Starrag Group

Half-year report

2014

Slightly higher EBIT and net profit margins – lower order intake and sales revenues

- Order intake 11 % below prior year period
- Sales revenues 5 % less than in H1 2013
- EBIT margin slightly higher at 4.7 % of sales revenue
- Net profit up 15 % to CHF 6.6 million or 3.5 % of sales revenue
- For the year as a whole, lower order intake, sales around the prior year level, and slightly higher margins expected

CHF m	**2014** 01.01. – 30.06.	2013 01.01. – 30.06.	Change
Order intake	183.6	206.4	-11.0 %
Sales revenue	189.7	199.4	-4.9 %
Earnings before interest and taxes EBIT	8.9	9.1	-2.2 %
Net income	6.6	5.7	15.1 %
Earnings per share (in CHF)	1.93	1.67	15.7 %
EBIT as % of sales revenue	4.7 %	4.6 %	n/a
Net income as percentage of sales revenue	3.5 %	2.9 %	n/a
Return on equity ROE	6.8 %	6.1 %	n/a
Cash flow from operating activities	-8.2	-3.6	n/a
Capital expenditure in fixed assets	4.3	4.8	-10.8 %
Free cash flow	-12.5	-8.4	n/a

CHF m	**30.06.2014**	31.12.2013	Change
Order backlog	267.4	274.7	-2.7 %
Total assets	352.1	348.7	1.0 %
Net cash	-2.6	16.1	n/a
Shareholders’ equity	191.9	193.6	-0.9 %
Equity ratio	54.5 %	55.5 %	n/a
Headcount	1'643	1'667	-1.4 %

Dear shareholders

EBIT virtually stable – higher net profit

Starrag Group's operating profit (EBIT) for the first half of 2014 amounted to CHF 8.9 million, which was slightly less than the CHF 9.1 million reported for the same period of last year. The operating profit margin edged up to 4.7 % (4.6 % in H1 2013). Net profit rose by 15 % from CHF 5.7 million in the first half of 2013 to CHF 6.6 million in the period under review and the corresponding margin increased from 2.9 % to 3.5 %. This growth is primarily attributable to a significantly better net financial result and a lower tax rate. Earnings per share rose by 16 % to CHF 1.93.

Order intake impacted by business and political uncertainties

Orders received during the first six months of the year totaled CHF 184 million, 11.0 % less than in the same period of last year. At constant exchange rates, incoming orders declined 10.1 %. The lower order intake is a reflection of economic and geopolitical uncertainties, which caused some customers to defer capital spending decisions. From a regional perspective, the European markets were weaker as a whole, primarily because of subdued investment activity in Russia. Asian markets were stable, notwithstanding a decline in orders from China in a year-on-year comparison. North America orders, on the other hand, rose from the low prior year period level.

In regard to the various target markets, Aerospace was unable to maintain the exceptionally high growth rate reported in the first half of last year. Order intake across the Industrial sector was generally weaker as a result of a reluctance to invest, although orders in the watches and jewelry sub-sector did increase. Business in the Energy sector remained slack but there were some tentative indications that this sector may be emerging from its trough. Orders in the Transport market showed a pleasing trend thanks in particular to automobile suppliers. Overall orders on hand at the end of June 2014 remained high at CHF 267 million, which is 2.7 % less than at the end of 2013.

Project-related decline in sales

Sales revenues for the first half of 2014 amounted to CHF 190 million, 4.9 % less than a year ago and 4.0 % less at constant exchange rates. This decline is largely attributable to individual project delays which had mainly been caused by the lead times required for sourcing materials. The book-to-bill ratio (ratio of orders received to sales revenue) for the period under review was 0.97.

Financial situation remains strong

Total assets at the end of June increased CHF 3.4 million from the end-2013 figure to CHF 352 million. The net debt position of CHF 2.6 million can be traced to lower advance payments for work in progress, as well as input costs incurred to process orders on hand. The equity ratio stood at 55 % at the end of June, a typically high level for Starrag Group.

Airfoil Technology Days a success

In early July Starrag Group was pleased to welcome about 180 people from more than 20 of its sales markets to its Airfoil Technology Days in Rorschach. This event allowed the Group to showcase its latest technology innovations, which drew avid interest from the invited guests. These innovations included a new machine tool for complete machining of blisks (a component of turbine engines) that offers unrivalled accuracy and superior cutting capacity. Starrag Group also demonstrated the so-called Dengel process, which obviates the need for any subsequent blade machining operations. An upgraded version of a proven and tested special purpose machine for complete blade machining that combines the know-how of Starrag and Bumotec was also unveiled at the event.

As announced in May, the capacity expansion at Bumotec continues to proceed as planned. Approximately CHF 20 million has been budgeted for this investment project over the period from 2014 to 2016. A total of CHF 4.3 million was invested in fixed assets in the first half of 2014. Besides preparation costs for the expansion of Bumotec's production capacity, these funds were spent on production site improvements and IT replacement.

Outlook

Starrag Group expects market sentiment to improve slightly in the second half of the year and lift second-half order intake above the level reported for the first half. From today's standpoint, order intake for the full year is expected to fall short of the 2013 figure. Sales should be about the same as in 2013 while margins are expected to be slightly higher compared to last year.

Further optimization of our sales organization to create closer and stronger bonds with customers should also have a positive effect going forward. The ensuing efficiency gains on the sales front will even more strengthen the Group's ability to translate its technology potential into sustained market success. As before, the primary objective here is to offer customers new and innovative products and services that give them tangible, measurable competitive advantages.

A word of thanks

The Board of Directors and the Executive Board thank all employees for their untiring efforts. We also owe many thanks to our customers for the confidence they have placed in us and to our suppliers for the valuable business relationships we share. Lastly, we thank you, our shareholders, for your ongoing trust and loyalty.

Yours sincerely,

Walter Fust
President of the Board of Directors

Walter Börsch
CEO

Rorschacherberg, 25 July 2014

Financial commentary

Order intake

Orders received during the first six months of the year totaled CHF 184 million, 11.0 % less than in the same period of last year. At constant exchange rates, incoming orders declined 10.1 %. The lower order intake is a reflection of economic and geopolitical uncertainties, which caused some customers to defer capital spending decisions.

Income statement

Sales revenue for the first half of 2014 amounted to CHF 190 million, 4.9 % less than a year ago. This decline is largely attributable to individual project delays which had mainly been caused by the lead times required for sourcing materials. Sales revenue was also diminished by a negative currency translation effect caused by the weaker euro; in organic terms sales revenue declined 4.0 %. The book-to-bill ratio (ratio of orders received to sales revenue) for the period under review was 0.97.

Gross profit (sales revenue minus cost of materials plus/minus change in self-manufactured products) amounted to CHF 116 million, which corresponds to 61.2 % of sales revenue. The gross margin therefore increased a half percentage point compared to the 60.7 % gross margin reported for the previous year's period. The margin was positively impacted by a reduction in the product costs and a favorable shift in the product mix. Higher costs for certain materials and a lower average completion of orders in process had a negative impact on margins.

Operating profit (EBIT) decreased slightly from CHF 9.1 million in the first half of 2013 to CHF 8.9 million in the period under review. Factoring in the restructuring costs of CHF 2.1 million charged in the prior-year period, EBITR declined from CHF 11.2 million to CHF 8.9 million, or from 5.6 to 4.7 percent of sales revenue. This decline is attributable to the lower sales volumes and the resulting CHF 4.9 million decrease in gross profit. Despite higher unit labor costs, primarily because of wage increases in Germany, CHF 2.6 million of the decline in gross profit was offset by cost savings.

The net financial result of CHF -0.2 million was CHF 0.9 million better than in the previous year period thanks to an improved currency result. Tax expense on the higher pretax income was slightly lower at CHF 2.2 million (CHF 2.3 million in H1 2013) thanks to a reduction in the tax rate. Net profit rose from CHF 5.7 million in the prior-year period to CHF 6.6 million. Earnings per share rose to CHF 1.93 (H1 2013: CHF 1.67).

Balance sheet

Total assets as of 30 June 2014 amounted to CHF 352 million, an increase of CHF 3.4 million versus 31 December 2013. Current assets were up CHF 6.1 million over the same period while fixed assets declined by CHF 2.7 million. Cash and accounts receivable declined by CHF 3.2 million and CHF 6.2 million, respectively, while prepaid expenses, advance payments to suppliers and inventories rose by a total of CHF 15.5 million, reflecting inputs purchased to process orders on hand.

Liabilities rose from CHF 155 million to CHF 160 million, mainly because of the CHF 15.5 million increase in financial liabilities, while non-interest-bearing liabilities declined by a total of CHF 10.5 million, most of which related to accrued expenses and deferred income. The net debt position of CHF 2.6 million can be traced to lower advance payments for work in progress, as well as input costs incurred to process orders on hand. Shareholders' equity declined by CHF 1.7 million compared to the end of 2013. The increase from the first-half year net profit of CHF 6.6 million was offset by other income of CHF -1.9 million (mainly the re-measurement of pension plan liabilities) and the dividend payment of CHF 6.1 million.

As a result of the increase in total balance sheet assets, the equity ratio declined by one percentage point to 54.5 % compared to the end of 2013. Starrag Group therefore continues to operate with ample financial flexibility.

Cash flow

Cash flow (before movements in net working capital) amounted to CHF 16.7 million (previous year: CHF 14.4 million). After movements in other net working capital, operating cash flow amounted to CHF -8.2 million (previous year: CHF -3.6 million).

Investments in fixed assets in preparation for the expansion of Bumotec capacity as well as for production site improvements and IT replacement amounted to CHF 4.3 million, resulting in a negative free cash flow of CHF -12.5 million for the first half of 2014 (previous year: CHF -8.4 million).

A withholding tax-free dividend in the total amount of CHF 6.1 million was paid out from capital contribution reserves in April 2014 for the 2013 fiscal year.

Income statement

CHF 1'000	**2014** 01.01. – 30.06.	2013 01.01. – 30.06.	2013 01.01. – 31.12.
Sales revenue	189'742	199'441	390'666
Change in self-manufactured products	4'487	157	1'866
Material expenses	-78'141	-78'561	-158'459
Personnnel expenses	-72'916	-76'646	-148'158
Operating expenses	-28'691	-29'127	-55'310
Other operating income	1'181	877	1'790
Earnings before interest, taxes, depreciation and amortization EBITDA	**15'662**	16'141	32'395
Depreciation and amortization	-6'715	-6'996	-13'403
Earnings before interest and taxes EBIT	**8'947**	9'145	18'992
Financial income	562	769	834
Financial expenses	-751	-1'878	-1'799
Earnings before tax	**8'758**	8'036	18'027
Income tax	-2'191	-2'330	-4'544
Net income	**6'567**	5'706	13'483
Thereof:			
‣ Shareholders of the company	6'499	5'619	13'347
‣ Minority shareholders	68	87	136
Earnings per share in CHF	1.93	1.67	3.97
Diluted earnings per share in CHF	1.93	1.67	3.97

Statement of comprehensive income

CHF 1'000	**2014** 01.01. – 30.06.	2013 01.01. – 30.06.	2013 01.01. – 31.12.
Net income	**6'567**	5'706	13'483
Remeasurements employee benefits	-1'480	1'742	2'749
Income taxes on remeasurements employee benefits	252	-303	-453
Items not recyclable to the income statement	**-1'228**	1'439	2'296
Cashflow hedges	-387	105	616
Income taxes on cashflow hedges	115	-45	-187
Currency translation	-376	2'377	-196
Items recyclable to the income statement	**-648**	2'437	233
Comprehensive income	**-1'876**	3'876	2'529
Total comprehensive income	**4'691**	9'582	16'012
Thereof:			
‣ Shareholders of the company	4'594	9'520	15'884
‣ Minority shareholders	97	62	128

Balance sheet

CHF 1'000	**30.06.2014**	30.06.2013	31.12.2013
Cash and cash equivalents	19'249	18'746	22'453
Receivables	97'199	102'881	103'417
Other financial assets	16'840	9'449	7'930
Inventories	87'656	76'636	81'002
Total current assets	**220'944**	207'712	214'802
Tangible fixed assets	81'814	83'779	83'327
Intangible assets	49'378	51'564	50'595
Total fixed assets	**131'192**	135'343	133'922
Total assets	**352'136**	343'055	348'724

CHF 1'000	**30.06.2014**	30.06.2013	31.12.2013
Financial liabilities	17'168	3'461	1'483
Operating liabilities	26'139	32'963	26'299
Accured expenses and deferred income	69'818	71'593	81'499
Current income tax	4'914	5'153	4'192
Provisions	5'592	7'301	5'780
Total current liabilities	**123'631**	120'471	119'253
Financial liabilities	4'659	4'967	4'866
Deferred income tax	27'060	25'083	27'518
Pension benefit obligations	2'738	2'206	1'258
Provisions	2'154	3'165	2'255
Total non-current liabilities	**36'611**	35'421	35'897
Total liabilities	**160'242**	155'892	155'150
Share capital	28'560	28'560	28'560
Additional paid-in capital	73'724	79'772	79'772
Retained earnings	112'182	97'938	105'683
Other reserve	-23'401	-20'026	-21'397
Total shareholders' equity of the company	**191'065**	186'244	192'618
Minority shareholders	829	919	956
Total shareholders' equity	**191'894**	187'163	193'574
Total liabilities	**352'136**	343'055	348'724

Cash flow statement

CHF 1'000	**2014** 01.01. – 30.06.	2013 01.01. – 30.06.	2013 01.01. – 31.12.
Net income	6'567	5'706	13'483
Income tax expenses	2'191	2'330	4'544
Interest expenses	135	184	546
Interest income	-50	-119	-216
Depreciation and amortization	6'715	6'996	13'403
Change in non-current provisions	1'392	-1'615	-711
Other non-cash items	-271	891	-209
Change in inventory	-7'005	-3'111	-7'959
Change in other non-cash net current assets	-16'479	-9'622	-7'725
Income tax paid	-1'400	-5'209	-6'385
Cash flow from operating activities, net	**-8'205**	-3'569	8'771
Capital expenditure for:			
‣ Tangible fixed assets	-3'261	-3'930	-9'780
‣ Intangible fixed assets	-1'155	-959	-2'341
Disposals of fixed assets	109	63	909
Cash flow from investing activities, net	**-4'307**	-4'826	-11'212
Change in current financial liabilitites	15'858	1'473	-32
Repayment of non-current financial liabilities	-144	-142	-286
Interest paid	-140	-228	-552
Interest received	50	119	216
Dividend payment	-6'072	-6'076	-6'105
Purchase of interest in subsidiary	-299	-	-
Cash flow from financing activities, net	**9'253**	-4'854	-6'759
Currency translation	55	350	8
Net change in cash and cash equivalents	-3'204	-12'899	-9'192
Cash and cash equivalents at beginning of period	22'453	31'645	31'645
Cash and cash equivalents at end of period	**19'249**	18'746	22'453

Statement of shareholders'equity

CHF 1'000	Share capital	Additional paid-in capital	Retained earnings	Other reserve	Shareholders' equity of the company	Minority share-holders	Total share-holders' equity
01.01.2013	28'560	85'820	92'313	-23'934	182'759	885	183'644
Net income	-	-	5'619	-	5'619	87	5'706
Other comprehensive income	-	-	-7	3'908	3'901	-25	3'876
Total comprehensive income	-	-	5'612	3'908	9'520	62	9'582
Share-based payment	-	-	13	-	13	-	13
Dividend payment	-	-6'048	-	-	-6'048	-28	-6'076
30.06.2013	28'560	79'772	97'938	-20'026	186'244	919	187'163
31.12.2013	28'560	79'772	105'683	-21'397	192'618	956	193'574
Net income	-	-	6'499	-	6'499	68	6'567
Other comprehensive income	-	-	-	-1'905	-1'905	29	-1'876
Total comprehensive income	-	-	6'499	-1'905	4'594	97	4'691
Dividend payment	-	-6'048	-	-	-6'048	-24	-6'072
Purchase of interest in subsidiary	-	-	-	-99	-99	-200	-299
30.06.2014	**28'560**	**73'724**	**112'182**	**-23'401**	**191'065**	**829**	**191'894**

Notes to the interim consolidated financial statements

1. Accounting principles

The unaudited interim consolidated financial statements for 2014 were prepared in accordance with International Financial Reporting Standards (IFRS). They have been prepared in condensed form in accordance with IAS 34 Interim Financial Reporting.

The consolidated interim financial statements do not contain all of the information found in the consolidated annual financial statements and should be read together with the financial statements for the 2013 fiscal year. The accounting standards correspond to those applied in the 2013 consolidated financial statements (see pages 76 to 81 of the 2013 Annual Report).

The present interim report includes estimates and assumptions that affect the reported figures and the associated disclosure. The actual results may differ from these estimates.

2. Equity interest in a subsidiary increased

On 7 January 2014 Starrag Group Holding AG acquired an additional 9 % interest in Toolroom Technology Limited at a cost of CHF 0.3 million. Starrag Group now owns 85 % of Toolroom Technology's Limited's capital stock. At the time of acquisition the carrying amount of the corresponding minority shares was CHF 0.2 million. This amount was derecognized in the equity attributed to non-controlling interests and the CHF 0.1 million difference to the acquisition cost was recognized in the equity attributable to the shareholders of the company.

3. Fair value of financial instruments

Foreign currency exposure is partially hedged by derivative financial instruments in order to react to short-term exchange rate fluctuations. These instruments are stated at fair value. The measurement of fair value is based on quoted market prices as of the reporting date (Level 2 of the fair value hierarchy). The fair value of other financial assets as of 30 June 2014 amounts to CHF 0.5 million (CHF 0.3 million in prior year period).

The fair value of the following balance sheet items roughly corresponds to their carrying amounts: Cash and cash equivalents, accounts receivable, other financial assets, financial liabilities and operational liabilities.

4. Additional information

The Starrag Group is not affected by seasonal or cyclical factors as steady sales and margins are assured in the event of any brief fluctuations in order intake by the order backlog, which is currently equivalent to more than half a year's sales.

Personnel expenses in the first half of 2013 included additional costs of CHF 2.1 million to adjust capacity for an anticipated increase in business volumes.

5. Approval of interim consolidated report

No events have occurred after June 30, 2014 that would have a material effect on the interim accounts. The interim consolidated report was approved and released for publication by the Board of Directors on July 21, 2014.

Open House «Airfoil Technology Days»

In early July Starrag Group welcomed about 180 people from more than 20 of its sales markets in Rorschach to showcase its latest technology innovations, which drew avid interest form the invited guests.

High-precision machine tools for greater productivity

Starrag Group is a global technology leader in manufacturing high-precision machinie tools for milling turning, boring and grinding of small, medium-sized and larger workpieces of metallic and composite materials. Principle customers are internationally active companies in the Aerospace, Transport, Industrial and Energy sectors. In addition to its portfolio of machine tools, Starrag Group provides integrated technology and maintenance services that significantly enhance customer productivity.

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

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

Financial calendar

4 November 2014	Information on third-quarter 2014 results
26 January 2015	Initial information on full-year 2014 results
6 March 2015	Presentation of 2014 results for analysts and the media in Zurich
24 April 2015	Annual general meeting in Rorschach
8. May 2015	Information on first-quarter 2015 results
24 July 2015	Half-year report 2015

Contact information

Walter Börsch, CEO
P +41 71 858 81 11
F +41 71 858 82 09

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

investor@starrag.com

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

Starrag Group

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

Starrag Group Holding AG
Seebleichestrasse 61
9404 Rorschacherberg
Switzerland

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

investor@starrag.com
www.starrag.com