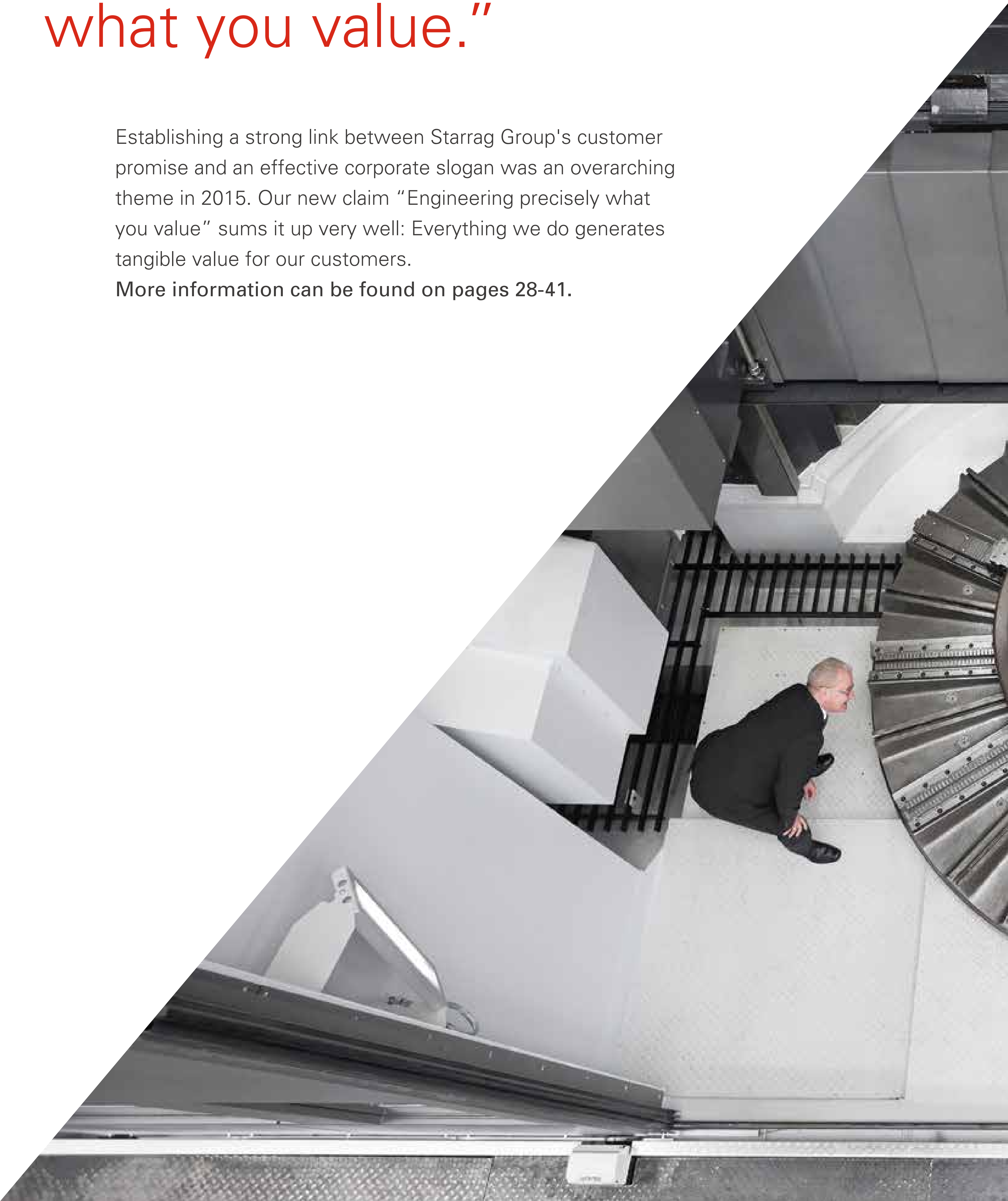
Starrag Group

Annual Report 2015

“Engineering precisely what you value.”

Establishing a strong link between Starrag Group's customer promise and an effective corporate slogan was an overarching theme in 2015. Our new claim “Engineering precisely what you value” sums it up very well: Everything we do generates tangible value for our customers.

More information can be found on pages 28-41.



Annual Report 2015

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 only slight increase in global order intake for the machine tool industry last year can be traced to greater uncertainty about the outlook for the world economy and political developments. Starrag Group was also challenged by the tougher business climate as customers held back on their investments and order intake became increasingly volatile. There were some shifts in orders from the various target industries but the regional breakdown of incoming orders was virtually unchanged. Total orders received amounted to CHF 333 million, which is 18 % less than in the previous year; at constant exchange rates order intake showed a smaller decline of -11 %. Sales for the year amounted to CHF 364 million, -7.5 % from the previous year; at constant exchange rates sales were unchanged (-0.1 %).

Operating profit amounted to CHF 14.7 million, or 4.0 % of sales. Net profit for the year was CHF 9.5 million, or 2.6 % of sales. Earnings per share amounted to CHF 2.78. Starrag Group remains very well capitalized with a virtually unchanged equity ratio of 55 %. Net cash decreased by CHF 2.4 million to CHF -15.9 million due to the expenditure on capacity expansion projects at Bumotec and the slightly lower level of funding for work in progress.

Engineering precisely what you value – our promise

On 1 January 2015 the former Business Units were replaced with a new organizational structure consisting of the three operating units Aerospace & Energy, Transportation & Industrial Components, and Precision Engineering. These three units also represent our strategic target markets. Each segment is fully accountable for its operational performance in its designated market segments. In the wake of this reorganization we initiated a comprehensive set of measures during the first half of 2015 to strengthen the sales and marketing power of each segment and to bolster the comprehensive and integrated product portfolio. Implementation of these measures was expedited during the course of the year in response to the further deterioration in the general business environment.

This action along with a reduction in complexity and the exploitation of greater synergies are intended to enhance our growth rates and profitability and enable us to address the individual needs and wants of our target customer groups, also in the post-manufacturing phases of the value chain, more effectively and specifically and, in particular, more quickly than before. These efforts are also summed up by our new claim "Engineering precisely what you value" (see page 12 for more information). We want to give customers precisely what they want and create tangible value added for them in the process.

An even more systematic market approach as well as further cost optimization will strengthen our ability to deliver long-term profitable growth. We therefore reiterate our previous medium-term sales growth and profit guidance, which means we continue to target sales growth in excess of 5 % and an operating profit margin of at least 8 %, both targets being multi-year averages across the cycle.

Successful trade show appearances

Innovative products presented by Starrag Group at the CIMT (Chinese International Machine Tool Show) in Beijing in April attracted considerable interest from visitors at this major Chinese trade show. Numerous discussions with customers indicated that China is increasingly seeking quality-driven growth with the aim of becoming more competitive in international markets. At the EMO, a major European trade show held in Milan in early October, Group subsidiary Bumotec unveiled a world premiere for the medical technology industry that offers users significant productivity gains.

Starrag Group's highly successful "Turbine Technology Days" in June represented another highlight of the past year. Turbine experts from the energy, airline and aerospace industries converged at this global gathering in Rorschach, which confirmed our analysis that these markets are demanding all-inclusive processes. We were also pleased with Pilatus Aircraft's decision to use our machines to produce its new PC-24 business jet.

Outstanding corporate governance

Starrag Group ranked 14th in the 2015 corporate governance ranking compiled by investor services firm zRating, thus claiming an outstanding position among the 165 Swiss companies covered by this ranking. A total of 62 corporate governance criteria were analyzed by zRating. In the annual survey of annual reports conducted by HarbourClub and the business magazine "Bilanz" our 2014 annual report was rated 61 out of a total of 220 companies in the category Value Reporting (Print).

Changes in the Board of Directors and Executive Board

Shareholders at the 2015 Annual General Meeting elected Daniel Frutig as chairman.
He succeeds Walter Fust, who relinquished his position as chairman for personal reasons. We would like to take this opportunity to once again thank Walter Fust for his many years of successful service as our company's chairman.
Georg Hanrath, a member of the Executive Board and Head of Operations, left the company at the end of 2015 by mutual agreement to pursue new career challenges. His responsibilities were re-assigned to the other members of the Executive Board in an effort to further streamline management structures.

Outlook with low variability

Uncertainty regarding the global economic outlook and geopolitical developments grew during recent months and this is likely to have an impact on the investment activity of our customers. Ripple effects from the abandonment of the Swiss franc's peg in January 2015 will also continue to be felt in the current year. All things considered, we expect incoming orders in local currency to exceed the figure reported in 2015, provided that the global environment does not deteriorate any further from today's standpoint. Sales in local currency are expected to be held around the level from 2015. As for the operating margin, we expect to at least match the level reported in 2015. There will be no revaluation of unhedged euro positions in 2016 so net profit should be higher than in the previous year.

More meaningful reporting

The Board of Directors has decided to refrain from publishing quarterly reports as of the current year due to their very limited informational value. This is because Starrag Group's business is long-term in nature and, secondly, individual large orders can have a major impact on order intake for a particular quarter, thus distorting underlying business trends. Thirdly, we have witnessed increasing fluctuations in order intake, which further reduces the informative value of quarterly results.

Dividend

The Board of Directors is maintaining its attractive dividend policy and will propose a dividend of CHF 1.20 per share at the Annual General Meeting on 23 April. This corresponds to a payout ratio of 43 % and a dividend yield of 2.6 % based on the share price of CHF 46 at the end of the 2015. The payout ratio will remain in an attractive range of 35 % to 50% going forward.

A word of thanks

We thank our employees for their hard work and dedication throughout a challenging year. As always, we know that they are at the core of our success. We also thank our customers and suppliers and appreciate our continued good business relationships with them. Lastly, we thank our shareholders for their trust and loyalty towards our company.

Daniel Frutig
Chairman of the Board of Directors

Walter Börsch
CEO

At a glance

Sales steady at constant exchange rates and solid order backlog

- Sales CHF 364 million, in local currency -0.1 %
- Order intake -18 % to CHF 333 million, in local currency -11 %
- EBIT -23 % to CHF 15 million, operating margin 4.0 %
- Net profit -35 % to CHF 9.5 million, profit per share CHF 2.78
- Solid balance with 55 % equity ratio, return on equity 4.9 %
- Dividend payout of 1.20 CHF per share, dividend payout ratio 43 %

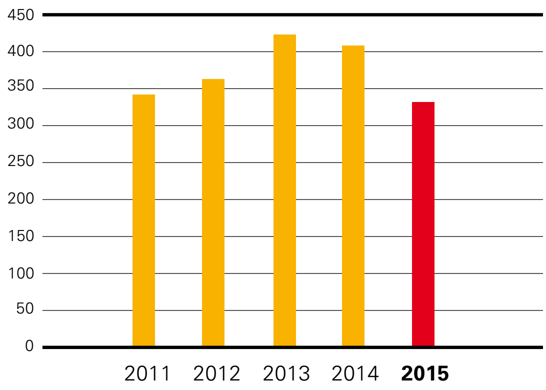
CHF m	**2015**	2014	Change
Order intake	333.4	407.3	-18.2%
Sales revenue	363.7	393.2	-7.5%
Operating profit EBIT	14.7	19.1	-23.4%
Net income	9.5	14.4	-33.9%
Earnings per share (in CHF)	2.78	4.26	-34.7%
EBIT as percentage of sales revenue	4.0%	4.9%	n/a
Net income as percentage of sales revenue	2.6%	3.7%	n/a
Return on equity (ROE)	4.9%	7.5%	n/a
Cash flow from operating activities	11.0	7.3	n/a
Capital expenditure in fixed assets	22.3	14.6	52.7%
Free cash flow	-11.3	-7.2	n/a
Profit distribution per share (in CHF) [1]	1.20 [2]	1.80	-33.3%

CHF m	**31.12.2015**	31.12.2014	Change
Order backlog	237.8	287.6	-17.3%
Total assets	341.5	356.3	-4.1%
Net cash	-15.9	2.4	n/a
Shareholders equity	186.1	195.9	-5.0%
Equity ratio	54.5%	55.0%	n/a
Employees at year end	1'573	1'622	-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.

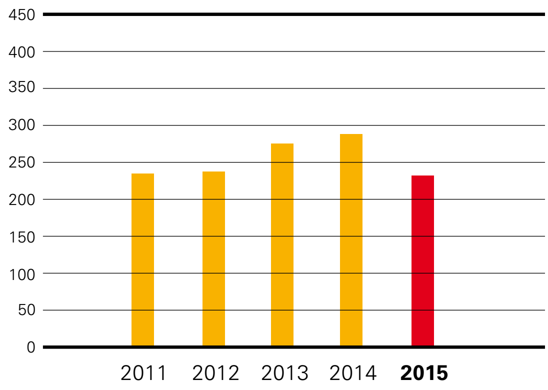
Order intake

CHF m



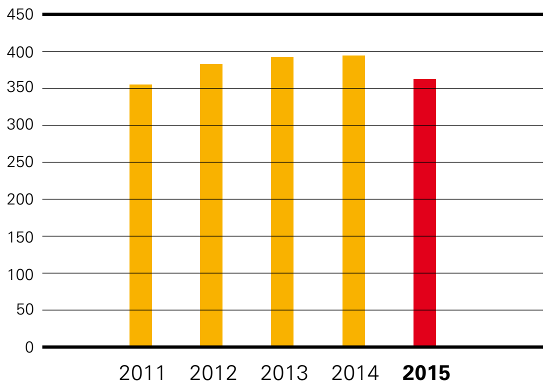
Order backlog

CHF m



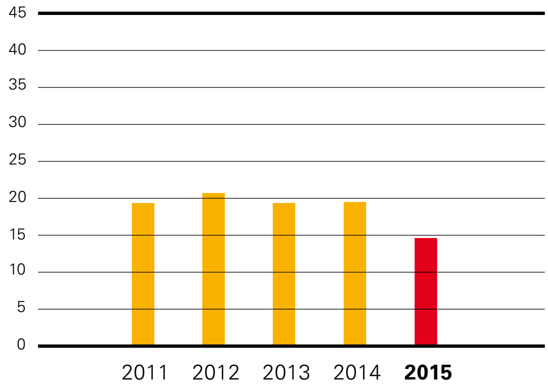
Sales revenue

CHF m



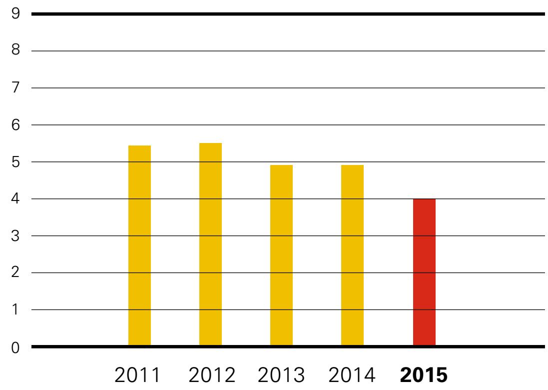
Operating profit EBIT

CHF m



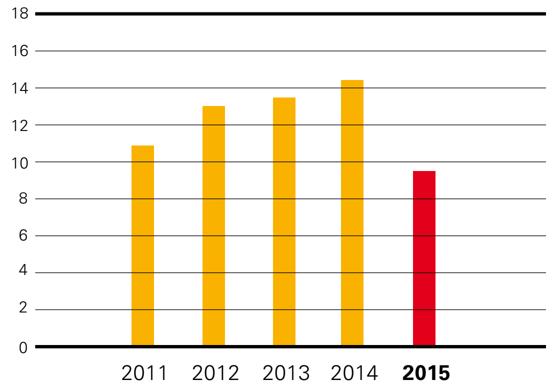
EBIT as percentage of sales revenue

%

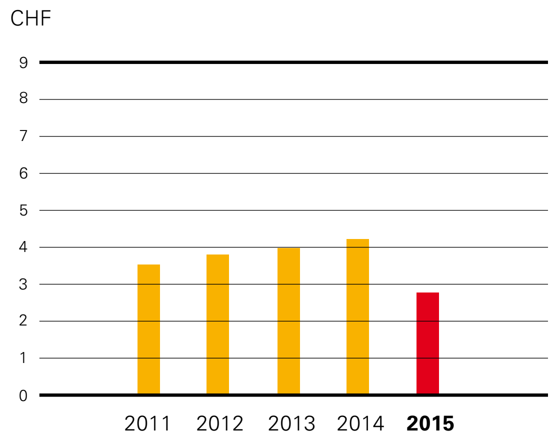


Net income

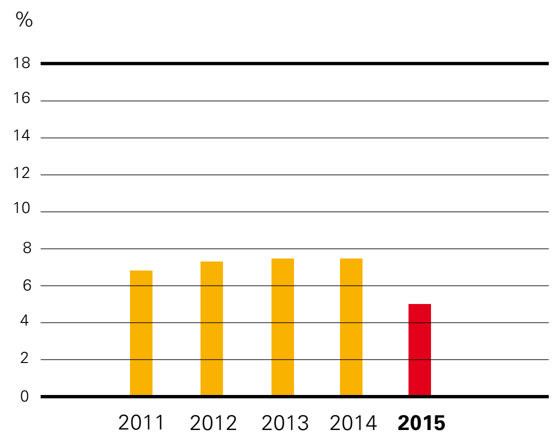
CHF m



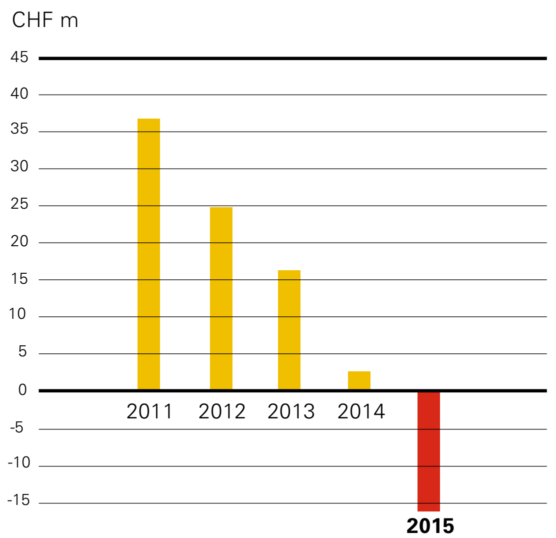
Earnings per share



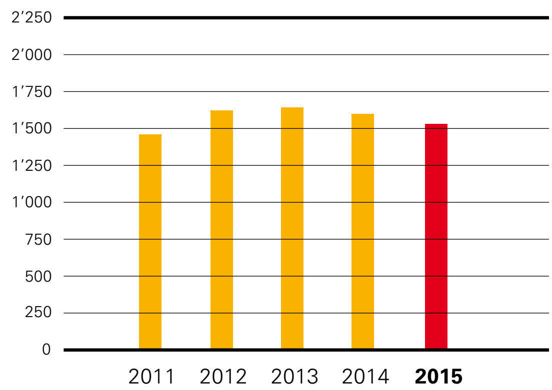
Return on equity



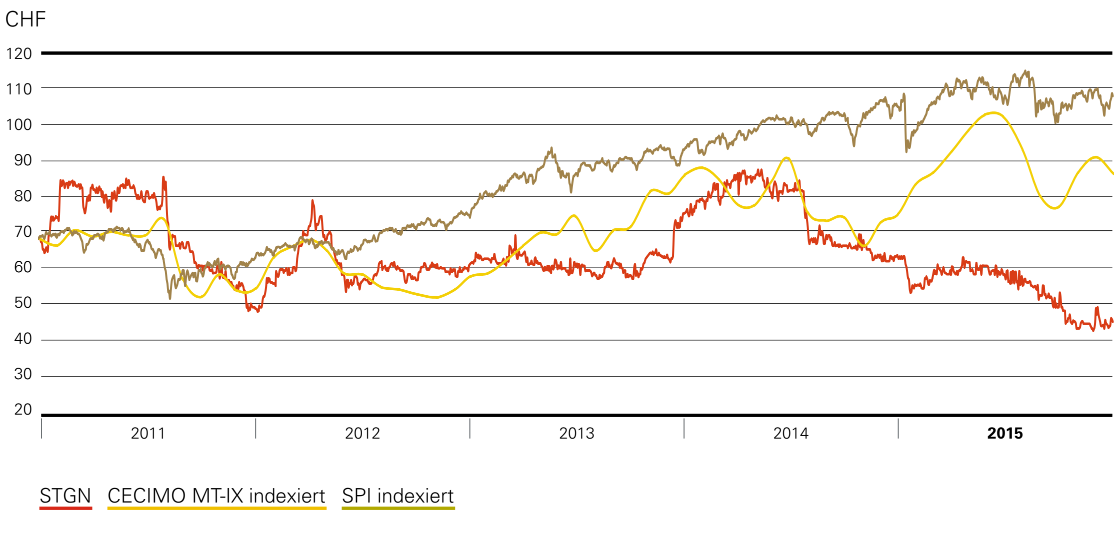
Net cash



Employees at year end



Share price



Highlights

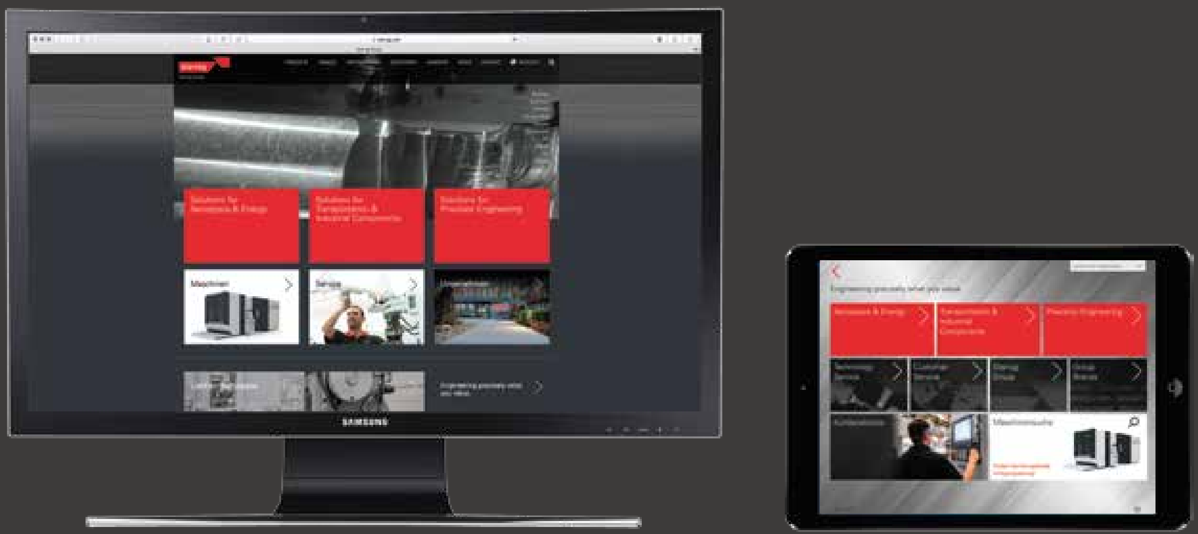
Expressing added value at every level

After reframing our corporate communications strategy around the new claim "Engineering precisely what you value", the next step was to implement this "value" strategy across the entire communications landscape.

Efforts here centered on the company's website, being a globally accessible information platform, and on the new customer magazine "Starrag Star". The objective was to show customers the tangible value Starrag Group can create thanks to its extensive expertise in devising and delivering solutions in the three target markets of Aerospace & Energy, Transportation & Industrial Components and Precision Engineering.

Customers in the target markets and market segments have specific needs that Starrag Group satisfies with its innovative machine concepts, cutting-edge technology and excellent customer service that spans the globe. It is exactly this benefit customers which gain by working with Starrag Group that is now the focus of its communications activities – be it through the website, in customer magazines, company brochures and advertising and, last but not least, in talks with customers, in presentations and at trade fairs.

With regard to the latter, a customer guidance app was created during the course of the website relaunch that references the same set of data. This ensures that customer interaction and all technical data are based on a homogenous, up-to-date source regardless of the communications platform being used.



Successful launch: Starrag Star, the new magazine for customers

The first issue of Starrag Star, Starrag Group's new customer magazine, appeared just in time for "Metalloobrabotka", Russia's premier trade fair for the metalworking industry held every year in Moscow.

Starrag Group creates true value for its customers not only through the products and services it offers but also by providing useful technical information, interesting field reports from other customers and by highlighting the latest trends and breakthroughs on the manufacturing front. Starrag Star is the perfect medium for spotlighting customer value and for demonstrating how Starrag Group's products and services stand out from the competition.

A second issue of Starrag Star was published at the end of September, shortly before the EMO trade show in Milan. Responses from customers, partners and employees have been resoundingly positive. Another two issues are scheduled to be published in 2016.

Productivity gains in the machining of titanium for the aerospace sector

Starrag Group unveiled a world premiere at the EMO Milano in early October: the new ECOFORCE Ti range of machines. Designed for machining complex workpieces for the aerospace sector, it satisfies customer demand for highly productive solutions for processing titanium workpieces.

Starrag's time-tested technology is a distinguishing feature of every machine in the ECOFORCE Ti product family. This machine concept differs in key ways from most other titanium profilers. Workpieces are clamped vertically in these horizontal machining centres so that the titanium chips fall away automatically without collecting on the workpiece. This significantly reduces chip recutting and thus minimizes tooling costs.

> "Cost per unit and tooling costs are up to 20% lower for the customer."

The new ECOFORCE Ti range of machines offers three levels torque, 900, 1,300 and 2,400 Nm. Power units with power ranges from 35 to 75 kW are used for the drives. This new product family clearly meets customer demand for greater productivity when machining titanium workpieces.

The new titanium machining centres are an ideal complement to Starrag's successful line of machining centres, the STC machines with horizontal tables and pallet sizes of up to 1,800 mm and the BTP machining centres for long, narrow workpieces, which are also available in a twin-spindle design. Starrag Group offering of titanium machining centres for the aerospace sector is now as broad as its offering of aluminium machining centres.

The Ti range of machines is one of the innovations that have emerged from the new "Aerospace & Energy" Business Unit, which combines the expertise that Dörries Scharmann and Starrag offer for two industries with similar machine tooling requirements.

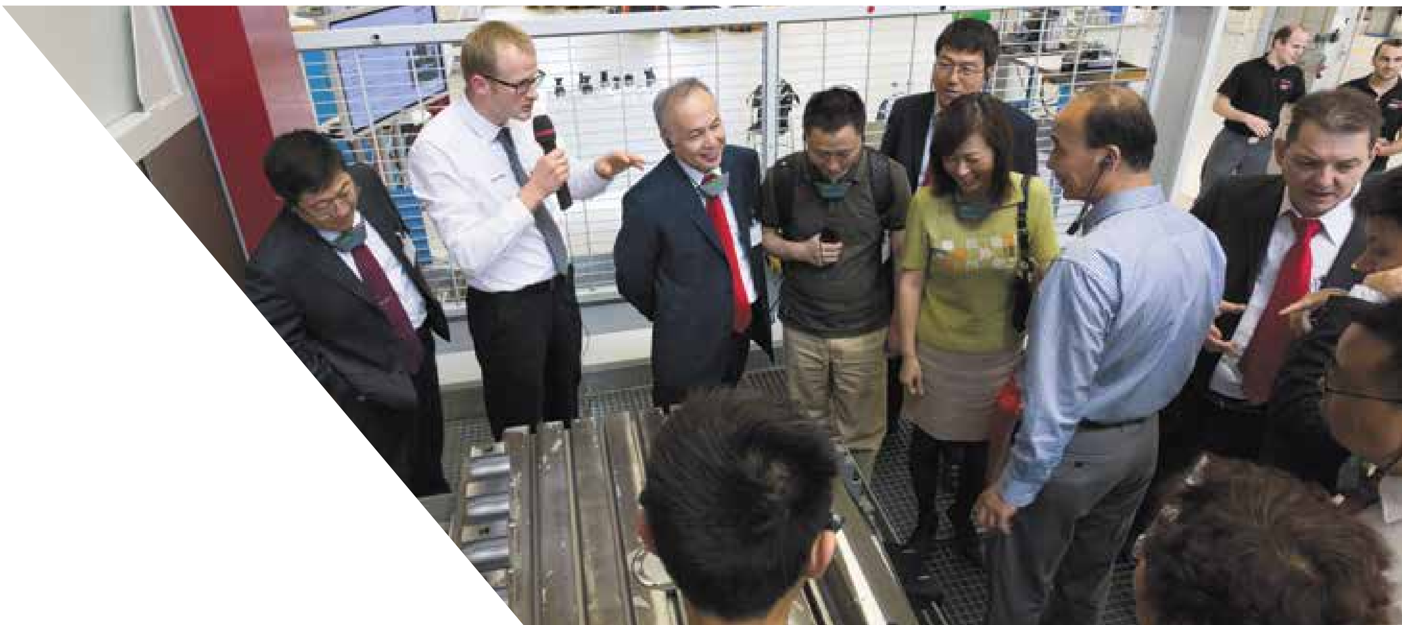
Successful customer events at Starrag and TTL

The Turbine Technology Days have become a veritable meeting point for turbine experts from the energy, aviation and space sectors.

Around 250 production experts from 80 companies from around the world accepted the invitation to the two-day conference on the shores of Lake Constance at the end of June. This year's keynote speaker was Yang Hong, Vice General Manager of Aviation Industry Corporation of China (AVIC). The state-owned aviation group based in Peking employs 400,000 people and will play a significant role in expanding the airline industry in China with the production of its own aircraft.
The Group is therefore investing heavily in manufacturing assets to increase the share of in-house production. Its subsidiary AVICADE spends USD 400 million a year on machine tools alone.
What is increasingly obvious is that to be successful in the growing market of turbine manufacturing systems, a company will have to work together with many partners, like Starrag and Walter are doing, and offer comprehensive solutions. This is affirmed by Yang Hong, Vice General Manager of AVIC: "Starrag Group is a world-class machine tool manufacturer with whom we've enjoyed working for going on 20 years."

Essentials for Excellence in Aerospace Manufacturing by TTL

Another key industry event took place at the end of November at the Manufacturing Technology Center (MTC) in Coventry (GB) – "Essentials for Excellence in Aerospace Manufacturing". It was attended by over 50 production experts from leading turbine manufacturers from the aerospace and power generation industry.
Mark Heyman, RollsRoyce's Chief of Manufacturing Engineering CAM & SFS, was the guest speaker. His presentation highlighted just how important innovative software solutions have become within the overall R&D and production process at Rolls Royce. According to Heyman, up to 400 models of new complex components will be made before series production commences and all processes will be constantly optimised. The use of advanced software solutions shortens development processes significantly while increasing productivity.



In dialogue with Bumotec customers at Heckert

Bumotec took a slightly different customer approach with its "In dialogue with the watch industry and micro-mechanics" event, which took place from 29 June to 3 July 2015 at Heckert's training centre in Chemnitz, Germany.

Before the event, watch industry experts in the worldwide renowned region of Glashütte and executives from medical technology and precision mechanics companies in Saxony and Thuringia were asked to describe the special challenges they faced. Tangible solutions covering the various topics were then presented at the event. Discussions on technical, commercial and strategic issues produced highly interesting encounters and contacts.

The presentation itself was accompanied by the Bumotec s191V turn-mill centre, shown live in machining action, along with numerous video presentations on alternative machine systems and a display of 100 different machining patterns. The positive reactions from visitors illustrated that the Chemnitz site will play a vital role in the future development of this market segment. Thanks to the local presence in conjunction with the new Bumotec Tech Centre near Tuttlingen, synergies within Starrag Group can be ideally exploited, thus guaranteeing long-term competitive advantages for the customer.

"Comprehensive machining solutions can save up to 30% of the machining time."

Retrofit solutions for RWE Power

The close cooperation between RWE Power AG in Frechen near Cologne and Starrag Group service experts from Mönchengladbach serves as a good example of what it takes to build a long-standing, successful relationship in the service business.

RWE is one of the largest energy companies in the world. The company runs its own engineering centre at Frechen with 725 employees. Its manufacturing and repair workshop is working on 2,500 RWE maintenance orders at any given time and it is handling an increasing number of orders from outside customers.
Since the Starrag Group Service unit had already completed significant retrofits on three of RWE's Scharmann boring mills in 1996 and 2013, its retrofit experts also received the contract to retrofit RWE's Scharmann Heavycut, an advanced development of the WFT series of ram boring mills. In addition to the comprehensive retrofit including the overhaul of mechanical parts and the modernisation of electronics, the Heavycut was equipped with a new Siemens control unit as well as new motors and measuring systems.
A benchmark analysis of the services provided by the entire RWE site revealed that the retrofit of the boring mills was paying off in every sense.

"On a scale of one to five stars, accuracy and availability increased from two stars to five." Willi Spelter, RWE

Up to 50 % lower manufacturing costs due to drastically shorter production times.

To meet growing customer demand for increased productivity as well as production quality and reliability, the "Transportation & Industrial Components" business unit closed a gap in their portfolio with the introduction of the HEC 500D U5 at the INTEC trade fair in Leipzig and can now offer 5axis functionality in all of its machine ranges.

The key advantage that continuous 5axis machining offers customers is a drastic reduction in production times, which, in turn, reduces manufacturing costs by up to 50 %. In addition, production reliability is significantly higher due to the consistently high level of accuracy throughout the production process.

This added value is achieved via two basic features:
On the one hand, a swivel head, which is especially suitable for tooling larger workpieces. Customers benefit from the smaller space requirement and negligibility of mass effects on the workpieces. On the other hand, a rotary swivel unit, which creates the fifth movement axis on the workpiece. This, in turn, eliminates the need for interpolation of the axes when machining in an inclined position.

Reactions from customers have proven us right: Most of the midrange machines they bought in 2015 were ordered with 5-axis functionality.

No unscheduled machine downtimes and virtually 100 % availability at Komatsu Mining Germany GmbH.

For many Starrag Group customers, the actual purchase of a machine tool is only the first step. The increase in productivity resulting from their investment also raises awareness of various issues regarding production quality and reliability.

How can I safeguard productivity, how can I protect my manufacturing systems against malfunctions and loss of accuracy, how can I best retain the value of my manufacturing assets? Working together with our customer Komatsu, our service specialists developed a series of preventive measures to avoid machine downtimes. By providing a comprehensive package consisting of preventive maintenance, guaranteed response times and remote maintenance, we were able to achieve maximum production reliability for Komatsu. Komatsu was also able to significantly increase machine utilization rates. All of these factors play a crucial role in enhancing the competitiveness of production systems and equipment and prolonging their useful lives.

Maintenance Manager Thomas Burggraf is pleased: “The availability of the machines is currently at the very high level of 96% and unscheduled machine downtimes were avoided altogether in 2015.”

Company profile

Vision and strategy

Starrag Group is the partner of choice for international customers in the target markets of Aerospace & Energy, Transportation & Industrial Components and Precision Engineering. Its comprehensive range of precision machine tools in the higher quality segment, which is continually upgraded and includes tried-and-tested technology and services, helps customers to achieve substantial and sustainable productivity gains.
Starrag Group is pursuing the following strategic objectives to make this vision a reality:

- Concentration on clearly defined target markets and market segments and the corresponding product brands
- Consistent focus on customers and their individual needs
- Concentration on the top quality segment and technological and service-oriented leadership
- Qualified and motivated employees
- High internal flexibility, particularly in difficult times
- Solid financial basis
- Innovative management

Market positioning

The market position of Starrag Group is derived from these strategic elements and is summarised in the following claim:
Engineering precisely what you value
On the one hand, the claim expresses one of Starrag Group's most important core competencies: *Engineering.* Thanks to the outstanding abilities of our employees, we are able to manufacture machine tools for the premium quality segment that stand out due to their extremely high level of performance and precision. *Precisely* stands both for precision in this technical sense and for our consistent customer focus. We give our customers precisely what they want and value. *What you value*. No more, no less. We consistently focus our efforts on the customer and their needs in terms of profitability, safety and growth.

Target markets

On 1 January 2015, in keeping with its claim, Starrag Group introduced a new organisational structure focusing on specific customer groups. The new structure concentrates on three target markets: Aerospace & Energy, Transportation & Industrial Components and Precision Engineering. These target markets are subdivided into a total of eleven market segments.

Aerospace & Energy

The target market of Aerospace & Energy 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.

The Aero Engines market segment

When designing aircraft engines, the aim is always to achieve greater efficiency, reduce kerosene consumption and lower noise emissions. This calls for ever-greater precision in the cutting of increasingly challenging raw materials for the production of turbine elements such as engine blades, blisks and casings. As a long-term partner to the engine industry, Starrag Group has the necessary expertise to achieve this.
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 our software and engineering solutions, flow components such as these can be overhauled in a fully automated, reliable and cost-effective process.

The Aero Structures market segment

Rising kerosene prices and increasing environmental awareness call for lighter, quieter, more cost-efficient and more economical aircraft with lower emissions and immissions.

For all manufacturers and their suppliers, this means ever-more complex and larger, integrated structural components. These must be manufactured reliably within narrow tolerances and within short cycle times under constant process monitoring. This is where our machines for heavy-duty cutting, high-performance cutting and complete machining are very much in demand. Our machines are used to manufacture highly stressed structural components such as landing gear components, critical primary structural components in the area of the fuselage, steering gear and wings, engine blades, blisks, casings, fuel systems, high-precision gyroscope components, and reliable electrical connection and sensor components.

The Power Turbines market segment

When it comes to turbo machine engineering, no other company is more experienced in the machining of high-precision flow components than Starrag Group. The same applies to the production of complex housings for steam and gas turbines. The combination of multiple machining technologies in a single machine is also becoming increasingly important. The components to be manufactured must satisfy ever-stricter requirements; they are becoming more complex and are increasingly manufactured from materials that are difficult to machine.

The Large Components market segment

The pursuit of energy-efficient solutions across a wide range of industries such as oil and gas exploration, power generation, large engine and aircraft manufacturing, shipbuilding and large tool construction has led to increasing demand for larger and more precise components. Our experience in the construction of large machinery and our knowledge of optimal machining and handling strategies are crucial factors when machining these workpieces, which can weigh up to several hundred tonnes.

The Oil/Gas/Fluids market segment

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. We are in a position to cover the entire value chain – from extraction and conveying (upstream) through transport and storage (midstream) to further processing and refinement (downstream). The spectrum of products and customers is similarly broad – from classical end products such as pumps, valves, fittings and compressors to boring equipment for the extraction of raw materials. Such products are also used in petrochemical plants, in the field of transport and water treatment, and in many other industrial sectors.

Transportation & Industrial Components

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

The Heavy Duty Vehicles & Engines market segment

Starrag Group specialises 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, we concentrate on agricultural vehicles, construction machinery, railway technology and large diesel engines for stationary applications.

The On-Road Vehicles market segment

This segment includes technical solutions for the production of high-precision vehicle components for cars, trucks, buses and motorcycles. The trend towards 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. Customers attach particular importance to reducing unit costs. Thanks to automation solutions for handling workpieces between the different stages of machining, and the integration of test, cleaning and assembly systems and equipment, cost-effective holistic solutions can be achieved.

The Industrial Components market segment

This includes components for machine tools, packaging machines, printing machines and plastics machines, as well as hydraulic and pneumatic aggregates. Here, too, there is a trend towards more complex workpieces. Optimised components call for 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. Starrag Group meets these requirements with machining centres that combine different machining technologies in a single machine.

Precision Engineering

The target market of Precision Engineering consists of the market segments Luxury Goods, Med Tech and Micromechanics with the product brands Bumotec and SIP.

The Luxury Goods market segment

In the Luxury Goods segment, the spectrum of base materials ranges from hard ceramics to precious metals and stainless steel. Frequent changes in the manufactured products and ever-smaller lot sizes require maximum 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. Starrag Group offers machining solutions for many watch and jewellery components.

The Med Tech market segment

Cost pressure is high in the medical technology sector. Starrag Group helps to relieve this pressure by using fully automated, highly efficient machines to manufacture implants, medical instruments and dental components.
Our machining solutions enable the simplification of machining steps and shortening of the production chain while also guaranteeing that demanding technical safety and regulatory standards are met.

The Micromechanics market segment

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 Starrag Group, for example in the machining of fuel systems, high-precision gyroscope components, and reliable electrical connection and sensor components.

Ten premium brands under one roof

As a result of organic growth and various mid- and larger-sized acquisitions since the turn of the century, we have built a solid portfolio of business activities covering a comprehensive range of technologies and competencies. Throughout our various stages of expansion, we have always followed the logic that new developments must effectively complement the old and thereby reinforce the competitiveness of the Group as a whole.
This has made Starrag Group what it is today – a combination of ten premium precision machining brands under one roof, boasting a wide range of competencies that few rivals can match.

Berthiez

Maximum precision in vertical turning and cylindrical grinding: Outstanding solutions for the aircraft engine and roller bearing industry based on specialised vertical lathes and grinding machines.

Bumotec
Multifunctional machine tools: High-precision complete machining of small workpieces in sectors such as watches and jewellery, medical technology and micromechanics.

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

Droop+Rein
Maximum precision for large workpieces: Machine tools for machining large to ultra large workpieces (up to 250 t in weight) such as large-format and bodywork machine tools, diesel engines, power plant components and large aircraft landing gear components.

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 medium and high quantities of workpieces.

Scharmann
Complete machining solutions with the shortest possible cycle times: Specialist solutions for heavy-duty cutting and the complete machining of extremely large workpieces based on high-performance, automatically interchangeable head attachments. High-performance cutting of integral components in the market segment of Aero Structures, known worldwide under the product name Ecospeed.

SIP
Uncompromising commitment to precision: Jig boring machines and machining centres to meet the most stringent demands for accuracy of research institutes, aerospace companies, the aircraft industry and leading precision engineering firms.

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.

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

Flexible production at nine locations

Starrag Group manufactures its machines and production systems at nine production plants in Switzerland, Germany, France, Great Britain and India. They are all part of our production network and are clearly assigned to our three target markets: Aerospace & Energy, Transportation & Industrial Components and Precision Engineering. Our development and technology centres are also situated in these locations. This enables us to maximise our entire technological expertise throughout the Group.

Keys to success

Sustainable commercial success has been the hallmark of the Starrag Group for many years but it cannot be taken for granted. Rather, it is the result of a number of success factors that we continue to nurture: individual customer focus, global presence, continuous innovation, methodical enhancement of efficiency, and profitable business activities, pursued with moderation.

Individual customer focus
Starrag Group offers a high degree of custom manufacturing services to meet the individual and therefore widely varying requirements of its customers. Custom machines as well as system solutions that integrate various different machines into customer-specific flexible production systems are becoming trendsetters. In this sense, every machine that leaves our factory gates can be viewed as a new product.

Global presence
Starrag Group is represented in all of the world's major industrial centres (Europe, Asia and North America). As mentioned above, we manufacture machines and production systems at nine production plants located in Switzerland, Germany, France, Great Britain and India. Our R&D and technology centres are situated in these locations, too, which make up our "Starrag Production System" production network. This system also enables calibration of capacity and risks.
Our international customers value short and direct communication channels. Experienced local sales, application and customer service specialists are therefore familiar with local cultures and customs, and are in a position to respond rapidly. They ensure a close and lasting customer relationship based on trust. The global service team receives constant training and development and is being expanded. The global logistics system with its optimised transport routes and decentralised spare parts warehouses ensures fast and efficient parts supply. The very close contact with our customers, through to delivery and commissioning of the machines and thereafter, facilitates a full and ongoing review of customer satisfaction – especially since Starrag Group generally serves a relatively small number of large customers. Customer care is supported by a global CRM system.

Continuous innovation
Measured as a percentage of sales, our investments in the development of new products, components and processes is usually higher than average for our industry as we aim to maintain and extend our technology leadership. We view innovation as the central driving force of our business. We operate research and development centres in Switzerland, Germany, France, Great Britain and India, and protect our technological developments with a broad patent portfolio.

Development work carried out by the Group is supported by close cooperation with our customers as well as leading technical universities and research institutes.
Professors Reimund Neugebauer (President of the Fraunhofer Society) and Christian Brecher (RWTH Aachen University), two university luminaries in machine tool engineering, are members of the Supervisory Board of Dörries Scharmann.

Methodical enhancement of efficiency
The Group provides a common framework for ensuring high quality standards and generates synergies throughout the value chain – from product R&D and sales through to service. This includes, for example, the development of standard modular kits from which each brand can then benefit as they pursue their specific product development activities.
Internally, this necessitates constant improvement of processes and procedures aimed at increasing productivity. This is the purpose of the Business Process Management solution, which simplifies and standardises processes wherever practical. Defined key processes are reviewed and improved at regular intervals. The most evenly balanced distribution of risks possible in terms of markets and regions, as well as a solid financing structure, are additional means of ensuring ongoing growth and innovation.

Profitable business activities, pursued with moderation

To secure its long-term existence, the Starrag Group is also striving for continued profitable growth. We aim to achieve a multi-year average EBIT margin of at least 8% across the economic cycle. In addition to potential share price gains, shareholders should also benefit from the Group's success through an attractive dividend payout of 35 % to 50 % of net income. Furthermore, we are the only machine tool manufacturer listed on the stock exchange that reported positive operating results and consistently paid a dividend during the latest recessions.

Outlook

While growth in recent years was primarily driven by acquisitions, over the next few years the Group plans to consistently utilise Group-wide synergy potential and prioritise organic growth, with the aim of achieving annual top-line growth of more than 5 % over the medium term. The share of sales generated with Asian customers is likely to approach the 50 % threshold in the coming years. The focus on organic growth does not preclude further acquisitions. However, these must always meet the basic prerequisites with respect to strategic fit, attractive market and product portfolios, and cultural fit.

We reiterate our basic strategy of playing a leading role in all three target markets.

Company milestones

- Establishment of the “Mechanische Werkstatt Henri Levy” in 1897 in Rorschacherberg, Switzerland, to manufacture automatic threading machines for the textile industry
- 1920: start of production for milling machines
- 1925: name changed to Starrfräsmaschinen AG
- Mid-1930s: start of production for copy milling machines for the turbine, aircraft, and mould and die manufacturing segments
- Post-war era: company reputation grows with the market launch of the world's first five-axis milling machine
- 1998: initial public offering and takeover of Heckert Werkzeugmaschinen GmbH in Chemnitz, Germany, by Starrfräsmaschinen AG, resulting in name change to StarragHeckert
- 2000: reorganisation and establishment of StarragHeckert Holding AG. Acquisition of Toolroom Technology Limited (TTL) and SIP (Société d'Instruments de Précision SA)
- January 2011: takeover of the Dörries Scharmann Group, including the brands Berthiez, Dörries, Droop+Rein and Scharmann, by StarragHeckert, resulting in brand concept update and name change to Starrag Group
- May 2012: acquisition of Bumotec SA (Fribourg, Switzerland).
- 2013: the company's first production plant in Asia goes into operation (Bangalore, India). It manufactures horizontal machining centres to meet the needs of emerging markets
- As of January 2015, reorganisation of Starrag Group sales operations in all three target markets: Aerospace & Energy, Transportation & Industrial Components, and Precision Engineering

Added-value has many facets

Starrag Group has many faces. But they have one thing in common. They are working everyday to create added value for the customer and to realise the claim "Engineering precisely what you value" by filling it with life.

Stefan Meier
Head Center of Production Excellence

Christian Conrad
Supervisor Sub Assembly

Elizaveta Rukovichnikova
Project Manager Service Department

Silvia Rehage
Mechanical Design

Sambur Song
Service Engineer

Bernhard Bringmann
Managing Director

Alexander Moro
Service Engineer

Vyacheslav Koshkarov
Sales Support

Loïc Saudan
Electrical engineer

Jagadish Agrahara Ramakrishna
Senior Manager Sales & PM

Marcel Leuch
Product Manager

Steve Tunget
Service Engineer

Bhuvaneshwari Sairam
Human Resource

Till Freudenberger
Mechanic

Apprentices
Training Center Rorschacherberg

Engineering precisely what you value.

The Starrag Group consistently focuses on the individual needs of customers in its eleven market segments.
The Group's top priority is to offer every customer precisely what they need and precisely what is important and valuable to them as they strive to achieve their strategic and operational goals.

This clear positioning is now consistently expressed for the first time across all levels of the organisation through a concise slogan.
"Engineering precisely what you value"
The new claim explains in a nutshell what sets the Starrag Group apart and, above all, differentiates it from other companies. Everything we do is aimed at offering the customer the best possible value, particularly in terms of profitability, safety and growth. The accompanying illustration clearly shows exactly what these three concepts mean to our customers.

Since our customers' concerns are also our concerns however, all of these aspects are at the heart of everything our employees do – be it in Research & Development, Product Management, Sales or Service. Our experts are constantly engaged in designing specific technical solutions, products and services which offer the greatest possible benefits to our customers. For we are only satisfied when our customers are satisfied.

Basic needs of customers

Profitability | **Safety** | **Growth**

Benefits provided by Starrag Group

Cost reduction
- Unit costs
- Energy costs
- Material expenses
- Servicing costs
- Reduce stock

Reliability
- Machine reliability
- Machine availability
- no downtime
- Spare part availability
- Reliable precision

Competitiveness
- Competitive advantage
- Future extensions
- Upgrading
- Secure investment

Productivity
- Increase in troughput
- Avoidance of downtime
- Time savings
- Shorter setup time
- Reduction of handling

Partnership
- Reduced development costs
- Increased process realibility
- Short reaction time
- Shorter development times

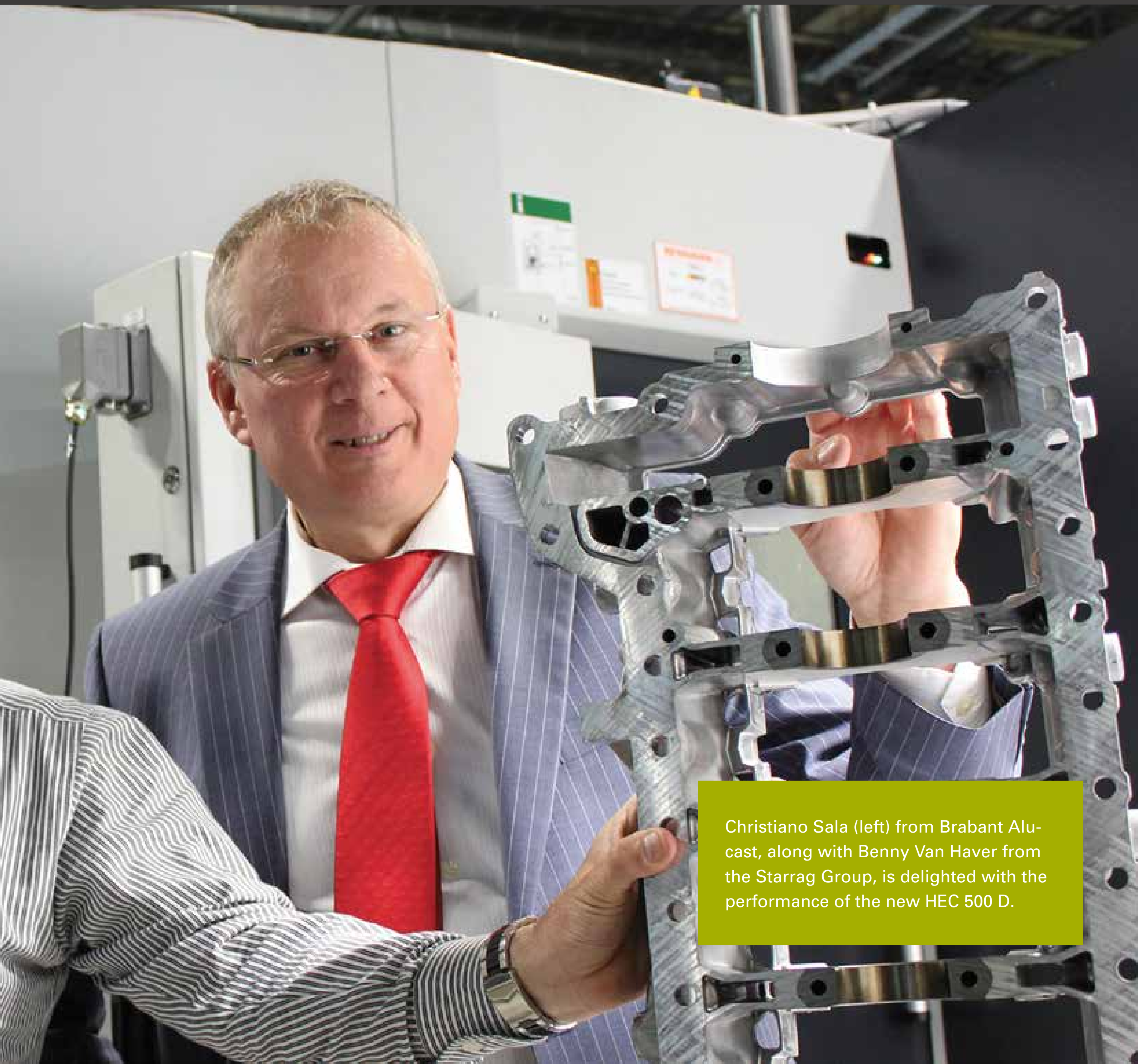
Development
- International growth
- Increase in market share
- New market segments

Value-added concept

Speed, precision and long-term process reliability

"The two new HEC 500 D machining centres have enabled a sustained increase in our profitability. Machining times are now 17.3 % faster. This allows us to handle production tasks without the need for an additional third machine. We are extremely satisfied with the results."

Solutions for Transportation & Industrial Components



Christiano Sala (left) from Brabant Alu-cast, along with Benny Van Haver from the Starrag Group, is delighted with the performance of the new HEC 500 D.

Much more productive

Brabant Alucast specialises in the design, development and production of high-pressure aluminium and magnesium die cast parts and is one of Europe's leading companies in this sector.
At its location in Oss, the Netherlands, around 300 Brabant Alucast employees focus on the machining of large parts made from various magnesium and aluminium alloys. The parts produced are mostly engine and gearbox components or structural components that are delivered pre-finished to BMW, GM/Opel, PSA, DAF, VW/Audi, Toyota, ZF and others.

As a development engineer, Christiano Sala is responsible for CNC machining in Oss. A business area that includes eight machines from Heckert: six CWK 500 D and, as of late, two new HEC 500 D.

Much faster than comparable machines
"We of course conducted extensive research into which machines would be best for this application in the long term before purchasing the two new HEC 500 D machines. After all, we are talking about quantities of 100,000 parts per year, probably over a period of several years."

"The new HEC 500 D was 20% faster than its previous CWK 500 D model and 17.3% faster than the Japanese machining centre, which is only two years younger."
Christian Sala, development engineer

A high level of process reliability is essential
The components produced using the new HEC 500 D generally run in automated three-shift operation for many years. A high level of process reliability is therefore essential. As they have a thermally stable structure, extensive control and monitoring devices, and a state-of-the-art service and diagnostic system, Heckert guarantees users long-term machining accuracy in tolerance class IT5.

The tool change process is made reliable by the chain magazine of the HEC 500 D being kept free of cooling lubricant and chips.

40%
higher overall productivity

20%
faster machining time

Future plans for the two HEC 500 D centres include automation involving articulated robots, similar to those installed in all CWK machines.

Starrag Group wins benchmarking process

Following an intensive benchmarking process and numerous trial machining runs, Pilatus Aircraft Ltd chose the ECOSPEED machining centre, one of the most successful machines used in the global aerospace industry.

Solutions for Aerospace & Energy

"Thanks to 50% faster machining times, the Starrag Group's technology enables us to produce cost-effectively, even in Switzerland."
Markus Bucher, CEO of Pilatus Aircraft Ltd

Successful take-off

The new PC-24 business jet is so exceptional that Swiss firm Pilatus Aircraft Ltd created a whole new aircraft category for it: the Super Versatile Jet. Pilatus used an intensive benchmarking process to search for an exceptionally productive and highly versatile manufacturing system to match the extremely versatile business jet, which is also able to take-off and land on unpaved runways.

"We ultimately opted for a flexible manufacturing system consisting of two interconnected ECOSPEED machining centres from the Starrag Group."

As the company's plant in Central Switzerland is already inundated with other orders, Pilatus invested in new automated manufacturing systems. Extremely fast and reliable machining of aluminium structural components plays a key role here.

ECOSPEED Duo – a highly automated, flexible manufacturing system

Pilatus has placed an order for two interconnected ECOSPEED F 2040 machining centres, which will start series production of aluminium structural components in autumn 2016. The machining centres are equipped with 16 pallets, two of which are directly in the machines and 14 of which are stored in pallet stations.

The highly automated production of a wide range of components is aided by an integrated production control computer which, in synergy with the pallet and set up stations, turns the duo into an automated, flexible manufacturing system.

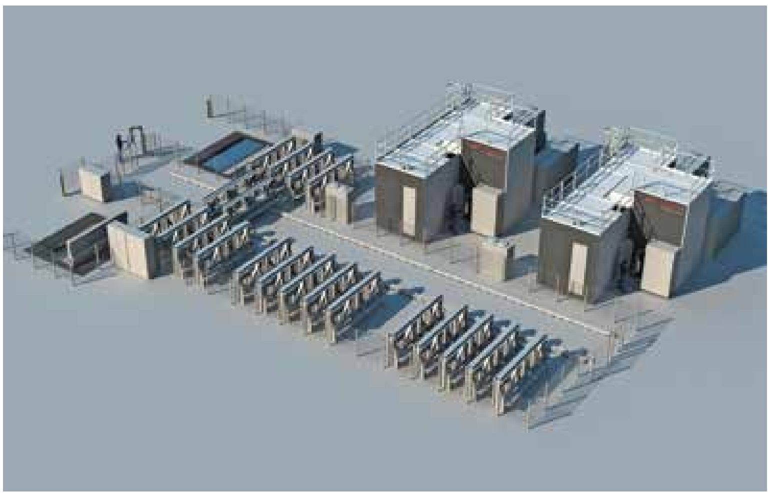
Fredy Glarner, Vice President Manufacturing at Pilatus Aircraft Ltd in Stans at the signing of the contract in September 2015 with Alfred Lilla, Head of Aero Structures at Starrag Group.

50%

faster machining time

95%

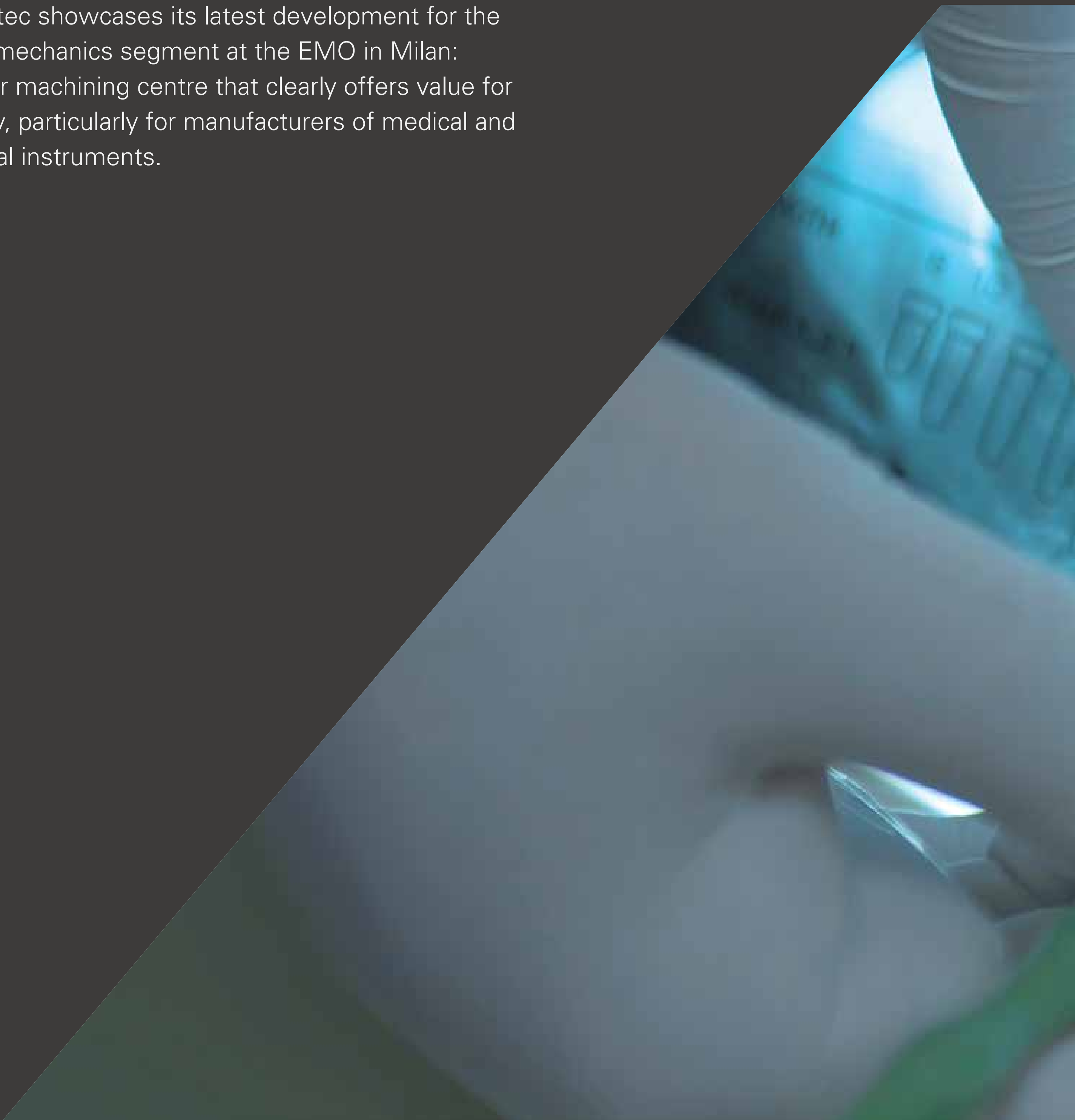
availability

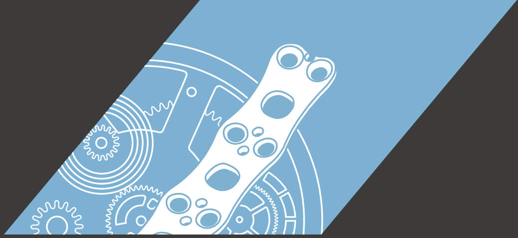


Twin production: Pilatus starts highly efficient series production of integral milled aluminium components for the Super Versatile Jet PC-24 on two interconnected ECOSPEED F 2040 (with 120 kW spindles).

More compact, productive and cost-effective.

Bumotec showcases its latest development for the Micromechanics segment at the EMO in Milan: a linear machining centre that clearly offers value for money, particularly for manufacturers of medical and surgical instruments.





Solutions for
Precision Eingineering

Increased productivity, and the possibility of tailoring the machining centre to individual customer needs, are the outstanding customer benefits offered by the new Bumotec s181.

Twice as efficient

The concept of the Bumotec s181 series clearly closes a gap in the Bumotec series. Based on years of success with the s191 Linear model, engineers developed a 5-axis turning and milling centre with a retraction unit for the complete machining of complex and high-precision workpieces.

The latest model is specially designed to machine very small components with a maximum diameter of 32 mm. The focus here is on workpieces from the Micromechanics segment, such as orthopaedic and dental implants as well as surgical instruments.

The new machine offers not only the advantage of a very good cost-benefit profile, but also the possibility of tailoring the centre to individual needs.

> "Thanks to the numerous options available, customers can configure their s181 in a way that corresponds exactly to their machining tasks. In keeping with the new slogan, the customers receive precisely what they need, no more and no less."
> Dr Patric Pham, Head R&D, Technique

The new machine has a very modular design and can include various other options. An example of one of the options that is already available is a second workstation, which will ideally double productivity.

100%

higher productivity thanks second workstation.

30%

smaller footprint with same efficiency and lower price.

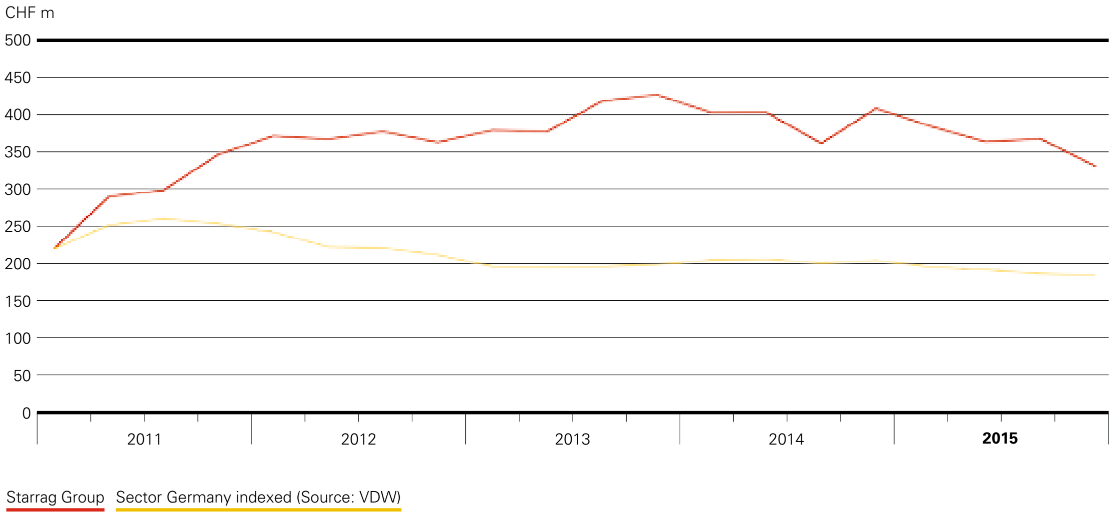
Retraction unit for the complete machining of complex and high-precision workpieces.

Management Report

A challenging financial year

For the Starrag Group, the 2015 financial year was marked by the cautious and increasingly volatile ordering behaviour of customers due to rising global economic and political uncertainty, and thus a reduced willingness to invest. As a result, sufficient capacity utilisation could not be guaranteed at all plants, which is also reflected in our profitability. The Starrag Group has therefore intensified its efforts in terms of strengthening its sales force, developing innovative products and reducing costs. The situation was further compounded by the Swiss National Bank's decision to float the Swiss franc in January.

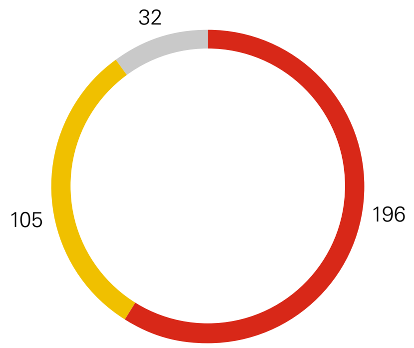
Order intake by sector



Shift of focus by industry

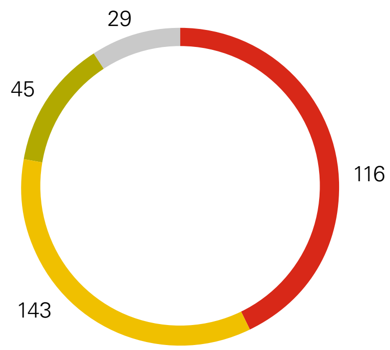
In terms of order intake by industry, orders fell sharply in the Aerospace segment, though after a strong previous year. Given the known investment plans of key customers, however, orders are expected to increase again in the foreseeable future. Although new orders in the Industrial segment were generally down slightly on the previous year, growth was reported in the classic industry segment, while the Luxury Goods segment – particularly the watchmaking industry – suffered year-on-year losses. Transportation also performed slightly weaker. In comparison, the Energy sector reported an increase in orders received, albeit from a still low level. This can be attributed primarily to the intensified sales activities in Asia. As in the previous year, with a joint total of around 80 %, the majority of incoming orders came from the Aerospace and Industrial segments.

Order intake by region



CHF m	2015		2014
Europe	196	59 %	232
Asia	105	31 %	133
America	32	10 %	42

Order intake by market segment



CHF m	2015		2014
Aerospace	116	35 %	166
Energy	29	9 %	16
Industrial	143	43 %	154
Transport	45	13%	71

A third of all new orders continue to come from Asia

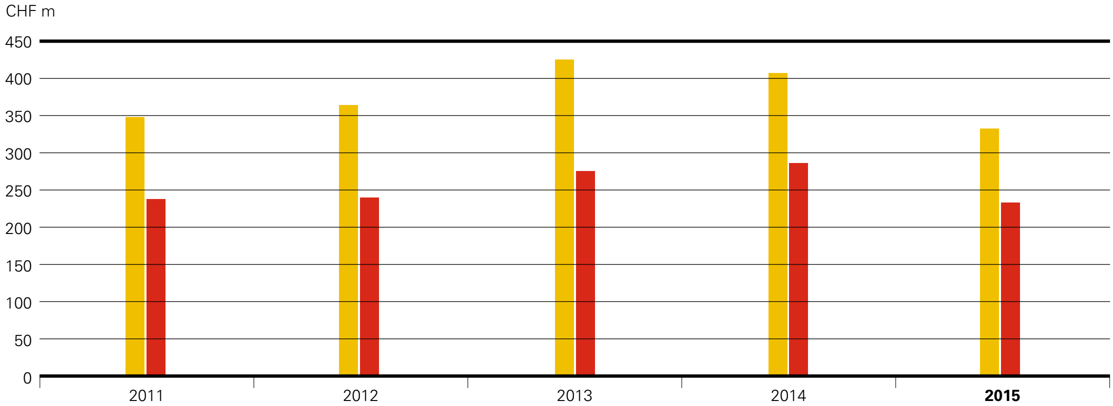
In terms of order intake by region, there were no significant shifts in structural terms compared to the previous year. The decline in orders received affected all three main markets, albeit to varying extents. North America and Asia were affected the most, although the decline in China could partially be offset by increasing orders from other Asian markets. As in the previous year, Asia contributed to almost a third (31 %) of new orders Group-wide. In comparison with the other two regions, Europe as a whole fared better.

At the end of the reporting year, the order backlog amounted to CHF 238 million, or 17 % less than at the end of 2014 (currency-adjusted –11 %), with basic capacity utilisation being ensured for around three quarterly periods. The book-to-bill ratio thus amounted to 0.92 (previous year 1.04).

Order intake: increasingly cautious and volatile ordering behaviour

In the 2015 financial year, the Starrag Group generated an order intake of CHF 333 million, or 18 % less than in the strong previous year. At constant exchange rates, incoming orders still declined at a rate of 11 %. In the fourth quarter, incoming orders of over CHF 100 million were achieved. Following an increase of 3 % in the previous year, the global machine tool industry recorded a smaller increase in incoming orders in 2015 (VDW currency-adjusted +1.8 %). At CHF 364 million, the Starrag Group's sales revenue was 7.5 % below the previous year's level; adjusted for currency effects it was able to be maintained at –0.1 %.

Trend of order intake and order backlog



Mio. CHF	2011	2012	2013	2014	**2015**
Order intake	348	364	425	407	333
Order backlog	238	239	275	288	238

Operating result affected by reduced capacity utilisation

At CHF 14.7 million, the operating result before interest and taxes (EBIT) fell below the previous year's figure of CHF 19.1 million. This resulted in an EBIT margin of 4 %. This decline was primarily due to the reduction in capacity utilisation as a result of cautious ordering behaviour in the first half-year. Despite the challenges on the currency front, net profit came in at CHF 9.5 million (previous year CHF 14.4 million), or 2.6 % of sales, thanks to consistent cost management.
In addition to the lower operating result, this was adversely affected by the revaluation of unhedged Euro positions (CHF 1.4 million), whereby the currency result was CHF 1.9 million weaker than in the previous year.

Financial position remains strong

A solid equity ratio of 55 % was maintained. The free cash flow declined to CHF –11.3 million (previous year CHF –7.2 million) due to the pre-financing of customer orders and the significantly higher level of capital expenditure (CHF 23 million). Net cash fell from CHF 2.4 million to CHF –15.9 million as a result of investments in the modernisation and capacity expansion of Bumotec as well as the slightly reduced level of financing for work in progress. In the year under review, the Starrag Group employed on average 1,573 (full-time) members of staff as well as 159 students and trainees.

Ongoing targeted innovations and investments

Innovation is a top priority for the Starrag Group and is reflected in accordingly high investment activity. The focus here is on new technologies, the development of new, and in some cases shared, components, automation solutions and cost savings with the aim of generating additional value for the customer. During the period under review, for example, the active networking of Starrag machine tools, both within production process chains and with the customers' own business management systems, was intensified under the term "Industry 4.0" (Smart Factory).

At CHF 22 million, investments in tangible fixed assets were up 53 % on the previous year, after having increased by 30 % in 2014. These marked increases can largely be attributed to investments in the new, state-of-the-art production plant for Bumotec in the Canton of Fribourg, whose construction is on schedule.

The Turbine Technology Days organised by the Starrag Group in June in Rorschach proved to be a resounding success and a global meeting point for turbine experts from the power generation, aviation and aerospace technology sectors. This confirmed the necessity for holistic processes in line with our Group strategy if we are to be able to assert ourselves on these markets. The event was followed by the Essentials for Excellence in Aerospace Manufacturing trade conference in Coventry in the UK (cf. page 15).

A particular highlight was the decision made by Pilatus Aircraft to choose the flexible ECOSPEED machining centre of our Group company Dörries Scharmann to manufacture its new PC-24 business jet. A fact that we are very proud of, even more so as the decision was made after an intensive global benchmarking process (cf. page 36).

As in previous years, the Starrag Group attended all relevant trade shows. At the CIMT (Chinese International Machine Tool Show), the premier trade show in China, held in Beijing in April, the innovations presented by the Starrag Group attracted considerable interest from visitors. Numerous discussions with customers indicated that China is increasingly seeking quality-driven growth with the aim of becoming more competitive in international markets. Achieving this goal will require high-end manufacturing equipment, which will create interesting opportunities for the Starrag Group in the years to come, despite the slightly lower rate of growth of this economy in the short term.

At the EMO, the leading European trade show held in early October in Milan, presentations by the Group company Bumotec included a world first for the medical technology industry. The modular s181 machining centre is designed for the complete machining of small, complex and high-precision workpieces for prostheses and surgical instruments. Compared to earlier solutions, this novel machine is even more compact and cost-effective and offers superior performance, resulting in significant productivity gains.
Just in time for Metalloobrabotka, Russia's most important mechanical engineering exhibition in May in Moscow, the first edition of our new customer magazine Starrag Star (cf. page 14) was released.

Risk management

Please refer to page 60 for our holistic risk management process.

Limited currency effects

In the wake of the flotation of the Swiss franc in January 2015, the Starrag Group has further reduced its dependency on this currency. Compared with the Swiss industry as a whole, our exposure to currency fluctuations is already less than average. Currently, 72 % of our sales revenue comes from foreign locations; materials are sourced in the eurozone whenever possible. Nevertheless, the percentage of total expenses incurred in Swiss francs in 2015 amounted to 25 % and thus, as a result of the strong Swiss franc, was slightly above the previous year's level (24 %).
In the first quarter of 2015, therefore, the Starrag Group implemented a comprehensive range of measures designed to ensure the competitiveness of the Swiss plants and offset the effects of the Swiss franc flotation with further productivity gains. Amongst others, the measures included renegotiating procurement contracts, freezing recruitment, extended working hours and even stricter cost management.

Limited visibility for 2016

While the volatile environment was already rendering forecasts more difficult a year ago, this is especially true for 2016, as global economic and geopolitical uncertainty has intensified, with corresponding effects on the investment activity in the various market segments. The flotation of the Swiss franc in January 2015 will continue to have an effect this year, too. From a regional perspective, we anticipate continued subdued market development in Europe based on the current economic outlook.

The current economic forecast for North America indicates an upturn in business, while the outlook for Asia varies from market to market. While, for example, China is expected to remain a tough market in the short term due to the slowdown in growth, we are optimistic about various other markets in South-East Asia.

In terms of order intake by industry, we continue to expect incoming orders in the Aerospace segment to increase in the foreseeable future due to the known investment plans of the relevant key customers. In the Industrial segment, the signs vary according to segment. While the outlook for classic industry users is quite positive, it is likely to remain difficult in the Luxury Goods segment – in particular in the watchmaking industry. A distinction should also be made between the various segments in the Transportation market. In the Energy sector, the positive picture depicted over the course of 2015 is expected to continue, particularly in Asia.

Ultimately, the Starrag Group expects order intake in local currencies to exceed the previous year's level. This is provided, however, that the investment activities of our customers compared to today are not hampered by a deterioration in the global economic and political environment. Sales revenue in local currencies is expected to remain at around the same level as in 2015. In terms of the operating margin, we are aiming to achieve a value of at least the level recorded in the previous year. Since no further revaluations of unhedged Euro positions are set for 2016, net profit is expected to exceed the previous year's figure.

More consistent exploitation of Group-wide potential

Over the last few years, the Group has consistently optimised its processes and invested heavily in state-of-the-art production technology. This has led to improvements in efficiency and productivity. The flexible production system at nine locations, supported by the new Group-wide IT infrastructure, is at the cutting edge of technology. The reorganisation of operating structures by strategic market segment introduced at the beginning of 2015 is proceeding according to plan. The aim here is to increase growth and profitability by reducing organisational complexity and making greater use of synergy potential, in order to be able to respond more consistently and above all rapidly to specific customer groups and requirements.

This is also demonstrated by our new customer promise: "Engineering precisely what you value" (cf. page 28). In the first half of 2015, an extensive range of measures designed to strengthen marketing and sales power in the newly defined market segments and to create an extensive and well-rounded product portfolio was initiated. In view of the increasingly difficult environment, efforts to implement these measures were intensified over the course of the year under review. Furthermore, numerous standalone measures have been implemented in terms of costs to enhance profitability and bring the company closer to its medium-term margin goals.

With regard to the constant new developments and advancements in products and services, we believe that we are in a strong position to face future competition. The potential for long-term profitable growth is promising, which is why we are sticking to our medium-term growth and earnings targets. In terms of the average over several years and across economic cycles, this means an increase in revenue of over 5 % and an operating margin of at least 8 %.

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, the employee representatives 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 customer magazine "starr", which is distributed worldwide twice a year to all employees, provides more in-depth information from the various locations and markets. Active communication is also supported by means of periodical newsletters for the various operating sites that provide information on recent orders, major R&D projects, personnel issues and topics of cultural interest. The high level of employee satisfaction, results in an attrition rate over the years well below the industrial average.

We place special emphasis on maintaining our employees' skills and expertise. In the scope of annual formal employee performance review and target agreements, additional training and skills development needs are established. The courses provided by our Starrag Training Center are particularly valuable in supporting our management-level employees in the planning and realisation of professional development measures for their staff. In recent years, the Center has bundled numerous training and skills development options and made them available in the form of a professional development catalogue. Courses offered include not only technical training such as control technology and maintenance courses for our processing centres, but also language and software education.
We continued our efforts to establish a uniform understanding of management's role this fiscal year through the Group-wide training program for all management-level employees: the "Starrag Leadership Academy". In small groups involving employees from different locations and functions, our managers experienced a constructive analysis of various aspects of management and were able to exchange their experiences. Active Executive Board support of the management program significantly strengthened Group and hierarchy-spanning cooperation among all management-level employees and helped integrate new management-level employees in the Academy.

In the reporting year, we also focused on enhancing the training of the skilled workers. In doing so, we concentrated on the active construction of succession planning for retiring skilled workers and the further improvement of internal professional training.

Our in-house vocational training programme plays a key role in acquiring skilled specialised employee. As in past years, approximately 160 apprentices and students are enrolled in our programme, which encompasses more than 10 professions. All of our production locations feature modern vocational training centres in which our apprentices receive an educational foundation. In the reporting year, we made targeted investments in production learning machines for the training centres and further expanded innovative course content. Where possible, apprentices and students with good vocational training results are hired upon completion of the programme.

In the framework of systematic health management, safety in the workplace and the health of our employees have the utmost priority. Our objective is to continuously improve the working environment, beyond what is required by occupational safety and health legislation. At the production locations, we compile relevant health and safety indicator statistics on a monthly basis and derive location-specific measures based on analyses of the data. Accident figures remained at low levels also in 2015; no serious incidents involving employees were recorded. The numerous measures implemented in previous years in the areas of safety in the workplace, health management and working atmosphere were systematically continued in 2015 and incrementally extended to additional locations. Our company sporting events such as the annual skiing day, bike-to-work event and company fun run were immensely popular.

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. The machine illumination is still based on energy-efficient LED lights. 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 costsavings 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 doublefigure percentage numbers.

Continuous improvement of environmental performance

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. Thanks to the different refurbishments and in spite of the less mild winter the energy consumption at our production locations has increased in 2015, currency adjusted, only by 2 % to 0.61 GJ per CHF 1’000 net value addition.

An ISO 50001 certified energy management system was introduced at the manufacturing sites in Bielefeld, Chemnitz and Mönchengladbach during the year under review. The associated systems and processes will improve Starrag Group's energy efficiency by identifying and leveraging untapped energy efficiency potential, lowering energy costs, reducing the emission of greenhouse gases (e.g. CO_2 emissions) as well as the impact of other environmental factors.

Specific measures taken in fiscal 2015 to improve energy efficiency were the installation of insulation panels to the exterior walls and roof of a production facility in Mönchengladbach and the gradual replacement of the lighting systems at several sites with modern, energy-efficient LED lighting technology offering intelligent control and consumption measurement systems. This resulted in significant energy savings and, thanks to the more stable, uniform workplace illumination at the production sites, it also led to a qualitative improvement in the work environment.

Approximately 100 MWh of electricity was produced and fed into the power distribution system by the photovoltaic system that was installed at the Rorschacherberg site in 2013, which has a surface area of about 750 m^2. The in-house paint shop uses environmentally compatible water-based coatings instead of solvent-based coatings wherever possible. Materials and waste such as oil, grease and shavings are systematically recycled and reused. Waste treatment plants for metalworking lubricants ensure that these are properly disposed of or recycled.

Corporate Governance

Group structure and shareholders

Management organisation

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

CEO
Walter Börsch

Aerospace & Energy	Transportation & Industrial Components	Precision Engineering
Dr. Norbert Hennes	Dr. Eberhard Schoppe	Jean-Daniel Isoz
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 › Dörries › Droop+Rein › Scharmann › Starrag › TTL	**Brands:** › Heckert › WMW	**Brands:** › Bumotec › SIP

Customer Service
Günther Eller

Regional Sales
Walter Börsch

CFO / Corporate Center
Gerold Brütsch

Participation structure

- **Starrag Group Holding AG**, Rorschacherberg / CH
  - **Starrag AG**, Rorschacherberg / CH
  - **Starrag Group Holding GmbH**, Chemnitz / DE
    - **Heckert GmbH**, Chemnitz / DE
    - **Dörries Scharmann Technologie GmbH**, Mönchengladbach / DE
      - **Berthiez SAS**, Saint Etienne / FR
      - **Dörries Scharmann 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 Italia Srl**, Rivoli / IT
  - **Starrag Mexico, S. de R.L. de C.V.**, San Pedro Garza García / MX

Details of share capital and the equity interest held are given in the consolidated financial statements on page 115 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 2015 was CHF 154.6 million.

Shareholders

There were 890 shareholders registered in the company's share register on 31 December 2015. Distribution by number of shares held was as follows:

More than 100'000 shares	3 shareholders
10'001 to 100'000 shares	16 shareholders
1'001 to 10'000 shares	73 shareholders
1 to 1'000 shares	798 shareholders

290’712 shares or 8.7 % were not registered in the share register on 31 December 2015.

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

- Walter Fust, Freienbach, Switzerland 1'807’558 shares, 53.80 %
- Eduard Stürm AG, Goldach, Switzerland 311'079 shares, 9.26 %
- Max Rössler, Hergiswil / Parmino Holding AG, Goldach, Switzerland, 262’204 shares, 7.80 %

The following notifications were made during the 2015 financial year in accordance with Art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading:

- 19.06.2015: Swisscanto Fondsleitung AG, Zurich, Switzerland, 3.7 %
- 02.12.2015: Swisscanto Fondsleitung AG, Zurich, Switzerland, < 3 %

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, Hergiswil / Parmino Holding AG, 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 abou the respective disclosure notifications is published on the website of the Disclosure Office of the SIX Swiss Exchange https://www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html

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 rightsand 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

Daniel Frutig (1962, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since 2014 and its Chairman since April 2015.

He is CEO of the international medical group Medela Holding AG, based in Zug/Switzerland, and a member of the Board of Directors of Eugster/Frismag AG, Amriswil/Switzerland. 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 London, UK. From 2003 to 2005, Daniel Frutig was CEO of Swisscom Real Estate Inc., from 1998 to 2003 he served as Associate Partner for the consultancy firm Accenture, ultimately as Global Head of Services & Technology. Before that, Daniel Frutig worked at Sulzer AG, where he began his professional career in 1987. Daniel Frutig graduated from the Lucerne University of Applied Sciences in 1987 with an engineering degree in heating, ventilation and air conditioning systems. 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.

From left to right: Walter Fust, Prof. Dr. Christian Belz, Daniel Frutig, Adrian Stürm, Prof. Dr. Frank Brinken

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. Prior to that 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 Tornos Holding AG in Moutier, Switzerland since April 2011 and of Fastems OY AB, Tampere, Finland since 2015. 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.

Walter Fust (1941, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since 1988 (Chairman from 1992 until April 2015).

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 subsequently acquired by Jelmoli Holding AG 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. Mr. Walter Fust holds a degree in engineering from the Swiss Federal Institute of Technology in Zurich (ETHZ). He has never held an executive position in Starrag Group and he does not have any significant business relationships with the Group.

Adrian Stürm (1970, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since 2008.

He previously worked in Controlling and Risk Management at UBS AG since 2001. Prior to that he was an auditor with KPMG Zurich from 1997 to 2000. He is a member of the Board of Directors of the family-owned company Eduard Stürm AG (Holding) and its subsidiaries Holz Stürm AG and Eduard Stürm Immobilien AG, which are all based in Goldach, Switzerland. Mr. Adrian Stürm holds a degree in economics from the University of St. Gallen (lic. oec. HSG). He has never held an executive management position with Starrag Group and he does not have any significant business relationships with the Group.

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 2015 financial year the Board of Directors held nine meetings and the average duration was 4.5 hours.

The duties and powers of the Compensation Committee are presented in the Compensation Report (page 70). The Board of Directors has not established any other committees. At our mid-sized 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.

In addition, the Chairman of the Board of Directors discusses current developments with the CEO on a regular basis. Walter Fust and Adrian Stürm also exercise further control functions as members of the Supervisory Board of Dörries Scharmann Technologie GmbH and Walter Fust and Prof. Dr. Frank Brinken as members of the Board of Directors of Bumotec SA.

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 89.

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, Gerold Brütsch, Walter Börsch, Dr. Norbert Hennes, Günther Eller, Dr. Eberhard Schoppe

Walter Börsch (1959, German) has been CEO of Starrag Group and Head of Regional Sales since 2014.

He previously served as Head of the former Business Unit 1 from January 2012 to the end of 2013 with responsibility for the Starrag brand in Rorschacherberg (Switzerland) and as well as for the TTL subsidiary in Haddenham (UK). Prior to that he held the position of Head of Operations at Starrag Group since 2007 and from 2005 to 2007 Mr. Walter Börsch was Head of Sales and Engineering at an internationally active machine tool manufacturer. From 2000 to 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 a marketing program at the University of St. Gallen.

Gerold Brütsch (1966, Swiss) has been Chief Financial Officer (CFO) of Starrag Group since 2000 and since 2005 Deputy CEO and Head of Corporate Center.

Mr. Brütsch previously served as Chief Financial Officer of an international machine manufacturing company and as an auditor with KPMG in Zurich and San Francisco.

Gerold Brütsch is a graduate of the University of Applied Sciences in St. Gallen and earned his degree in business administration in 1990. He is a Swiss Certified Accountant and U.S. Certified Public Accountant.

Günther Eller (1960, German) has been Head of Customer Service at Starrag Group since 2007.

He previously held various management positions at OC Oerlikon in sales and customer service 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 served as Managing Director of a sales and service subsidiary for OC Oerlikon's machine business from 1995 to 2001 and prior to that held various sales and key account management positions.

Günther Eller has a degree in engineering physics.

Dr. Norbert Hennes (1964, German) has been Head of the Aerospace & Energy Business Unit since 1 January 2015, 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.

He had previously managed the former Business Unit 3 in Mönchengladbach with the brands Berthiez, Dörries, Droop+Rein, and Scharmann since January 2011. In 2002 he was appointed head of engineering at Dörries Scharmann, from 2005 on with responsibility for production and sales, and in 2006 he assumed the position of CEO of Dörries Scharmann. From 1999 to 2002 he held various management positions with Dörries Scharmann in development and construction. Dr. Norbert Hennes has been a member of the Board of Directors of Jagenberg AG in Krefeld (Germany) since May 2014.

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

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

Before he was responsible for the former Business Unit 4 with the brand Bumotec in Sâles (Switzerland) and SIP in Geneva (Switzerland). Prior to that, he had served as Managing Director of SIP Société d'Instruments de Précision SA since 2006. After first working as sales manager for SIP from 2000 - 2002, he took over as CEO of Bula Machines until end 2005. Previously, he had acquired 15 years of experience in various management positions in production and customer services for Bobst SA in Lausanne, USA and Asia.

Mr. Isoz holds a degree in electrical engineering and has completed Finance and Marketing programs at INSEAD in Fontainebleau, France.

Dr. Eberhard Schoppe (1955, German) has been Head of Transportation & Industrial Components Business Unit since 1 January 2015, with responsibility for the brands Heckert and WMW covering the market segments Heavy Duty Vehicles & Engines, On-Road Vehicles and Industrial Components.

He was previously responsible for the former Business Unit 2 in Chemnitz (Germany) with the brand Heckert, where he had been on the local executive management board as Head of Engineering and Production since 1999. From 1994 to 1999 he was responsible for production planning and export sales. Prior to that, he was head of engineering and member of the management board at an internationally active machine tool manufacturer (Fa. Saupe & Sohn GmbH, formerly Präzisionsdrehmaschinen Limbach-Oberfrohna).

Dr. Eberhard Schoppe has a degree in mechanical engineering from the Chemnitz University of Technology.

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 71 to 75) and information regarding participation can be found in note 20 of the consolidated financial statements (page 116).

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 2016. 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 2015 financial year and charged to the consolidated financial statements for 2015 amounted to TCHF 268.

Additional fees

Additional non-audit fees paid to PricewaterhouseCoopers AG and charged to the consolidated financial statements for 2016 amounted to TCHF 4. 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 web-site (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:

- **23.04.2016**
  Annual General Meeting in Rorschach

- **27.07.2016**
  Letter to shareholders on 1H 2016 results

- **26.01.2017**
  Initial information on full-year 2016 results

- **10.03.2017**
  Presentation of 2016 results for analysts and the media in Zurich

- **28.04.2017**
  Annual General Meeting in Rorschach

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

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

Contacts:

Walter Börsch, CEO
P +41 71 858 81 11

Gerold Brütsch, CFO
P +41 71 858 81 11
investor@starrag.com

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. The report was prepared in accordance with the Ordinance against Excessive Compensation with respect to Listed Stock Corporations (OaEC). 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.

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-transferablepower 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 has performed its statutory tasks in financial year 2015 in three meetings.

The Board of Directors and the Compensation Committee can engage external experts on compensation issues to obtain neutral advice and/or data as a basis for comparison of compensation levels. During the year under review the Compensation Committee contracted with Kienbaum, a consulting agency, to produce a report comparing the compensation of the Executive Board with market rates. The comparison group created by Kienbaum consisted of companies roughly equal in size and operating in similar fields as Starrag AG.

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 corresponding 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	**2015**					2014				
	Fixed	Variabel	Options	Pension and other	**Total**	Fixed	Variabel	Options	Pension and other	**Total**
Prof. Dr. Christian Belz	50	13	–	5	68	50	27	–	5	82
Prof. Dr. Frank Brinken, Vizepräsident (from 12 April 2014)	84	13	–	7	104	87	19	–	6	112
Dr. Hanspeter Geiser (until 12. April 2014)			n/a			14	–	–	1	15
Daniel Frutig (Präsident from 12 April 2014)	70	13	–	7	90	33	19	–	4	56
Walter Fust	87	13	–	5	105	129	27	–	6	162
Adrian Stürm	62	13	–	5	80	64	27	–	5	96
Total Board of Directors	**353**	**65**	–	**29**	**447**	**377**	**119**	–	**27**	**523**
Variable as percentage of total compensation		16%					24%			
Total Executive Board	**1'899**	**590**	**–**	**308**	**2'797**	**2'385**	**545**	**–**	**379**	**3'309**
Variable as percentage of total compensation		24%					19%			
Thereof:										
‣ Walter Börsch	368	236	–	96	700	368	133	–	88	589
Variable as percentage of total compensation		39%					27%			

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.

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 contribution

In the year under review, short-term compensation paid to non-executive members of the Board of Directors amounted to TCHF 447 (previous year TCHF 523). Short-term compensation to the Executive Board amounted to TCHF 2'797 (previous year TCHF 3'309). 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. The Compensation of members of the Board of Directors was lower in 2015 because both variable compensation and additional compensation for special tasks were lower.

The fixed salaries of the Executive Board were lower in 2015 because the posisiton of CEO was temporarily doubly manned (4 months). In addition, the Executive Board was reduced by one person as of 1 January 2015.

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

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

We have audited the remuneration report of Starrag Group Holding AG for the year ended 31 December 2015. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the table on page 74 of the remuneration report.

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 accompanying 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.

PricewaterhouseCoopers AG, Vadianstrasse 25a/Neumarkt 5, Postfach, CH-9001 St. Gallen, Switzerland
Telefon: +41 58 792 72 00, Telefax: +41 58 792 72 10, www.pwc.ch

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Opinion

In our opinion, the remuneration report of Starrag Group Holding AG for the year ended 31 December 2015 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Beat Inauen	Oliver Illa
Audit expert Auditor in charge	Audit expert

St. Gallen, 3 March 2016

Financial Report

Financial commentary

Sales steady at constant exchange rates and solid order backlog

- Sales CHF 364 million, in local currency -0.1 %
- Order intake -18 % to CHF 333 million, in local currency -11 %
- EBIT -23 % to CHF 15 million, operating margin 4.0 %
- Net profit -35 % to CHF 9.5 million, profit per share CHF 2.78
- Solid balance with 55 % equity ratio, return on equity 4.9 %
- Dividend payout of 1.20 CHF per share, dividend payout ratio 43 %

CHF m	**2015**	2014	Change
Order intake	333.4	407.3	-18.2%
Sales revenue	363.7	393.2	-7.5%
Operating profit EBIT	14.7	19.1	-23.4%
Net income	9.5	14.4	-33.9%
Earnings per share (in CHF)	2.78	4.26	-34.7%
EBIT as percentage of sales revenue	4.0%	4.9%	n/a
Net income as percentage of sales revenue	2.6%	3.7%	n/a
Return on equity (ROE)	4.9%	7.5%	n/a
Cash flow from operating activities	11.0	7.3	n/a
Capital expenditure in fixed assets	22.3	14.6	52.7%
Free cash flow	-11.3	-7.2	n/a
Profit distribution per share (in CHF) [1]	1.20 [2]	1.80	-33.3 %

CHF m	**31.12.2015**	31.12.2014	Change
Order backlog	237.8	287.6	-17.3%
Total assets	341.5	356.3	-4.1%
Net cash	-15.9	2.4	n/a
Shareholders equity	186.1	195.9	-5.0%
Equity ratio	54.5%	55.0%	n/a
Employees at year end	1'573	1'622	-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.

Starrag Group's net income for the 2015 financial year amounted to CHF 9.5 million. This is 34% less than in the previous year primarily because of a lower rate of capacity utilization and the revaluation of unhedged Euro positions. The EBIT margin amounted to 4.0% of sales. Orders intake totalled CHF 333 million, which at constant exchange rates is 11% below the level from the particularly strong previous year. The Board of Directors will propose a dividend of CHF 1.20 per share in the form of a withholding tax-free distribution of reserves from capital contributions at the General Meeting on April 23, 2016. This corresponds to a payout ratio of 43% of net income.

Order intake less than in strong prior year

Orders received in 2015 declined by 18 % to CHF 333 million. At constant exchange rates, order intake was 11 % below the figure reported in the strong previous year. This compares with a slight 3.2 % increase in new orders (at constant exchange rates) reported by members of the VDW, Germany's national machine tool industry association. Order backlog on December 31, 2015 amounted to CHF 238 million, 17 % or CHF 50 million less than a year earlier (-11 % at constant exchange rates). This backlog ensures an adequate rate of utilization for approximately three quarters. The resulting book-to-bill ratio (order intake divided by sales) was 0.92 (1.04 in the previous year).

Sales steady in local currency

Starrag Group generated sales of CHF 364 million in 2015. This corresponds to an incremental decline of 0.1 % in local currency. Currency translation effects reduced reported sales in Swiss francs by 7.5 % compared to the figure of CHF 393 million from the previous year.
Gross profit (sales minus cost of materials plus/minus changes in internally manufactured inventory) amounted to CHF 212 million, a decline of CHF 19 million from the previous year due to the lower rate of capacity utilization and the strong Swiss franc. At 58.2 %, the gross profit margin was 0.6 percentage points below the better-than-average margin of 58.8 % achieved in the previous year, yet compares well with the margin of 57.6 % reported for 2012.

The gross margin was positively impacted by cost-savings and synergies, a higher average percentage of completion of work in progress, and higher margins arising from a change in the product mix. Negative effects stemmed from the reduced stock of products manufactured during the previous year (change in internally manufactured inventory) and higher costs for certain materials.

Operating profit diminished by lower capacity utilization

Earnings before interest, taxes, depreciation and amortization (EBITDA) declined by CHF 6.1 million to CHF 27.1 million primarily due to lower capacity utilization as a result of the lower order intake. Operating profit (EBIT) declined by CHF 4.5 million to CHF 14.7 million. The corresponding EBIT margin was 4.0 %.
Personnel expenses amounted to CHF 132 million, a decline of 8.3 % from the previous year (-1.3 % at constant exchange rates). This reduction in costs is attributed to a reduction in capacity, which more than offset the overall 1.5% increase in unit labour costs mainly in Germany and the emerging markets (which could not be passed on to customers). Personnel expenses as a percentage of sales declined from 36.5 % to 36.2 %.
Other operating expenses amounted to CHF 54 million, which was 4.6 % less than in the previous year. At constant exchange rates, other operating expenses were 2.9 % higher y-o-y due to an increase in order-related expenditure. Indirect operating expenses were reduced as targeted by approximately 6.5 % at constant exchange rates. Overall other operating expenses were slightly higher at 14.9 % of sales compared to 14.5 % in the previous year. Depreciation and amortization declined to CHF 12.4 million as a result of the selective investment activity.

High R&D investments

Investment in new product developments remained at a high level. During the year under review CHF 26.3 million or 7.2 % of sales was spent on developing innovative products and processes as well as on customer-specific upgrades and modifications. After consideration of government grants and the capitalization and amortization of R&D projects, a net amount of CHF 26.7 million (7.3 % of sales) was charged to the income statement (net CHF 30.8 million or 7.8 % of sales in the previous year) for research and development.

Decline in net income and earnings per share

Net income receded from CHF 14.4 million to CHF 9.5 million given the declines in operating profit and the net financial result. Earnings per share were likewise lower at CHF 2.78.

The net financial result was adversely affected by the revaluation of unhedged positions in euro in the net amount of CHF 1.4 million, leading to a CHF 1.9 million decline in the net currency result compared to the previous year. Tax expenses amounted to CHF 2.4 million compared to CHF 3.8 million in the previous year. This led to a slight decline in the tax rate from 20.7 % to 19.9 % or 0.8 percentage points, which is attributed to the greater contribution to profits from countries with a lower tax burden compared to the previous year.

Balance sheet still sound

Total assets as of December 31, 2015 amounted to CHF 342 million, substantially below the figure from the previous year (CHF 356 million); at constant exchange rates, total assets increased by 1.9 % due to the high level of investment in fixed assets.

Current assets declined to CHF 206 million (previous year: CHF 223 million). There was a slight CHF 1.9 million decline in cash and cash equivalents. Accounts receivable declined by CHF 6.9 million and inventories by CHF 6.3 million, in both cases primarily because of exchange rate movements. Trade receivables by due date continue to show a healthy structure.

Fixed assets increased slightly by CHF 1.9 million to CHF 136 million. Investments in fixed assets amounted to CHF 22 million and were only partially offset in the current year by depreciation and amortization of CHF 12 million (previous year: CHF 14 million) as well as negative currency translation effects of CHF 8 million.

Liabilities declined from CHF 160 million to CHF 155 million. Besides currency-induced decreases, the most significant change was the increase in current liabilities, which rose by a total of CHF 17 million in connection with the financing of increased capital expenditure and orders in progress. Liabilities include pension benefit obligations of CHF 6.4 million, which had to be increased in accordance with the International Financial Reporting Standards (IFRS), although these obligations were re-insured in full by a first-class Swiss insurance company on the balance sheet date.

Equity declined by CHF 10 million to CHF 186 million. Net income for the year of CHF 9.5 million was more than offset by the dividend distribution of CHF 6 million and currency translation differences in the amount of CHF 12.3 million from the consolidation of Group subsidiaries. The revaluation of pension liabilities also reduced equity by CHF 1.7 million. The capital structure of Starrag Group remains solid and its equity ratio was stable at 55 % for the year under review (previous year: 55 %).

Free cash flow diminished by prefinancing of orders

Cash flow from operating activities increased from CHF 7.3 million to CHF 11.0 million. Operating cash flow was diminished by a slightly lower level of funding for work in progress and an increase in trade receivables for orders that were completed before year-end.

Cash flow for investment activities rose to CHF 22.3 million (previous year CHF 14.6 million), which reflects the capacity expansion project at Bumotec, for which construction started in September 2014.

Free cash flow amounted to CHF -11.3 million compared to CHF -7.2 million in the previous year due to the higher investment expenditure. Investments in fixed assets includes CHF 17 million for investment in land and property for the new building at Bumotec and the energy-efficient renovation of existing factory buildings. An additional CHF 4 million was invested in the expansion and modernization of machinery and production equipment at the manufacturing plants and in the development of new technologies and products and CHF 1 million was spent on IT systems, including further integration of Starrag Group's global IT network and the further expansion of IT services to support business processes even better. A total of CHF 15 million was invested in expansion-related projects while CHF 7 was classified as replacement expenditure.

Cash flow from financing activities amounted to CHF 10.2 million, which mainly consisted of the CHF 16.9 million increase in current financial liabilities and the withholding tax-free dividend payment of CHF 6.1 million paid out in April 2015. This corresponds to a payout ratio of 42 % of net income for 2014.

De-pegging of Swiss franc

The effect of the abandonment of the Swiss franc peg in January 2015 on the consolidated financial statements for last year was primarily by currency translation effects. Due to the lower average EUR/CHF exchange rate of 1.0822 (previous year: 1.2274) and lower year-end rate of 1.0916 (previous year: 1.2146), the currency translation effect was significant compared to the previous year. Attention is drawn to this effect in this financial commentary by including information on rates of change at constant exchange rates.

The impact of the currency transaction risk was limited to the restatement of unhedged balance sheet items denominated in euros, which resulted in a negative net currency result of CHF -1.4 million. Starrag Group's exposure to exchange-rate movements is less than average compared to other Swiss manufacturing companies. Currently 72 % of sales originate from Group sites outside of Switzerland; raw materials are sourced in the Eurozone whenever possible. Nevertheless, the percentage of operating costs incurred in Swiss francs in 2015 amounted to 25 % of total operating costs, which was slightly higher than in the previous year (24 %) as a result of the Swiss franc's appreciation.

Starrag Group implemented a vast range of measures designed to offset the effects of the de-pegging with further productivity gains, thereby reducing the economic currency risk and maintaining the competitiveness of the Swiss sites.

Consolidated income statement

CHF 1'000		2015	2014
Sales revenue	1,2,3	363'728	393'168
Change in self-manufactured products		-4'023	3'326
Material expenses		-147'949	-165'321
Personnel expenses	4	-131'583	-143'429
Operating expenses	5	-54'357	-56'973
Other operating income	6	1'239	2'398
Earnings before interest, taxes, depreciation and amortization EBITDA		**27'055**	33'169
Depreciation and amortization	1,7	-12'395	-14'022
Earnings before interest and taxes EBIT		**14'660**	19'147
Financial income	8	241	1'535
Financial expenses	8	-3'000	-2'476
Earnings before tax		**11'901**	18'206
Income tax expenses	22	-2'368	-3'773
Net income		**9'533**	14'433
Thereof:			
‣ Shareholders of company		9'352	14'320
‣ Minority shareholders		181	113
Earnings per share (in CHF)	9	2.78	4.26
Diluted earnings per share (in CHF)	9	2.78	4.26

Consolidated statement of comprehensive income

CHF 1'000	2015	2014
Net income	**9'533**	14'433
Remeasurement pension benefits	-2'085	-3'958
Income taxes on remeasurement pension benefits	361	699
Items not recyclable to the income statement	-1'724	-3'259
Cash flow hedges	1'226	-2'910
Income taxes on Cash flow hedges	-377	870
Currency translation	-12'314	-439
Items recyclable to the income statement	-11'465	-2'479
Other comprehensive income	**-13'189**	-5'738
Total comprehensive income	**-3'656**	8'695
Thereof:		
‣ Shareholders of company	-3'788	8'522
‣ Minority shareholders	132	173

The enclosed notes are part of the consolidated financial statements.

Consolidated balance sheet

CHF 1'000		31.12.2015	31.12.2014
Cash and cash equivalents		9'427	11'306
Receivables	10	104'339	111'262
Other financial assets	11	7'681	9'176
Inventories	12	84'525	90'816
Total current assets		**205'972**	222'560
Tangible fixed assets	13	94'315	86'050
Intangible assets	14	41'257	47'665
Total fixed assets	15	**135'572**	133'715
Total assets		**341'544**	356'275

CHF 1'000		31.12.2015	31.12.2014
Financial liabilities	16	21'415	4'427
Operating liabilities	17	61'546	79'912
Accrued expenses and deferred income	18	24'743	26'620
Current income tax		5'308	6'099
Provisions	19	6'026	6'090
Total current liabilities		**119'038**	123'148
Financial liabilities	16	3'935	4'494
Deferred income tax	22	23'888	25'198
Provisions	23	6'445	5'234
Pension benefit obligation	19	2'172	2'327
Total non-current liabilities		**36'440**	**37'253**
Total liabilities		**155'478**	160'401
Share capital		28'560	28'560
Additional paid-in capital		67'676	73'724
Retained earnings		129'355	120'003
Other reserves	20	-40'434	-27'294
Total shareholders' equity of company		**185'157**	194'993
Minority shareholders		909	881
Total shareholders' equity		**186'066**	195'874
Total liabilities and shareholders' equity		**341'544**	356'275

The enclosed notes are part of the consolidated financial statements.

Consolidated cash flow statement

CHF 1'000		2015	2014
Net income		9'533	14'433
Income tax expenses	22	2'368	3'773
Interest expenses	8	492	430
Interest income	8	-63	-106
Depreciation and amortization	7	12'395	14'022
Change in non-current provisions		-818	124
Other non-cash items		1'325	4
Change in inventory		360	-10'574
Change in other non-cash net current assets		-12'322	-12'575
Income tax paid		-2'286	-2'190
Cash flow from operating activities, net		**10'984**	7'341
Capital expenditure for:			
‣ Tangible fixed assets		-21'370	-12'443
‣ Intangible fixed assets		-1'472	-2'364
Disposals of fixed assets		572	224
Cash flow from investing activities, net		**-22'270**	-14'583
Change in current financial liabilities		16'919	3'213
Repayment of non-current financial liabilities		-249	-286
Interest paid		-362	-553
Interest received		63	106
Dividend payment	9	-6'152	-6'096
Acqusition of subsidiaries		–	-299
Cash flow from financing activities, net		**10'219**	-3'915
Currency translation		-812	10
Net change in cash and cash equivalents		-1'879	-11'147
Cash and cash equivalents at beginning of year		11'306	22'453
Cash and cash equivalents at year end		**9'427**	11'306

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 20	Shareholders' equity of the company	Non-controlling interests	**Total shareholders' equity**
01.01.2014	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
Share-based payment	–	–	–	-99	-99	-200	-299
Dividend payment	–	-6'048	–	–	-6'048	-48	-6'096
31.12.2014	28'560	73'724	120'003	-27'294	194'993	881	195'874
Net income	–	–	9'352	–	9'352	181	9'533
Other comprehensive income	–	–	–	-13'140	-13'140	-49	-13'189
Total comprehensive income	–	–	9'352	-13'140	-3'788	132	-3'656
Dividend payment	–	-6'048	–	–	-6'048	-104	-6'152
31.12.2015	**28'560**	**67'676**	**129'355**	**-40'434**	**185'157**	**909**	**186'066**

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).

As per 31 December and as per end of previous year, Starrag Group Holding AG held the following fully consolidated investments directly and indirectly:

- Starrag Group Holding GmbH, Chemnitz, Germany
- Starrag Group Holdings Ltd., Birmingham, UK
- Starrag Group Finance Limited, St. Peter Port, UK (liquidated in 2015)
- Berthiez SAS, Saint Etienne, France
- Bumotec SA, Sâles, Switzerland
- Dörries Scharmann Technologie GmbH, Mönchengladbach, Germany
- Heckert GmbH, Chemnitz, Germany
- SIP Société d'Instruments de Précision SA, Satigny, Switzerland
- Starrag AG, Rorschacherberg, Switzerland
- Toolroom Technology Limited, Haddenham, UK (Capital and voting share 85 %)
- Starrag (Shanghai) Co. Ltd., Shanghai, China
- Starrag France Sârl, Laperche, France (liquidated in 2015)
- Starrag India Private Limited, Bangalore, India
- Starrag Italia Srl, Rivoli, Italy
- Starrag Makina Ticaret ve Servis Ltd., Ankara, Turkey
- Starrag Mexico, S. de R.L. de C.V., San Pedro Garza García, Mexiko
- Starrag RU Ltd., Moskau, Russia
- Starrag UK Limited, Birmingham, UK
- Starrag USA Inc., Hebron USA

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 21 (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 22).

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 23).

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.

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 (“Cash flow 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 Cash flow 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 2015, the following new standards and interpretations of existing standards are applicable for the first time:

- **IASB** Annual Improvement

The first application of these standards had no influence on the amount stated in the consolidated financial statements as well as the explanations in the appendix.

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

- **IAS 1 (revised)** Presentation of financial statements (for fiscal years starting from 1 July 2012)
- **IAS 16** Tangible fixed asset (for fiscal years starting from 1 January 2016)
- **IFRS 9** Financial instruments (for fiscal years starting from 1 January 2018)
- **IFRS 10 and 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 2018)
- **IFRS 16** Leasing liabilities (for fiscal years starting from 1 January 2019)
- **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

	Machine Tools	
CHF 1'000	**2015**	2014
Sales revenues	**363'728**	393'168
Earnings before interest, taxes, depreciation and amortization EBITDA	27'055	33'169
Depreciation and amortization	-12'395	-14'022
Earnings before interest and taxes EBIT	**14'660**	19'147
Operating assets on 31 December	332'117	344'969
Operating liabilities on 31 December	-94'487	-114'949
Net operating assets on 31 December	**237'630**	230'020
Goodwill	17'405	19'065
Capital expenditure in fixed assets	22'722	14'583
Non-cash income	1'257	4

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	**2015**	2014
New machines	277'125	301'087
Customer services	86'603	92'081
Total	**363'728**	393'168

3. Sales revenue by geographical segment

CHF 1'000	**2015**	2014
Switzerland	104'181	111'960
Germany	228'719	248'538
Other countries	30'828	32'670
Total	**363'728**	393'168

Notes to the income statement

4. Personnel expenses

CHF 1'000	**2015**	2014
Wages and salaries	107'585	117'842
Pension benefits	1'754	2'630
Social benefits	17'733	19'526
Other personnel expenses	4'511	3'431
Total personnel expenses	**131'583**	143'429

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	**2015**	2014
Sublease income	476	506
Government grants	89	278
Profit from sales of fixed assets	22	106
Other operating income	652	1'508
Total other operating income	**1'239**	2'398

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	2015	2014
Buildings	2'763	2'926
Machinery and equipment	3'988	4'851
Other tangible assets	1'566	1'608
Total depreciation of tangible fixed assets	**8'317**	9'385
Brands and customer relations	863	936
Technology	2'137	2'522
IT software	1'078	1'179
Total amortization of intangible assets	**4'078**	4'637
Total depreciation and amortization	**12'395**	14'022

8. Financial result

CHF 1'000	2015	2014
Interest income	63	106
Interest expenses	-492	-430
Currency losses/gains	-1'356	496
Other financial expenses	-974	-1'113
Total financial result, net	**-2'759**	-941
Thereof:		
‣ Financial income	241	1'535
‣ Financial expenses	-3'000	-2'476
Result from available-for-sale financial instruments	173	149

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 2015, 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 9.5 million (prior year CHF 14.4 million) net earnings per share amount to CHF 2.78 (prior year CHF 4.26). As the company has not issued any stock options or convertible bonds, earnings per share were not diluted.
At the General Meeting on 23 April 2016, the Board of Directors will propose the distribution of a dividend of CHF 1.20 per share from reserves from capital contributions. A dividend of CHF 1.80 from reserves from capital contributions was paid for the 2014 financial year.

Notes to the balance sheet

10. Receivables

CHF 1'000		**31.12.2015**	31.12.2014
Trade receivables		34'802	30'653
Receivables from construction contracts	21	65'900	77'033
Other receivables		3'637	3'576
Total receivables		**104'339**	111'262
Thereof:			
‣ not due		94'233	103'096
‣ past due < 90 days, not impaired		8'067	5'430
‣ past due ≥ 90 days, not impaired		1'994	874
‣ impaired		45	1'862
Therof:			
‣ CHF		29'900	20'936
‣ EUR		58'063	76'824
‣ USD		11'055	7'861
‣ other		5'321	5'641

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	**2015**	2014
Allowance for doubtful receivables at beginning of year	2'239	1'415
Increase	438	1'448
Decrease	-48	-523
Use	-1'057	-104
Currency translation	-180	3
Allowance for doubtful receivables at end of year	**1'392**	2'239

11. Other financial assets

CHF 1'000		31.12.2015	31.12.2014
Prepayments to suppliers		5'037	6'059
Deferred expenses		2'090	2'635
Cash flow hedges	26	554	482
Total other financial assets		**7'681**	9'176

The Cash flows from the Cash flow hedges are expected within an average of 3 to 12 months.

12. Inventories

CHF 1'000	31.12.2015	31.12.2014
Raw materials and components	41'256	42'370
Work in progress	33'065	37'405
Finished products	10'204	11'041
Total inventories	**84'525**	90'816

In 2015 a charge of CHF 2.4 million resulting from an inventory valuation adjustment was recorded (prior year CHF 0.3 million).

13. Tangible fixed assets

		2015				2014			
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		90'146	50'634	10'929	151'709	82'541	50'858	10'168	143'567
Additions		16'963	3'071	1'732	21'766	7'717	3'052	1'497	12'266
Disposals		–	-3'241	-538	-3'779	-39	-3'013	-670	-3'722
Currency translation		-4'511	-3'082	-759	-8'352	-73	-263	-66	-402
Gross value at year end		**102'598**	**47'382**	**11'364**	**161'344**	90'146	50'634	10'929	151'709
Accumulated depreciation at beginning of year		24'683	33'272	7'704	65'659	21'949	31'555	6'736	60'240
Depreciation	7	2'763	3'988	1'566	8'317	2'926	4'851	1'608	9'385
Disposals		–	-2'825	-390	-3'215	-39	-2'924	-592	-3'555
Currency translation		-1'227	-1'945	-560	-3'732	-153	-210	-48	-411
Accumulated depreciation at year end		**26'219**	**32'490**	**8'320**	**67'029**	24'683	33'272	7'704	65'659
Net book value at beginning of year		65'463	17'362	3'225	86'050	60'592	19'303	3'432	83'327
Net book value at year end		**76'379**	**14'892**	**3'044**	**94'315**	65'463	17'362	3'225	86'050

14. Intangible assets

CHF 1'000	2015 Goodwill	2015 Brands and customer relations	2015 Technologie	2015 IT Software	2015 **Total**	2014 Goodwill [1]	2014 Brands and customer relations	2014 Technologie	2014 IT Software	2014 Total
Gross value at beginning of year	19'065	16'365	29'432	11'936	76'798	19'325	16'585	28'943	11'401	76'254
Additions	–	–	650	822	1'472	–	–	891	1'473	2'364
Disposals	–	–	-3'214	-1'862	-5'076	–	–	–	-829	-829
Currency translation	-1'660	-1'195	-2'218	-642	-5'715	-260	-220	-402	-109	-991
Gross value at year end	**17'405**	**15'170**	**24'650**	**10'254**	**67'479**	19'065	16'365	29'432	11'936	76'798
Accumulated amortization at beginning of year	–	3'128	16'373	9'632	29'133	–	2'232	14'052	9'375	25'659
Amortization 7	–	863	2'137	1'078	4'078	–	936	2'522	1'179	4'637
Disposals	–	–	-3'214	-1'845	-5'059	–	–	–	-830	-830
Currency translation	–	-232	-1'188	-510	-1'930	–	-40	-201	-92	-333
Accumulated amortization at year end	**–**	**3'759**	**14'108**	**8'355**	**26'222**	–	3'128	16'373	9'632	29'133
Net book value at beginning of year	19'065	13'237	13'059	2'304	47'665	19'325	14'353	14'891	2'026	50'595
Net book value at year end	**17'405**	**11'411**	**10'542**	**1'899**	**41'257**	19'065	13'237	13'059	2'304	47'665

The goodwill impairment test was conducted using the following parameters:

CHF 1'000	**31.12.2015** Carrying amount of goodwill	**31.12.2015** Residual growth rate	**31.12.2015** Discount rate, pre-tax	31.12.2014 Carrying amount of goodwill	31.12.2014 Residual growth rate	31.12.2014 Discount rate, pre-tax
Aerospace & Energy	14'232	1%	10.3%	15'788	1%	10.5%
Transportation & Industrial Components	926	1%	10.3%	1'030	1%	10.5%
Precision Engineering	2'247	1%	8.3%	2'247	1%	8.5%
Total	**17'405**			19'065		

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	**31.12.2015**	31.12.2014
Switzerland	58'995	45'037
Germany	65'717	76'565
Other countries	10'860	12'113
Total	**135'572**	133'715

16. Financial liabilities

CHF 1'000	**31.12.2015**	31.12.2014
Current financial liabilities	21'415	4'427
Non-current financial liabilities	3'935	4'494
Total financial liabilities	**25'350**	8'921
Thereof in:		
‣ EUR	6'047	5'908
‣ CHF	19'303	3'013
Market value	25'350	8'921
Contractual Cash flows	**26'911**	10'827
Thereof:		
‣ due within 1 year	21'643	4'736
‣ due within 2 to 5 years	2'633	2'709
‣ due thereafter	2'635	3'382
Average interest rate	1.2%	1.8%
Unused credit lines	48'242	68'431

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 2015 and 2014 the financial covenants have been satisfied.

17. Operating liabilities

CHF 1'000		**31.12.2015**	31.12.2014
Trade liabilities		23'425	28'315
Other operating liabilities		9'620	7'763
Accrued liabilities out of POC valuation	21	28'028	43'291
Advance payments received		473	543
Other operating liabilities		**61'546**	79'912
Thereof:			
‣ due within 6 months		61'546	79'912

18. Accrued expenses and deferred income

CHF 1'000		31.12.2015	31.12.2014
Project costs		6'142	7'629
Personnel expenses		10'127	11'361
Commissions		479	302
Cash flow hedges	26	1'594	2'744
Other		6'401	4'584
Total accrued expenses and deferred income		**24'743**	26'620

19. Provisions

	2015		
CHF 1'000	Warranty	Other provisions	**Total**
Value at beginning of year	8'073	344	8'417
Increase	6'248	–	6'248
Decrease	-283	–	-283
Use	-5'534	-40	-5'574
Currency translation	-610	–	-610
Value year end	**7'894**	**304**	**8'198**
Thereof:			
‣ Current	5'722	304	6'026
‣ Non-current	2'172	–	2'172

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 Cash flow in warranties will occur within 6 to 24 months and in other provisions within 6 to 12 months.

20. Other reserves

CHF 1'000	Remeasurement pension benefit	Cash flow Hedges	Currency translation	Purchase of interest in subsidiary	**Total other reserves**
01.01.2014	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
Other comprehensive income	-1'724	849	-12'265	–	-13'140
Comprehensive income	-1'724	849	-12'265	–	-13'140
31.12.2015	**-3'980**	**-768**	**-35'587**	**-99**	**-40'434**

Other notes

21. Construction contracts

CHF 1'000	**2015**	2014
Revenue from construction contracts	278'782	294'810

CHF 1'000		**31.12.2015**	31.12.2014
Accrued contract costs and recognized profit		205'182	218'215
Advance payments received		-167'310	-184'473
Net value from construction contracts		**37'872**	33'742
Thereof:			
‣ Receivables	10	65'900	77'033
‣ Operating liabilities	17	-28'028	-43'291

22. Income tax expenses

CHF 1'000	**2015**	2014
Earnings before income tax	11'901	18'206
Tax expenses at anticipated tax rate of 17 %	-2'033	-3'048
Tax expenses at other tax rates	651	267
Debits/credits from prior reporting periods	-258	-304
Non-deductable expenses/non-taxable income	-96	-178
Non-capitalized tax loss carry forward	-632	-510
Recognized income tax expenses	**-2'368**	-3'773
Thereof:		
‣ Current income tax expenses	-1'909	-4'171
‣ Deferred income tax expenses	-459	398

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

CHF 1'000	**31.12.2015**	31.12.2014
Receivables	13'427	14'480
Fixed assets	9'303	11'645
Other	1'158	-820
Tax loss carry forward	-3'162	-2'968
Value adjustment	3'162	2'861
Total deferred income tax	**23'888**	25'198

On 31 December 2015 there are off balance sheet tax losses carried forward of CHF 12.0 million (prior year CHF 11.4 million), whereof none expire within one to three years (prior year CHF 0.4 million), CHF 10.4 million expire within four to seven years (prior year 9.4) and CHF 1.5 million expire after more than seven years (prior year CHF 1.6 million). Deferred tax assets on tax loss carry-forward of CHF 3.2 million (prior year CHF 3.0 million) have not been capitalized. On 31 December 2015 there are temporary differences associated with investments in subsidiaries of CHF 42.6 million (prior year CHF 29.7 million) for which deferred tax liabilities have not been recognized. Deferred tax liabilities on temporary differences associated with investments in subsidiaries of CHF 0.6 million (prior year 0.4 CHF million) have not been recognized.

CHF 1'000	**2015**	2014
Deferred taxes at beginning of year	25'198	27'518
(Income)/Expense for deferred taxes	98	-398
Deferred taxes on fair-value changes of Cash flow Hedges recognized in equity	380	-1'569
Currency translation	-1'788	-353
Deferred taxes at end of year	**23'888**	25'198

23. Pension benefits

CHF 1'000	**2015**	2014
Current service costs	2'378	2'162
Past service costs	-1'185	–
Total current service costs	1'193	2'162
Interest expense	69	31
Total pension benefit expense	**1'262**	2'193

CHF 1'000	**31.12.2015**	31.12.2014
Pension benefit obligation	63'527	60'746
Faire value plan assets	-57'082	-55'512
Recognized pension benefit obligation	**6'445**	5'234

CHF 1'000	**2015**	2014
Plan assets, beginning of year	55'512	57'696
Interest income (based on discount rate)	703	1'399
Return on plan assets (excluding interest income based on discount rate)	50	295
Employees' contributions	2'149	2'284
Employer's contributions	2'136	2'176
Paid benefits	-3'468	-8'338
Plan assets, end of year	**57'082**	55'512
Thereof:		
‣ Surrender value of insurance contracts	50'779	48'426
‣ Equity funds	4'450	4'747
‣ Bond funds	1'828	2'324
‣ Other investments	25	15

CHF 1'000	**2015**	2014
Pension benefit obligation, beginning of year	60'746	58'954
Current service costs	2'378	2'162
Past service costs	-1'185	–
Interes expense	772	1'430
Employees' contributions	2'149	2'284
Paid benefits	-3'468	-8'338
Actuarial gains/losses (Changes in demographic assumptions)	3'027	-380
Actuarial gains/losses (Changes in financial assumptions)	-892	4'634
Pension benefit obligation, end of year	**63'527**	60'746

CHF 1'000	**2015**	2014
Return on plan assets (excluding interest income based on discount rate)	50	295
Actuarial gains/losses (Changes in demographic assumptions)	-3'027	380
Actuarial gains/losses (Changes in financial assumptions)	892	-4'634
Revaluation Pension benefits	**-2'085**	-3'959

CHF 1'000	2015	2014
Actuarial assumptions:		
Discount rate	0.80%	1.25%
Salary increase	0.50%	0.50%
Mortality rate	BVG 2010 GT	BVG 2010 GT
Average remaining service time	12.5	12.2

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 2016 are CHF 2.1 million.

24. Compensation

In the year under review, short-term compensation paid to non-executive members of the Board of Directors amounted to TCHF 447 (previous year TCHF 523). Short-term compensation to the Executive Board amounted to TCHF 2'797 (previous year TCHF 3'309). No benefits or other compensation were paid following termination of the working relationship.

Additional information are disclosed in the compensation report on page 71.

25. Loaded assets

CHF 1'000	31.12.2015	31.12.2014
To ensure financial liabilities in the amount of the following assets are mortgaged: land and buildings	3'828	4'539
‣ Book value	7'740	9'136
‣ Liability	7'740	8'681

26. Derivative financial instruments

CHF 1'000		31.12.2015	31.12.2014
Forward currency exchange contracts: Contract value		**53'718**	40'235
Replacement value:			
‣ positive	11	554	482
‣ negative	18	-1'594	-2'744

27. Operating lease liabilities

CHF 1'000	**31.12.2015**	31.12.2014
‣ Due within 1 year	2'678	3'294
‣ Due to 2 to 5 years	1'628	2'760
Total operating lease liabilities	**4'306**	6'054

CHF 1'000	**2015**	2014
Expenses for operating lease liabilities debiting to the income statement amount to	3'694	3'813

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

28. Other commitments

CHF 1'000	**31.12.2015**	31.12.2014
Purchase commitment towards suppliers	65'490	69'619
Contractual commitments for capital expinditure	12'033	–

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.

29. Research and development

Expenditure for research and development amounts to CHF 26.3 million or 7.2 % of sales revenue (prior year CHF 30.8 million, 7.8 % of sales revenue). After consideration of government grants as well as capitalization and depreciation of development projects, the income statement was charged with CHF 26.7 million, 7.3 % of sales revenue (prior year net CHF 30.8 million or 7.8 % of sales revenue).

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

Assuming the euro was 5 % weaker vs. the Swiss franc at 31 December 2015, and all other parameters being equal, the profit after tax would have been CHF 0.1 million lower (prior year CHF +0.3 million). Conversely, in the opposite case, the profit after tax would have been CHF 0.1 million higher (prior year CHF -0.3 million). Equity would have increased by CHF 0.7 million (prior year CHF 1.5 million), in the opposite case, would have been CHF 0.7 million (prior year CHF 1.5 million) lower. Assuming the U.S. dollar was 5 % weaker vs. the Swiss franc at 31 December 2015, and all other parameters being equal, the profit after tax would have been CHF 0.4 million lower (prior year CHF 0.0 million). Conversely, in the opposite case, the profit after tax would have been CHF 0.4 million higher (prior year CHF 0.0 million). Equity would have increased by CHF 0.1 million (prior year CHF 0.2 million) or, in the opposite case, would have been CHF 0.1 million (prior year CHF 0.2 million) lower.

31. Exchange rates

CHF 1'000	2015	2014
Average rates (for income statement and Cash flow statement)		
1 EUR	1.0822	1.2274
1 USD	0.9730	0.9225
1 GBP	1.4887	1.5212
1 CNY	0.1550	0.1499

CHF 1'000	31.12.2015	31.12.2014
Year end rates (for balance sheet)		
1 EUR	1.0916	1.2146
1 USD	0.9991	0.9988
1 GBP	1.4811	1.5548
1 CNY	0.1539	0.1611

32. 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.

33. Events after the balance sheet date

The consolidated financial statement was approved by the Supervisory Board on 3 March 2016 and released for publication. It is also subject to approval by the Annual General Meeting of shareholders, which is scheduled for 23 April 2016.

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 balance sheet, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity and notes (pages 83 to 109), for the year ended 31 December 2015.

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 2015 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.

PricewaterhouseCoopers AG, Vadianstrasse 25a/Neumarkt 5, Postfach, CH-9001 St. Gallen, Switzerland
Telefon: +41 58 792 72 00, Telefax: +41 58 792 72 10, www.pwc.ch

PricewaterhouseCoopers AG is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

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	Oliver Illa
Audit expert Auditor in charge	Audit expert

St. Gallen, 3 March 2016

Income statement

CHF 1'000	2015	2014
Other operating income:		
‣ Income from investments	27'642	5'690
Financial income	5'632	4'387
Total revenue	**33'274**	**10'077**
Personnel expenses	-605	-383
Other operating expenses	-550	-573
Depreciation and impairments on position of fixed assets	-3'970	-1'939
Financial expenses	-5'700	-1'324
Direct taxes	-6	-49
Net income	**22'443**	**5'809**

Balance sheet

CHF 1'000		**31.12.2015**	31.12.2014
Cash and cash equivalents		58	24
Other current accounts:			
‣ from group companies		4'698	6'239
‣ from third parties		8	–
Deferred expenses		6	39
Total current assets		**4'770**	6'302
Financial assets:			
‣ Loans to group companies		69'291	69'992
Investments	7	108'053	109'357
Total fixed assets		**177'344**	179'349
Total assets		**182'114**	185'651

CHF 1'000		**31.12.2015**	31.12.2014
Other current liabilities:			
‣ to group companies		1'811	21'666
‣ to third parties		95	25
Accruals and deferred income		308	455
Total current liabilities		**2'214**	22'146
Total liabilities		**2'214**	22'146
Share capital	8	28'560	28'560
Legal capital reserves:			
‣ Capital contribution reserves	12	66'913	72'961
‣ Other legal capital reserves		1'222	1'222
Retained earnings from prior years		60'762	54'953
Net result		22'443	5'809
Total shareholders' equity		**179'900**	163'505
Total liabilities and shareholders' equity		**182'114**	185'651

Notes to the financial statements

Key accounting principles

1. Basis of presentation

These financial statements were prepared in accordance with the provisions of the Swiss Law on Commercial Accounting defined by the Swiss Code of Obligations. It was prepared for the first time under the new financial reporting legislation. Prior-year figures were adjusted to ensure comparability.

The company prepares consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). Correspondingly, the company dispenses with preparation of additional information in the notes to the financial statements and a cash flow statement.
The following are explanations of how material balance sheet positions are stated on the balance sheet.

2. Other current assets and liabilities

Other short-term receivables and liabilities are carried at their nominal value. Maturity structures and recognisable credit risks are taken into account when creating specific impairment allowances on other short-term receivables. For the remainder, general impairment allowances are created at the discretion of the Board of Directors as permitted by tax legislation.

3. Financial assets

The financial assets include long-term loans to Group companies. Loans granted in foreign currency are valued at the current yearend exchange rate, whereby unrealised losses are recorded but unrealised gains are not reported.

4. Participations

Shareholdings are reported in the balance sheet at the cost of acquisition less appropriate valuation adjustments for impairments that are anticipated to be permanent.

5. Currency translation

Transactions in foreign currencies are translated into Swiss francs at the exchange rate valid at the time of the transaction. Pursuant to the imparity principle, assets and liabilities plus shareholders' equity in foreign currencies are translated into Swiss francs at the year-end rate.

Supplemental information and explanations to the annual report

6. Full-time employees

The company does not have any employees.

7. Investments

On 31 December and as per the end of the prior year, the company held the following direct or material indirect participating interests with an equity share and percentage of voting rights of 100 % each (unless otherwise indicated):

- Starrag Group Holding GmbH, Chemnitz, Germany
- Starrag Group Holdings Ltd., Birmingham, UK
- Starrag Group Finance Limited, St. Peter Port, UK (liquidated in 2015)
- Berthiez SAS, Saint Etienne, France
- Bumotec SA, Sâles, Switzerland
- Dörries Scharmann Technologie GmbH, Mönchengladbach, Germany
- Heckert GmbH, Chemnitz, Germany
- SIP Société d'Instruments de Précision SA, Satigny, Switzerland
- Starrag AG, Rorschacherberg, Switzerland
- Toolroom Technology Limited, Haddenham, UK (Capital and voting share 85 %)
- Starrag (Shanghai) Co. Ltd., Shanghai, China
- Starrag France Sârl, Laperche, France (liquidated in 2015)
- Starrag India Private Limited, Bangalore, India
- Starrag Italia Srl, Rivoli, Italy
- Starrag Makina Ticaret ve Servis Ltd., Ankara, Turkey
- Starrag Mexico, S. de R.L. de C.V., San Pedro Garza García, Mexiko
- Starrag RU Ltd., Moskau, Russia
- Starrag UK Limited, Birmingham, UK
- Starrag USA Inc., Hebron USA

8. Share capital and authorised share capital

The share capital of CHF 28.6 million comprises 3'360'000 registered shares with the nominal value of CHF 8.50 each. At the Annual General Meeting on 12 April 2014, the Board of Directors was authorised to increase the share capital by a maximum amount of CHF 10.7 million, split into 1'260'000 registered shares at the nominal value of CHF 8.50 each, by 12 April 2016 at the latest.

9. Major shareholders

The following major shareholders hold more than three per cent of the voting rights:

	31.12.2015	31.12.2014
Walter Fust, Freienbach, Switzerland	53.80%	53.66%
Eduard Stürm AG, Goldach, Switzerland	9.26%	9.26%
Max Rössler, Hergiswil / Parmino Holding AG, Goldach, Switzerland	7.80%	5.77%

10. Remunerations

Remunerations to the Board of Directors and to the Executive Board are disclosed in the remuneration report from page 71 of the annual report.

11. Participations of the Board of Directors and Executive Board

Number of shares	**31.12.2015**	31.12.2014
Prof. Dr. Christian Belz, Member of the Board of Directors	2'800	2'800
Prof. Dr. Frank Brinken, Vice Chairman	47'800	47'800
Daniel Frutig, Chairman (Member of the Board of Directors until 24 April 2015)	1'130	600
Walter Fust, Member of the Board of Directors (Chairman until 24 April 2015)	1'807'558	1'803'074
Adrian Stürm, Member of the Board of Directors	26'900	26'680
Walter Börsch, CEO	1'001	–
Gerold Brütsch, CFO	300	300
Günther Eller, Head Customer Service	200	200

12. Reserves from capital contributions

The reported legal reserves from capital contributions at 31 December 2015 amounted to CHF 66.9 million, of which CHF 63.7 million 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.

13. Sureties for the benefit of Group companies

The total amount of sureties furnished for third-party liabilities constitutes CHF 288.3 million (prior year CHF 293.3 million).

14. Contingent liabilities

The company is part of the VAT group of Starrag AG and thus jointly liable for VAT debts of the whole group to the Swiss Federal Tax Administration.

Appropriation of Retained Earnings

Proposal of the Board of Directors for the appropriation of retained earnings

CHF 1'000	**2015** [1]	2014 [2]
Retained earnings	60'762	54'953
Net income	22'443	5'809
Retained earnings	**83'205**	60'762
To be carried forward	**83'205**	60'762

Proposal of the Board of Directors for the appropriation of legal reserve from capital contributions

CHF 1'000		**2015** [1]	2014 [2]
Available capital contribution reserves	12	**66'913**	72'961
Withholding tax free distribution		-4'032	-6'048
To be carried forward		**62'881**	66'913

1) At the General Meeting on 23 April 2016, the Board of Directors will propose the distribution of a dividend of CHF 1.20 per share from the reserves from capital contributions (total dividend CHF 4.0 million). In addition, the Board of Directors will propose that the retained earnings of CHF 83.2 million will be carried forward.

2) According to the resolution of the Annual General Meeting held on 24 April 2015, a distribution of a dividend of CHF 1.80 per share (total dividend CHF 6.0 million) was carried out. In addition, the Annual General Meeting decided that the retained earnings of CHF 60.8 million was carried forward.

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 112 to 117), for the year ended 31 December 2015.

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 2015 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.

PricewaterhouseCoopers AG, Vadianstrasse 25a/Neumarkt 5, Postfach, CH-9001 St. Gallen, Switzerland
Telefon: +41 58 792 72 00, Telefax: +41 58 792 72 10, www.pwc.ch

PricewaterhouseCoopers AG is a member of the global PricewaterhouseCoopers network of firms, each of which is a separate and independent legal entity.

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	Oliver Illa
Audit expert Auditor in charge	Audit expert

St. Gallen, 3 March 2016

Five-year overview

Mio. CHF	**2015**	2014	2013	2012	2011
Order intake	333.4	407.3	424.9	364.2	348.3
Order backlog at year end	237.8	287.6	274.7	238.6	237.5
Sales revenue	363.7	393.2	390.7	384.0	354.4
Earnings before interest, taxes, depreciation and amortizalion (EBITDA)	27.1	33.2	32.4	34.4	31.1
Earnings before interest and taxes (EBIT)	14.7	19.1	19.0	21.1	19.1
Net income	9.5	14.4	13.5	13.0	10.9
EBITDA as percentage of sales revenue	7.4%	8.4%	8.3%	9.0%	8.8%
EBIT as percentage of sales revenue	4.0%	4.9%	4.9%	5.5%	5.4%
EBIT as percentage of net operating assets	6.2%	8.3%	9.4%	11.8%	15.4%
Net income as percentage of sales revenue	2.6%	3.7%	3.5%	3.4%	3.1%
Cash flow from operating activities	11.0	7.3	8.8	24.9	19.2
Capital expenditure	22.3	14.6	11.2	32.1	69.9
Free Cash flow	-11.4	-7.2	-2.3	10.2	9.3
Employees at year end	1'573	1'622	1'640	1'536	1'405
Net operating assets	237.6	230.0	210.4	194.3	163.1
Total assets	341.5	356.3	348.7	347.2	326.6
Net cash	-15.9	2.4	16.1	24.9	37.0
Shareholders' equity	186.1	195.9	193.6	183.6	176.6
Equity ratio	54.5%	55.0%	55.5%	52.9%	54.1%
Return on equity (ROE)	4.9%	7.5%	7.3%	7.3%	6.8%
Earnings per share in CHF	2.78	4.26	3.97	3.81	3.52
Share price at year end in CHF	46.00	64.50	75.75	61.60	49.55
Profit distribution per share in CHF	1.20 [1)]	1.80	1.80	1.80	1.20
Total shareholder return (TSR)	-25.9%	-12.5%	25.9%	26.7%	-26.7%

[1)] Proposal of the Board of Directors to the Annual General Meeting on 23 April 2016 in the form of a withholding-tax-free distribution from capital contribution reserves.

Financial calendar

23 April 2016	Annual General Meeting in Rorschacherberg
27 July 2016	Letter to shareholders on HJ 2016 results
26 January 2017	Initial information on full-year 2016 results
10 March 2017	Presentation of 2016 results for analysts media in Zurich
28 April 2017	Annual General Meeting in Rorschach

Contact information:

Walter Börsch, CEO
T +41 71 858 81 11

Gerold Brütsch, CFO
T +41 71 858 81 11

investor@starrag.com

Credits

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

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Starrag Group Holding AG
Seebleichestrasse 61
9404 Rorschacherberg
Switzerland

T +41 71 858 81 11

investor@starrag.com
www.starrag.com