow of funds from financing activities amounted to CHF 3.9 million and, besides the increase in short-term financial liabilities by CHF 3.2 million, mainly includes the withholding taxfree dividend payment of CHF 6.1 million paid out in April 2014. This corresponded to a payout ratio of 42 % of the net profit for 2013.

Consolidated income statement

	CHF 1'000	2014	2013
Sales revenue	1,2,3	393'168	390'666
Change in self-manufactured products		3'326	1'866
Material expenses		-165'321	-158'459
Personnel expenses	4	-143'429	-148'158
Operating expenses	5	-56'973	-55'310
Other operating income	6	2'398	1'790
Earnings before interest, taxes, depreciation and amortization EBITDA		**33'169**	**32'395**
Depreciation and amortization	1,7	-14'022	-13'403
Earnings before interest and taxes EBIT		**19'147**	18'992
Financial income	8	1'535	834
Financial expenses	8	-2'476	-1'799
Earnings before tax		**18'206**	18'027
Income tax expenses	25	-3'773	-4'544
Net income		**14'433**	13'483
Thereof:			
‣ Shareholders of company		14'320	13'347
‣ Minority shareholders		113	136
Earnings per share (in CHF)	9	4.26	3.97
Diluted earnings per share (in CHF)	9	4.26	3.97

Consolidated statement of comprehensive income

CHF 1'000	2014	2013
Net income	**14'433**	13'483
Remeasurement pension benefits	-3'958	2'749
Income taxes on remeasurement pension benefits	699	-453
Items not recyclable to the income statement	-3'259	2'296
Cashflow hedges	-2'910	616
Income taxes on Cashflow hedges	870	-187
Currency translation	-439	-196
Items recyclable to the income statement	-2'479	233
Other comprehensive income	**-5'738**	2'529
Total comprehensive income	**8'695**	16'012
Thereof:		
‣ Shareholders of company	8'522	15'884
‣ Non-controlling interests	173	128

The enclosed notes are part of the consolidated financial statements.

Consolidated balance sheet

	CHF 1'000	**31.12.2014**	31.12.2013
Cash and cash equivalents		11'306	22'453
Receivables	10	111'262	103'417
Other financial assets	11	9'176	7'930
Inventories	12	90'816	81'002
Total current assets		**222'560**	214'802
Tangible fixed assets	13	86'050	83'327
Intangible assets	14	47'665	50'595
Total fixed assets	15	**133'715**	133'922
Total assets		**356'275**	348'724

	CHF 1'000	**31.12.2014**	31.12.2013
Financial liabilities	16	4'427	1'483
Operating liabilities	17	79'912	75'765
Accrued expenses and deferred income	18	26'620	32'033
Current income tax		6'099	4'192
Provisions	19	6'090	5'780
Total current liabilities		**123'148**	**119'253**
Financial liabilities	16	4'494	4'866
Deferred income tax	25	25'198	27'518
Provisions	24	5'234	1'258
Pension benefit obligation	19	2'327	2'255
Total non-current liabilities		**37'253**	**35'897**
Total liabilities		**160'401**	155'150
Share capital	20	28'560	28'560
Additional paid-in capital		73'724	79'772
Retained earnings		120'003	105'683
Other reserves	21	-27'294	-21'397
Total shareholders' equity of company		**194'993**	**192'618**
Non-controlling interests		881	956
Total shareholders' equity		**195'874**	193'574
Total liabilities and shareholders' equity		**356'275**	348'724

The enclosed notes are part of the consolidated financial statements.

Consolidated cashflow statement

CHF 1'000		**2014**	2013
Net income		14'433	13'483
Income tax expenses	25	3'773	4'544
Interest expenses	8	430	546
Interest income	8	-106	-216
Depreciation and amortization	7	14'022	13'403
Change in non-current provisions		124	-711
Other non-cash items		4	-209
Change in inventory		-10'574	-7'959
Change in other non-cash net current assets		-12'575	-7'725
Income tax paid		-2'190	-6'385
Cashflow from operating activities, net		**7'341**	8'771
Capital expenditure for:			
‣ Tangible fixed assets		-12'443	-9'780
‣ Intangible fixed assets		-2'364	-2'341
Disposals of fixed assets		224	909
Cashflow from investing activities, net		**-14'583**	-11'212
Change in current financial liabilities		3'213	-32
Repayment of non-current financial liabilities		-286	-286
Interest paid		-553	-552
Interest received		106	216
Dividend payment	9	-6'096	-6'105
Acqusition of subsidiaries	33	-299	–
Cashflow from financing activities, net		**-3'915**	-6'759
Currency translation		10	8
Net change in cash and cash equivalents		-11'147	-9'192
Cash and cash equivalents at beginning of year		22'453	31'645
Cash and cash equivalents at year end		**11'306**	22'453

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**
01.01.2013		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
Total 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
Net income		–	–	14'320	–	14'320	113	14'433
Other comprehensive income		–	–	–	-5'798	-5'798	60	-5'738
Total comprehensive income		–	–	**14'320**	**-5'798**	**8'522**	**173**	**8'695**
Dividend payment		–	-6'048	–	–	-6'048	-48	-6'096
Purchase of interest in subsidiary	33	–	–	–	-99	-99	-200	-299
31.12.2014		**28'560**	**73'724**	**120'003**	**-27'294**	**194'993**	**881**	**195'874**

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 85 % indirectly, Prior year 76 %, compare Note 33)
- Heckert GmbH, Chemnitz, Germany
  (Business: Production, nominal capital TEUR 5'113, interest 100 %)
- Starrag India Private Limited, Bangalore, India
  (Business: Production, nominal capital TINR 655'000, 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 20, 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 %)

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, abalanced 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. Aerospace & Energy is responsible for the market segments Aero Engines, Aero Structures, Power turbines, Large Components and Oil/Gas/Fluids with the product brands Berthiez, Dörries, Droop+Rein, Scharmann, Starrag and TTL. Transportation & Industrial Components is responsible for the market segments Heavy Duty Vehicles & Engines, On-Road Vehicles, and Industrial Components with the product brands Heckert and WMW. Precision Engineering. Is responsible forthe market segments Luxury Goods, Med Tech and Micromechanics with the product brands Bumotec and SIP. 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 a leading global manufacturer of precision machine tools, the Starrag Group is faced with various risks. The most significant risks include:

- 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 previous 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 former CEO exercised his rights under the option agreement in May 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).

Use of new or adapted standards

For the fiscal year 2014, the following new standards and interpretations and adaptations of existing standards are applicable for the first time:

- **IAS 39 (revised)** Novation of Derivatives and Continuation of Hedge Accounting (for fiscal years starting from January 2014)
- **IAS 32** Offsetting financial assets and financial liabilities (for fiscal years starting from 1 January 2014)
- **IASB** Annual Improvement

The first application of these standard has had no influence on the amount stated in the consolidated financial statement. However, the explanations in the appendix relating to the consolidated financial statement have been updated accordingly.

The following new standards and interpretations enter into force in subsequent periods:

- **IAS 19 (revised)** Employee benefits (for fiscal years starting from 1 July 2014)
- **IFRS 9** Financial instruments (for fiscal years starting from 1 January 2018)
- **IFRS 10 und IAS 28 (revised)** Consolidated financial statements (for fiscal years starting from 1 January 2016)
- **IFRS 11 (revised)** Accounting for acquisition of interests in joint operations (for fiscal years starting from 1 January 2016
- **IFRS 15** Revenue from contracts with customers (for fiscal years starting from 1 January 2017)
- **IASB** Annual Improvement

Although it has not yet been possible to perform a systematic analysis, based on initial estimations, it is anticipated that these standards (with the exception of the change to the new IFRS 15) only have an insignificant influence on the consolidated financial statement. The effects of the first application of the new IFRS 15 cannot yet be estimated.

Segment information

1. Reporting by business segment

CHF 1'000	Machine Tools 2014	Machine Tools 2013
Sales revenues	**393'168**	390'666
Earnings before interest, taxes, depreciation and amortization EBITDA	33'169	32'395
Depreciation and amortization	-14'022	-13'403
Earnings before interest and taxes EBIT	**19'147**	18'992
Operating assets on 31 December	344'969	326'271
Operating liabilities on 31 December	-114'949	-115'833
Net operating assets on 31 December	**230'020**	210'438
Goodwill	19'065	19'325
Capital expenditure in fixed assets	14'583	11'214
Non-cash income	4	-209

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	**2014**	2013
New machines	301'087	296'660
Customer services	92'081	94'006
Total	**393'168**	390'666

3. Sales revenue by geographical segment

CHF 1'000	**2014**	2013
Switzerland	111'960	102'756
Germany	248'538	259'501
Other countries	32'670	28'409
Total	**393'168**	390'666

Notes to the income statement

4. Personnel expenses

CHF 1'000	**2014**	2013
Wages and salaries	117'842	117'789
Pension benefits	2'630	2'564
Social benefits	19'526	19'709
Restructuring costs	–	3'386
Other personnel expenses	3'431	4'710
Total personnel expenses	**143'429**	148'158

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	**2014**	2013
Sublease income	506	517
Government grants	278	327
Profit from sales of fixed assets	106	90
Other operating income	1'508	856
Total other operating income	**2'398**	1'790

Government grants are tied to certain research and development subjects. There are no other conditions attached to them. Government grants are recognized as income over the periods necessary to match them with related costs on a systematic basis.

7. Depreciation and amortization

CHF 1'000	**2014**	2013
Buildings	2'926	2'255
Machinery and equipment	4'851	4'420
Other tangible assets	1'608	2'123
Total depreciation of tangible fixed assets	**9'385**	8'798
Brands and customer relations	936	1'305
Technology	2'522	2'326
IT software	1'179	974
Total amortization of intangible assets	**4'637**	4'605
Total depreciation and amortization	**14'022**	13'403

8. Financial result

CHF 1'000	**2014**	2013
Interest income	106	216
Interest expenses	-430	-546
Currency losses/gains	496	296
Other financial expenses	-1'113	-931
Total financial result, net	**-941**	-965
Thereof:		
‣ Financial income	1'535	834
‣ Financial expenses	-2'476	-1'799
Result from available-for-sale financial instruments	149	196

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 2014, 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 14.3 million (prior year CHF 13.3 million) net earnings per share amount to CHF 4.26 (prior year CHF 3.97). As the company has not issued any stock options or convertible bonds, earnings per share were not diluted.

At the General Meeting on 24 April 2015, 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 2013 financial year.

Notes to the balance sheet

10. Receivables

CHF 1'000		**31.12.2014**	31.12.2013
Trade receivables		30'653	27'076
Receivables from construction contracts	22	77'033	65'550
Other receivables		3'576	10'791
Total receivables		**111'262**	103'417
Thereof:			
‣ not due		103'096	93'823
‣ past due < 90 days, not impaired		5'430	6'539
‣ past due ≥ 90 days, not impaired		874	948
‣ impaired		1'862	2'107
Therof:			
‣ CHF		20'936	25'950
‣ EUR		76'824	65'920
‣ USD		7'861	5'361
‣ other		5'641	6'186

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	**2014**	2013
Allowance for doubtful receivables at beginning of year	1'415	3'038
Increase	1'448	96
Decrease	-523	-1'644
Use	-104	-101
Currency translation	3	26
Allowance for doubtful receivables at end of year	**2'239**	1'415

11. Other financial assets

CHF 1'000		31.12.2014	31.12.2013
Prepayments to suppliers		6'059	5'367
Deferred expenses		2'635	1'502
Cashflow hedges	27	482	1'061
Total other financial assets		**9'176**	7'930

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

12. Inventories

CHF 1'000	31.12.2014	31.12.2013
Raw materials and components	42'370	36'115
Work in progress	37'405	35'759
Finished products	11'041	9'128
Total inventories	**90'816**	81'002

In 2014 a charge of CHF 0.3 million resulting from an inventory valuation adjustment was recorded (prior year CHF 1.3 million).

13. Tangible fixed assets

		2014				2013			
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		82'541	50'858	10'168	143'567	80'373	48'393	8'223	136'989
Additions		7'717	3'052	1'497	12'266	2'931	4'511	2'360	9'802
Disposals		-39	-3'013	-670	-3'722	-223	-2'139	-430	-2'792
Currency translation		-73	-263	-66	-402	-540	93	15	-432
Gross value at year end		**90'146**	**50'634**	**10'929**	**151'709**	82'541	50'858	10'168	143'567
Accumulated depreciation at beginning of year		21'949	31'555	6'736	60'240	19'797	28'436	4'901	53'134
Depreciation	7	2'926	4'851	1'608	9'385	2'255	4'420	2'123	8'798
Disposals		-39	-2'924	-592	-3'555	-209	-1'420	-297	-1'926
Currency translation		-153	-210	-48	-411	106	119	9	234
Accumulated depreciation at year end		**24'683**	**33'272**	**7'704**	**65'659**	21'949	31'555	6'736	60'240
Net book value at beginning of year		60'592	19'303	3'432	83'327	60'576	19'957	3'322	83'855
Net book value at year end		**65'463**	**17'362**	**3'225**	**86'050**	60'592	19'303	3'432	83'327
Fire insurance value at year end		189'477	151'055		340'532	185'240	155'857		341'098

14. Intangible assets

CHF 1'000		2014 Goodwill	2014 Brands and customer relations	2014 Technologie	2014 IT Software	2014 Total	2013 Goodwill [1]	2013 Brands and customer relations	2013 Technologie	2013 IT Software	2013 Total
Gross value at beginning of year		19'325	16'585	28'943	11'401	76'254	19'094	17'614	27'269	10'434	74'411
Additions		–	–	891	1'473	2'364	–	–	1'369	972	2'341
Disposals		–	–	–	-829	-829	–	-1'204	–	-79	-1'283
Currency translation		-260	-220	-402	-109	-991	231	175	305	81	785
Gross value at year end		**19'065**	**16'365**	**29'432**	**11'936**	**76'798**	19'325	16'585	28'943	11'401	76'254
Accumulated amortization at beginning of year		–	2'232	14'052	9'375	25'659	–	2'117	11'618	8'428	22'163
Amortization	7	–	936	2'522	1'179	4'637	–	1'305	2'326	974	4'605
Disposals		–	–	–	-830	-830	–	-1'204	–	-85	-1'289
Currency translation		–	-40	-201	-92	-333	–	14	108	58	180
Accumulated amortization at year end		**–**	**3'128**	**16'373**	**9'632**	**29'133**	–	2'232	14'052	9'375	25'659
Net book value at beginning of year		19'325	14'353	14'891	2'026	50'595	19'094	15'497	15'651	2'006	52'248
Net book value at year end		**19'065**	**13'237**	**13'059**	**2'304**	**47'665**	19'325	14'353	14'891	2'026	50'595

The goodwill impairment test was conducted using the following parameters:

CHF 1'000	31.12.2014 Carrying amount of goodwill	31.12.2014 Residual growth rate	31.12.2014 Discount rate, pre-tax	31.12.2013 Carrying amount of goodwill	31.12.2013 Residual growth rate	31.12.2013 Discount rate, pre-tax
Aerospace & Energy	15'788	1%	10.5%	16'029	1%	12.4%
Transportation & Industrial Components	1'030	1%	10.5%	1'049	1%	12.4%
Precision Engineering	2'247	1%	8.5%	2'247	1%	10.0%
Total	**19'065**			19'325		

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	**31.12.2014**	31.12.2013
Switzerland	45'037	39'878
Germany	76'565	82'719
Other countries	12'113	11'325
Total	**133'715**	133'922

16. Financial liabilities

CHF 1'000	**31.12.2014**	31.12.2013
Current financial liabilities	4'427	1'483
Non-current financial liabilities	4'494	4'866
Total financial liabilities	**8'921**	6'349
Thereof in:		
‣ EUR	5'908	6'194
‣ CHF	3'013	155
Market value	8'921	6'349
Contractual Cashflows	**10'827**	8'494
Thereof:		
‣ due within 1 year	4'736	1'758
‣ due within 2 to 5 years	2'709	2'758
‣ due thereafter	3'382	3'978
Average interest rate	1.8%	1.8%
Unused credit lines	68'431	72'306

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 2014 and 2013 the financial covenants have been satisfied.

17. Operating liabilities

CHF 1'000		**31.12.2014**	31.12.2013
Trade liabilities		28'315	18'420
Other operating liabilities		7'763	7'806
Accrued liabilities out of POC valuation	22	43'291	49'466
Advance payments received		543	73
Other operating liabilities		**79'912**	75'765
Thereof:			
‣ due within 6 months		79'912	75'765

18. Accrued expenses and deferred income

CHF 1'000		31.12.2014	31.12.2013
Project costs		7'629	11'260
Personnel expenses		11'361	12'869
Commissions		302	291
Cashflow hedges	27	2'744	418
Other		4'584	7'195
Total accrued expenses and deferred income		**26'620**	32'033

19. Provisions

	2014		
CHF 1'000	Warranty	Other provisions	**Total**
Value at beginning of year	7'578	457	8'035
Increase	6'427	–	6'427
Decrease	-92	–	-92
Use	-5'741	-112	-5'853
Currency translation	-99	-1	-100
Value year end	**8'073**	**344**	**8'417**
Thereof:			
‣ Current	5'746	344	6'090
‣ Non-current	2'327	–	2'327

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	**31.12.2014**	31.12.2013
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.

	31.12.2014	31.12.2013
‣ Walter Fust	53.7%	55.0%
‣ Eduard Stürm AG	9.3%	9.4%
‣ Max Rössler / Parmino Holding AG	5.8%	5.7%

	Number of shares 3 31.12.2014		Number of shares 31.12.2013	
Participations	Shares	Options	Shares	Options
Walter Fust	1'803'074	–	1'848'074	–
Prof. Dr. Christian Belz	2'800	–	2'800	–
Prof. Dr. Frank Brinken (from 12 April 2014)	47'800	–	see Executive Board	
Dr. Hanspeter Geiser (until 12 April 2014)	n/a	–	2'050	–
Daniel Frutig (from 12 April 2014)	600	–	n/a	–
Adrian Stürm	26'680		26'680	–
Total Board of Directors	1'880'954	–	1'879'604	–
Prof. Dr. Frank Brinken (until 12 April 2014)	see Board of Directors		2'800	101'010
Gerold Brütsch	300	–	300	–
Günther Eller	200	–	200	–
Total Executive Board	500	–	3'300	101'010

Other notes

21. Other reserves

CHF 1'000	Remeasurement pension benefit	Cashflow Hedges	Currency translation	Purchase of interest in subsidiary	**Total other reserves**
01.01.2013	-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
Other comprehensive income	-3'259	-2'040	-499	-99	-5'897
Comprehensive income	**-3'259**	**-2'040**	**-499**	**-99**	**-5'897**
31.12.2014	**-2'256**	**-1'617**	**-23'322**	**-99**	**-27'294**

22. Construction contracts

CHF 1'000	**2014**	2013
Revenue from construction contracts	294'810	303'209

CHF 1'000		**31.12.2014**	31.12.2013
Accrued contract costs and recognized profit		218'215	228'429
Advance payments received		-184'473	-212'345
Net value from construction contracts		**33'742**	16'084
Thereof:			
‣ Receivables	10	77'033	65'550
‣ Operating liabilities	17	-43'291	-49'466

23. Research and development

Expenditure for research and development amounts to CHF 30.8 million or 7.8 % of sales revenue (prior year CHF 29.2 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 30.8 million, 7.8 % of sales revenue (prior year net CHF 29.1 million or 7.5 % of sales revenue).

24. Pension benefits

CHF 1'000	**2014**	2013
Current service costs	2'162	2'358
Settlements	–	-172
Total current service costs	2'162	2'186
Interest expense	31	79
Total pension benefit expense	**2'193**	2'265

CHF 1'000	**31.12.2014**	31.12.2013
Pension benefit obligation	60'746	58'954
Faire value plan assets	-55'512	-57'696
Recognized pension benefit obligation	**5'234**	1'258

CHF 1'000	**2014**	2013
Plan assets, beginning of year	57'696	55'619
Interest income (based on discount rate)	1'399	1'113
Return on plan assets (excluding interest income based on discount rate)	295	2'302
Employees' contributions	2'284	4'471
Employer's contributions	2'176	2'205
Paid benefits	-8'338	-6'877
Settlements	–	-1'137
Plan assets, end of year	**55'512**	57'696
Thereof:		
‣ Surrender value of insurance contracts	48'426	50'962
‣ Equity funds	4'747	3'589
‣ Bond funds	2'324	2'002
‣ Other investments	15	1'143

CHF 1'000	**2014**	2013
Pension benefit obligation, beginning of year	58'954	59'567
Current service costs	2'162	2'358
Settlements	–	-1'309
Interes expense	1'430	1'191
Employees' contributions	2'284	4'471
Paid benefits	-8'338	-6'877
Actuarial gains/losses (Changes in demographic assumptions)	-380	1'619
Actuarial gains/losses (Changes in financial assumptions)	4'634	-2'066
Pension benefit obligation, end of year	**60'746**	58'954

CHF 1'000	**2014**	2013
Return on plan assets (excluding interest income based on discount rate)	295	2'302
Actuarial gains/losses (Changes in demographic assumptions)	380	-1'619
Actuarial gains/losses (Changes in financial assumptions)	-4'634	2'066
Revaluation Pension benefits	**-3'959**	2'749

CHF 1'000	**2014**	2013
Actuarial assumptions:		
Discount rate	1.25%	2.50%
Salary increase	0.50%	1.00%
Mortality rate	BVG 2010 GT	BVG 2010 GT
Average remaining service time	12.2	9.9

A 0.25% increase or decrease in the discount rate would lead to an increase or decrease of the pension benefit obligation by 3.2 %. A 0.25 % increase or decrease in the salary increase would lead to an increase or decrease of the pension benefit obligation by 0.2 %. The discount rate and the salary increase rate were identified as significant assumptions. Each change in the significant assumption was analysed independetly.

Estimated employer's contributions 2015 are CHF 2.2 million.

25. Income tax expenses

CHF 1'000	**2014**	2013
Earnings before income tax	18'206	18'027
Tax expenses at anticipated tax rate of 17 %	-3'048	-3'041
Tax expenses at other tax rates	267	-58
Debits/credits from prior reporting periods	-304	-673
Non-deductable expenses/non-taxable income	-178	-251
Non-capitalized tax loss carry forward	-510	-521
Recognized income tax expenses	**-3'773**	-4'544
Thereof:		
‣ Current income tax expenses	-4'171	-2'041
‣ Deferred income tax expenses	398	-2'503

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

CHF 1'000	**31.12.2014**	31.12.2013
Receivables	14'480	14'429
Fixed assets	11'645	12'257
Other	-820	911
Tax loss carry forward	-2'968	-1'814
Value adjustment	2'861	1'735
Total deferred income tax	**25'198**	27'518

On 31 December 2014 there are off balance sheet tax losses carried forward of CHF 11.4 million (prior year CHF 7.5 million), whereof CHF 0.4 million expire within one to three years (prior year none), CHF 9.4 million expire within four to seven years (prior year 5.2) and CHF 1.6 million expire after more than seven years (prior year CHF 2.3 million). Deferred tax assets on tax loss carry-forward of CHF 2.9 million (prior year CHF 1.7 million) have not been capitalized.
On 31 December 2014 there are temporary differences associated with investments in subsidiaries of CHF 29.7 million (prior year CHF 33.4 million) for which deferred tax liabilities have not been recognized. Deferred tax liabilities on temporary differences associated with investments in subsidiaries of CHF 0.4 million (prior year 0.3 CHF million) have not been recognized.

CHF 1'000	**2014**	2013
Deferred taxes at beginning of year	27'518	24'113
(Income)/Expense for deferred taxes	-398	2'503
Deferred taxes on fair-value changes of Cashflow Hedges recognized in equity	-1'569	640
Currency translation	-353	262
Deferred taxes at end of year	**25'198**	27'518

26. Loaded assets

CHF 1'000	**31.12.2014**	31.12.2013
To ensure financial liabilities in the amount of... the following assets are mortgaged: land and buildings	4'539	4'912
‣ Book value	9'136	9'841
‣ Liability	8'681	8'843

27. Derivative financial instruments

CHF 1'000		**31.12.2014**	31.12.2013
Forward currency exchange contracts: Contract value		**40'235**	**34'165**
Replacement value:			
‣ positive	11	482	1'061
‣ negative	18	-2'744	-418

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

Assuming the euro was 5 % weaker vs. the Swiss franc at 31 December 2014, and all other parameters being equal, the profit after tax would have been CHF 0.3 million higher (prior year CHF 0.3 million). Conversely, in the opposite case, the profit after tax would have been CHF 0.3 million lower (prior year CHF 0.3 million). Equity would have increased by CHF 1.5 million (prior year CHF 1.5 million), in the opposite case, would have been CHF 1.5 million (prior year CHF 1.5 million lower).

Assuming the U.S. dollar was 5 % weaker vs. the Swiss franc at 31 December 2014, and all other parameters being equal, the profit after tax like in the prior year would have been equal.
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	**31.12.2014**	31.12.2013
Due within 1 year	3'294	2'344
Due to 2 to 5 years	2'760	2'007
Total operating lease liabilities	**6'054**	4'351

CHF 1'000	**2014**	2013
Expenses for operating lease liabilities debiting to the income statement amount to	3'813	3'345

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

30. Other commitments

CHF 1'000	**31.12.2014**	31.12.2013
Purchase commitment towards suppliers	69'619	69'350
Contractual commitments for capital expenditure	–	5'066

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. Compensation

In the year under review, short-term compensation paid to non-executive members of the Board of Directors amounted to TCHF 523 (previous year TCHF 299). Short-term compensation to the Executive Board amounted to TCHF 3'309 (previous year TCHF 3'732). No benefits or other compensation were paid following termination of the working relationship.

Additional information are disclosed in the compensation report on page 63.

32. Exchange rates

CHF 1'000	**2014**	2013
Average rates (for income statement and Cashflow statement)		
1 EUR	1.2274	1.2430
1 USD	0.9225	0.9368
1 GBP	1.5212	1.4649
1 CNY	0.1499	0.1524

CHF 1'000	**31.12.2014**	31.12.2013
Year end rates (for balance sheet)		
1 EUR	1.2146	1.2373
1 USD	0.9988	0.8970
1 GBP	1.5548	1.4787
1 CNY	0.1611	0.1480

33. Purchase of additional shares in subsidiaries

On 7th January 2014, the Starrag Group Holding AG acquired a further 9 % of the shares in Toolroom Technology Limited at a purchase price of CHF 0.3 million. The Starrag Group now holds 85 % of the equity capital in Toolroom Technology Limited. At the time of acquisition, the book value of the corresponding minority shares was CHF 0.2 million. This amount was charged off in the equity capital under non-controlling interests and the difference compared with the purchase price of CHF 0.1 million was recorded in the equity capital of the company shareholders.

34. Events after the balance sheet date

On 15th January 2015, the Swiss National Bank announced the discontinuation of the minimum Euro exchange rate. This has led to a surge in the value of the Swiss France, which is used as the presentation currency of the Starrag Group. The currency translation of Group companies and associated companies with a different functional currency is predicted to have a negative currency conversion effect on the consolidated financial statement and increase the cumulative currency translation differences entered in the equity capital. The lifting of the minimum Euro exchange rate has no effect on the financial statements for the year of this report.

The consolidated financial statement was approved by the Supervisory Board on 5th March 2015 and released for publication. It is also subject to approval by the Annual General Meeting of shareholders, which is scheduled for 24th April 2015.

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 73 to 101), for the year ended 31 December 2014.

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 2014 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, 5 March 2015

Income statement

CHF 1'000	**2014**	2013
Revenue from group companies	5'690	12'565
Financial income	4'387	4'916
Revenue	**10'077**	17'481
Personnel expenses	-383	-280
Administrative expenses	-573	-741
Depreciation and amortization	-1'939	-4'101
Financial expenses	-1'324	-472
Tax expenses	-49	-23
Net income	**5'809**	11'864

Balance sheet

CHF 1'000		**31.12.2014**	31.12.2013
Cash and cash equivalents		24	14
Receivables – group companies		6'239	6'297
Deferred expenses		39	42
Total current assets		**6'302**	6'353
Loans – group companies		69'992	71'685
Investments	1	109'357	110'838
Total fixed assets		**179'349**	182'523
Total assets		**185'651**	188'876

CHF 1'000		**31.12.2014**	31.12.2013
Liabilities – group companies		21'666	24'830
Other liabilities		25	2
Accrued expenses and deferred income		455	300
Total current liabilities		**22'146**	25'132
Total liabilities		**22'146**	25'132
Share capital		28'560	28'560
Legal reserve from capital contributions since 1997	2	72'961	79'009
Other legal reserve		1'222	1'222
Retained earnings from prior years		54'953	43'089
Net result		5'809	11'864
(Total retained earnings)		(60'762)	(54'953)
Total shareholders' equity		**163'505**	163'744
Total liabilities and shareholders' equity		**185'651**	188'876

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 2014 amounted to CHF 72'961'000, of which CHF 69'748'161 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	**31.12.2014**	31.12.2013
Sureties	292'648	301'624
Guarantees	654	1'141

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. Approved capital increase, major shareholders, equity interests of Supervisory Board and executive management

These details are disclosed in explanation 20 of the consolidated financial statement on page 94 of the annual report.

5. Remunerations

These details are disclosed in the remuneration report from page 63 of the annual report.

6. Risk assessment

These details are disclosed in the appendix to the consolidated financial statement on page 79 of the annual report.

7. Events after the balance sheet date

On 15th January 2015, the Swiss National Bank announced the discontinuation of the minimum Euro exchange rate. This led to a surge in the value of the SwissFranc, which has not had any effect on the annual report for the reporting year. Assuming that on 31.12.2014 the Swiss Franc had become 5 % stronger in relation to the Euro and all other parameters remained the same, the net profit after income tax and the equity capital in the reporting year would have been CHF 2.5 million lower.

8. Specifications according to article 663b OR (Swiss Code of Obligations)

This annual report was compiled in accordance with the temporary provisions for the new accounting legislation according to the regulations of the Swiss Code of Obligations governing bookkeeping and accounting which was valid until 31st December 2012.

Proposed Appropriation of Retained Earnings

Proposed appropriation of retained earnings

CHF 1'000	2014
Retained earnings from prior year	54'953
Net income	5'809
To be carried forward	**60'762**

Proposed appropriation of legal reserve from capital contributions

CHF 1'000	2014
Legal reserve from capital contributions from 1997	72'961
Withholding tax free distribution of CHF 1.80 per share	-6'048
To be carried forward	**66'913**

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 balance sheet, income statement and notes (pages 104 to 108), for the year ended 31 December 2014.

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 2014 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Beat Inauen	Martin Graf
Audit expert Auditor in charge	Audit expert

St. Gallen, 5 March 2015

Five-year overview

Mio. CHF	**2014**	2013	2012	2011	2010
Order intake	407.3	424.9	364.2	348.3	188.3
Order backlog at year end	287.6	274.7	238.6	237.5	103.9
Sales revenue	393.2	390.7	384.0	354.4	199.2
Earnings before restructuring, interest, taxes, depreciation and amortization (EBITRDA)	33.2	35.8	34.4	31.1	16.3
Earnings before interest, taxes, depreciation and amortizalion (EBITDA)	33.2	32.4	34.4	31.1	16.3
Earnings before restructuring, interest and taxes (EBITR)	19.1	22.4	21.1	19.1	10.1
Earnings before interest and taxes (EBIT)	19.1	19.0	21.1	19.1	10.1
Net income	14.4	13.5	13.0	10.9	8.1
EBITR as percentage of sales revenue	4.9%	5.7%	5.5%	5.4%	5.1%
EBIT as percentage of sales revenue	4.9%	4.9%	5.5%	5.4%	5.1%
EBIT as percentage of net operating assets	8.3%	9.4%	11.8%	15.4%	8.2%
Net income as percentage of sales revenue	3.7%	3.5%	3.4%	3.1%	4.1%
Cash flow from operating activities	7.3	8.8	24.9	19.2	32.2
Capital expenditure	14.6	11.2	32.1	69.9	4.2
Free Cash flow	-7.2	-2.3	10.2	9.3	28.0
Employees at year end	1'617	1'667	1'644	1'420	739
Net operating assets	230.0	210.4	194.3	163.1	84.8
Total assets	356.3	348.7	347.2	326.6	169.4
Net cash	2.4	16.1	24.9	37.0	31.1
Shareholders' equity	195.9	193.6	183.6	176.6	108.5
Equity ratio	55.0%	55.5%	52.9%	54.1%	64.1%
Return on equity (ROE)	7.5%	7.3%	7.3%	6.8%	7.1%
Earnings per share in CHF	4.26	3.97	3.81	3.52	3.27
Share price at year end in CHF	64.50	75.75	61.60	49.55	69.00
Profit distribution per share in CHF	1.80 [1)]	1.80	1.80	1.20	1.00
Total shareholder return (TSR), 1 year	-12.5%	25.9%	26.7%	-26.7%	27.9%
Total shareholder return (TSR), 3 years	13.3%	5.2%	6.2%	1.7%	-0.6%
Total shareholder return (TSR), 5 years	6.7%	9.2%	-2.4%	3.6%	7.8%

[1)] Proposal of the Board of Directors to the Annual General Meeting on 24 April 2015 in the form of a withholding-tax-free distribution from capital contribution reserves.

Financial calendar

24 April 2015	Annual General Meeting in Rorschach
8 May 2015	Information on first-quarter 2015
24 July 2015	Letter to shareholders on HJ 2015 results
3 November 2015	Information on third quarter 2015
29 January 2016	Initial information on full-year 2015 results
4 March 2016	Presentation of 2015 results for analysts media in Zurich
23 April 2016	Annual General Meeting in Rorschacherberg

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