Starrag Group

Half-year report
2015

Solid order backlog ensures good level of capacity utilization – order intake marked by volatility – positive sales growth before currency effects – slightly lower operating margin

- Order backlog of CHF 220 million ensures a good level of utilization for the coming quarters
- Order intake minus 23 % versus the prior-year period (organic -16 %)
- Organic sales growth plus 3.5 %, in CHF minus 4.3 %
- EBIT margin of 3.9 % (4.7 % in the prior-year period)
- Net profit of CHF 3.1 million or CHF 0.92 per share, adversely affected by the revaluation of euro positions
- Full-year projections subject to additional uncertainty

CHF m	**2015** **01.01. – 30.06.**	2014 01.01. – 30.06.	Change
Order intake	141.1	183.6	-23.1%
Sales revenue	181.8	189.7	-4.2%
Earnings before interest and taxes EBIT	7.0	8.9	-21.7%
Net income	3.1	6.6	-52.2%
Earnings per share (in CHF)	0.92	1.93	-52.4%
EBIT as % of sales revenue	3.9%	4.7%	n/a
Net income as percentage of sales revenue	1.7%	3.5%	n/a
Return on equity ROE	3.2%	6.8%	n/a
Cash flow from operating activities	-4.8	-8.2	n/a
Capital expenditure in fixed assets	9.6	4.3	122.5%
Free cash flow	-14.4	-12.5	n/a

CHF m	**30.06.2015**	31.12.2014	Change
Order backlog	220.2	287.6	-23.4%
Total assets	326.2	356.3	-8.4%
Net cash	-18.3	2.4	n/a
Shareholders’ equity	174.7	195.9	-10.8%
Equity ratio	53.5%	55.0%	n/a
Headcount	1'612	1'617	-0.3%

Dear shareholders

Solid order backlog

Starrag Group reported an order backlog of CHF 220 million for new machinery as of 30 June 2015 (year-end 2014: CHF 288 million). The current order backlog ensures a good level of utilization over the next three quarters as the new machine business always entails a substantial amount of additional services rendered to customers.

Order intake increasingly volatile

Major orders can distort the order intake for a particular quarter or even a half-year period, so order intake for these reporting periods cannot be reliably extrapolated to the full year. Customers have also been more cautious in their planning as competition heats up, which has led to the temporary postponement of some orders. Order intake has become increasingly volatile in this environment. Furthermore, in the complex and large machine business, prices are clearly under pressure from competitors who are struggling with low capacity utilization rates.

Order intake for Starrag Group amounted to CHF 141 million for the first six months (-23 % versus the prior-year period). At constant exchange rates, incoming orders declined 16 %. Looking at order intake for the past twelve months (July 2014 to June 2015) in recognition of the long-term nature of Starrag Group's capital goods business, order intake declined by 5.7 % in local currency versus the preceding twelve-month period. VDW, Germany's national machine tool industry association, reported that orders received by its members during the period from July 2014 to May 2015 rose by 1.5 %. These two numbers are not fully comparable, however, given the differences in targeted customer groups.

From a regional standpoint, the Europe market region reported a lower order intake overall, as did the North America region. In Asia order intake was narrowly held at the year-ago level. Broken down by industry, order intake was below the level from the previous year's period in the Aerospace segment, which, however, was very strong last year, and it is assumed that orders at this segment will pick up again in the medium term in view of the expansionary capital spending plans of major customers. Transportation reported a decline in new orders, due to the postponement of customer projects. In the Industrial segment, orders received were also lower. The Energy segment reported an increase in orders received, albeit from a still low level.

Sales up in local currency

Excluding currency effects, sales in the first six months of 2015 amounted to CHF 182 million and topped the prior-year number by 3.5 %. Including currency effects, sales declined by 4.3 %. Operating profit (EBIT) amounted to CHF 7.0 million (prior year: CHF 8.9 million), resulting in an operating profit margin of 3.9 % (4.7 %). Net profit came in at CHF 3.1 million (prior year: CHF 6.6 million), or two percent of sales, and was adversely affected by the revaluation of unhedged positions in euro. Earnings per share amounted to CHF 0.92 (H1 2014: CHF 1.93).

Lower-than-average currency exposure

Starrag Group's exposure to exchange-rate movements is less than average compared to other manufacturing companies; it is mainly affected by currency translation effects. The Group already produces about three-quarters of its output outside Switzerland and the materials it needs are purchased from suppliers in the Eurozone whenever possible. The share of total expenses incurred in Swiss francs in 2014 stood at about 22 %.

Financial position still strong

Total assets declined by CHF 30 million from the end of 2014 to CHF 326 million at the end of June due to the weaker euro and the resulting currency translation impact. The net cash position of a minus CHF 18.3 million is attributable to the advance financing of order-related expenses. Shareholders' equity of 54 % at the end of June was practically unchanged from a year earlier (55 %).

Reorganization based on strategic market segments on track

The reorganization of operating structures by market segment announced at the end of 2014 is proceeding according to plan. The aim here is to raise growth rates and margins by reducing organizational complexity and making greater use of synergy potential. During the first half, 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 formulated. Furthermore, numerous stand-alone measures have been implemented to enhance profitability and bring the company closer to its medium-term margin goals.

Turbine Technology Days a success

The Turbine Technology Days organized by Starrag Group and Walter AG has become one of the most important gatherings of turbine experts from the power generation, aviation and aerospace technology sectors. Attendance at this year's event, held at the end of June in Rorschacherberg/CH, was about 30 % higher than two years ago: Turbine manufacturers, research and development experts as well as representatives of trade magazines attended the event. Participants hailed from across Europe and there were also many visitors from China, India and Russia – acknowledged as the key growth markets in the turbine business. This event was topped off by a «Best machine tool supplier» award that was subsequently awarded by a major Chinese customer.

Premier trade show in China grounds for optimism

At the CIMT (Chinese International Machine Tool Show), the premier trade show in China, held in Beijing in late April, the innovations presented by 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, and that prospect creates interesting opportunities for Starrag Group in the years ahead.

Innovation a top priority

Innovation is one of Starrag Group's top priorities and that 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). Various modules developed for this specific purpose were presented and sold during the first half of 2015, including at the aforementioned Turbine Technology Days.

New factory for Bumotec and SIP on schedule

Construction of the new plant for Bumotec and SIP in Vuadens, which commenced in September 2014, is proceeding quickly, as planned. This new factory will operate with the latest production technology and will also be an ecological trendsetter. Preparatory work for process optimization projects is already under way. With this new plant, Starrag Group is deliberately investing in the fast-growing markets of luxury goods, medtech and micromechanics.

Change in Board leadership

As announced beforehand, Walter Fust, the long-serving chairman, had expressed his desire to pass the baton to a younger generation for personal reasons and Daniel Frutig was duly elected as his successor at the Annual General Meeting on 24 April. Walter Fust's years in office were marked, among other achievements, by the company's public listing followed by an impressive period of expansion. He shall remain actively involved in Starrag Group as its majority shareholder and a member of the Board of Directors.

Outlook

The course of business year to date and the assessment that the global economic and political environment is likely to become even more challenging in the second half of the year have added additional elements of uncertainty to the outlook for the entire year. From today's standpoint, Starrag Group expects full-year order intake in local currency to be less than the 2014 intake. Full-year sales revenue, likewise in local currency, are expected to be more or less in line with the prior-year figure. The operating margin is likely to be lower than in 2014.

A word of thanks

The Board of Directors and the Executive Board would like to take this opportunity to acknowledge the hard work and dedication of all employees. We also appreciate the good business relationships we share with our customers and suppliers. A special word of thanks also goes to our shareholders for their enduring trust.

Yours sincerely,

Daniel Frutig
Chairman of the Board of Directors

Walter Börsch
CEO

Rorschacherberg, 24 July 2015

Financial commentary

Order situation

The order book is well filled with CHF 220 million worth of orders on hand (as of 30 June 2015), most of which are for new machines. These orders and the Group's shorter-term but more constant services and support business will ensure a solid rate of capacity utilization for approximately three quarters.

Order intake was characterized by greater than normal fluctuations during the first six months of the year and totaled CHF 141 million, which is 23 % less than in the same period of last year. At constant exchange rates, incoming orders declined 16 %. Looking at order intake for the past twelve months (July 2014 to June 2015) in recognition of the long-term nature of Starrag Group's capital goods business, order intake declined by 5.7 % in local currency versus the preceding twelve-month period.

Customers have become more cautious in their planning as competition heats up, which has led to the temporary postponement of some orders. Order intake has therefore become more volatile. Furthermore, in the complex and large machine business, prices are clearly under pressure from competitors who are struggling with low capacity utilization rates.

Income statement

Sales revenue for the first half of 2015 amounted to CHF 182 million, in local currency 3.5 % more than in the prior-year period. Including currency effects, sales declined by 4.3 %. The sales growth in local currency is attributed in particular to the high order backlog at the beginning of the year, which is now being worked off on schedule.

Gross profit (sales revenue minus cost of materials plus/minus change in self-manufactured products) amounted to CHF 107 million, which corresponds to 58.8 % of sales revenue. This gross margin is 2.4 percentage points lower than the corresponding margin reported for the year-ago period and unchanged compared to the margin for last year as a whole. The gross margin was positively impacted by a reduction in procurement costs and a shift in the product mix. Negative effects primarily stemmed from the lower average degree of completion of the orders currently being processed, which meant a higher stock of materials was carried to complete these orders.

Operating profit (EBIT) declined from CHF 8.9 million in the first half of 2014 to CHF 7.0 million in the period under review, which resulted in a margin contraction from 4.7 % to 3.9 %. This contraction is largely attributable to currency translation effects stemming from the weaker value of the euro and to the lower gross margin. Thanks to strict cost management, personnel expenses were reduced from 38.4 % of sales revenues to 37.2 %, despite higher unit wage costs, largely due to industry-wide pay increases in Germany, and other operating expenses were reduced from 15.1 % of sales revenues to 14.5 %.

The net financial result was adversely affected by the revaluation of euro positions in the amount of CHF 2.3 million. Tax expense declined to CHF 1.0 million (prior-year period: CHF 2.2 million) as a result of the lower pretax profit, lowering the tax rate from 25 % to 23 %. Net profit fell to CHF 3.1 million from CHF 6.6 million in the prior-year period, as did earnings per share, which amounted to CHF 0.92 (prior-year period CHF 1.93).

Balance sheet

Total assets as of 30 June 2015 amounted to CHF 326 million, a decrease of CHF 30.1 million from the end of 2014. Current assets declined by CHF 22.1 million over the same period while fixed assets declined by CHF 7.9 million. Cash and accounts receivable declined by CHF 1.9 million and CHF 11.9 million, respectively, and inventories were down by CHF 7.1 million.

Liabilities declined, again primarily because of the weaker euro, from CHF 160 million to CHF 152 million. Non-interest-bearing liabilities receded to CHF 116 million, for a decline of CHF 7.6 million. The net debt position stood at CHF 18.3 million, compared to a net cash position of CHF 2.4 million on 31 December 2014. This can be traced to lower advance payments for work in progress as well as input costs incurred to process orders on hand.

Shareholders' equity showed a decrease of CHF 21.2 million compared to the end of 2014. The increase from the first-half net profit of CHF 3.1 million was offset primarily by currency translation effects of CHF -16.5 million, the re-measurement of pension plan liabilities (CHF -2.5 million) and the dividend payment of CHF 6.0 million.

Due to the decline in total balance sheet assets, the equity ratio receded by 1.5 percentage points to 53.5 % compared to the end of 2014. Starrag Group continues to operate with ample financial flexibility.

Cash flow statement

Cash flow (before changes in net current assets) amounted to CHF 11.9 million (previous year: CHF 16.7 million). After change in other net current assets, cash flow from operating activities amounted to CHF -4.8 million (previous year: CHF -8.2 million). A higher rate of prefinancing led to the seasonally low number.

Investments in fixed assets amounted to CHF 9.6 million, which was expended on the new factory for Bumotec and SIP, improvements to existing production sites, and IT replacement. This resulted in a negative free cash flow of CHF -14.4 million for the first half (prior-year period: CHF -12.5 million).

A withholding tax-free dividend in the total amount of CHF 6.0 million was paid out from capital contribution reserves in April 2015 for the 2014 fiscal year.

Income statement

CHF 1'000	**2015** 01.01. – 30.06.	2014 01.01. – 30.06.	2014 01.01. – 31.12.
Sales revenue	181'842	189'742	393'168
Change in self-manufactured products	2'173	4'487	3'326
Material expenses	-77'146	-78'141	-165'320
Personnnel expenses	-67'922	-72'916	-143'429
Operating expenses	-26'328	-28'691	-56'973
Other operating income	593	1'181	2'398
Earnings before interest, taxes, depreciation and amortization EBITDA	**13'212**	15'662	33'170
Depreciation and amortization	-6'208	-6'715	-14'023
Earnings before interest and taxes EBIT	**7'004**	8'947	19'147
Financial income	226	562	1'535
Financial expenses	-3'126	-751	-2'476
Earnings before tax	**4'104**	8'758	18'206
Income tax	-962	-2'191	-3'773
Net income	**3'142**	6'567	14'433
Thereof:			
‣ Shareholders of the company	3'094	6'499	14'320
‣ Minority shareholders	48	68	113
Earnings per share in CHF	0.92	1.93	4.26
Diluted earnings per share in CHF	0.92	1.93	4.26

Statement of comprehensive income

CHF 1'000	**2015** 01.01. – 30.06.	2014 01.01. – 30.06.	2014 01.01. – 31.12.
Net income	**3'142**	6'567	14'433
Remeasurements employee benefits	-2'428	-1'480	-3'958
Income taxes on remeasurements employee benefits	426	252	699
Items not recyclable to the income statement	**-2'002**	-1'228	-3'259
Cash flow hedges	271	-387	-2910
Income taxes on cashflow hedges	-8	115	870
Currency translation	-16'570	-376	-439
Items recyclable to the income statement	**-16'307**	-648	-2'479
Comprehensive income	**-18'309**	-1'876	-5'738
Total comprehensive income	**-15'167**	4'691	8'695
Thereof:			
‣ Shareholders of the company	-15'164	4'594	8'522
‣ Minority shareholders	-3	97	173

Balance sheet

CHF 1'000	**30.06.2015**	30.06.2014	31.12.2014
Cash and cash equivalents	9'363	19'249	11'306
Receivables	99'410	97'199	111'262
Other financial assets	7'979	16'840	9'176
Inventories	83'672	87'656	90'816
Total current assets	**200'424**	220'944	222'560
Tangible fixed assets	84'706	81'814	86'050
Intangible assets	41'064	49'378	47'665
Total fixed assets	**125'770**	131'192	133'715
Total assets	**326'194**	352'136	356'275

CHF 1'000	**30.06.2015**	30.06.2014	31.12.2014
Financial liabilities	23'844	17'168	4'427
Operating liabilities	54'416	26'139	79'912
Accured expenses and deferred income	27'434	69'818	26'620
Current income tax	4'692	4'914	6'099
Provisions	5'206	5'592	6'090
Total current liabilities	**115'592**	123'631	123'148
Financial liabilities	3'865	4'659	4'494
Deferred income tax	22'395	27'060	25'198
Pension benefit obligations	7'773	2'738	5'234
Provisions	1'910	2'154	2'327
Total non-current liabilities	**35'943**	36'611	37'253
Total liabilities	**151'535**	160'242	160'401
Share capital	28'560	28'560	28'560
Additional paid-in capital	67'676	73'724	73'724
Retained earnings	123'097	112'182	120'003
Other reserve	-45'552	-23'401	-27'294
Total shareholders' equity of the company	**173'781**	191'065	194'993
Minority shareholders	878	829	881
Total shareholders' equity	**174'659**	191'894	195'874
Total liabilities	**326'194**	352'136	356'275

Cash flow statement

CHF 1'000	**2015** 01.01. – 30.06.	2014 01.01. – 30.06.	2014 01.01. – 31.12.
Net income	3'142	6'567	14'433
Income tax expenses	962	2'191	3'773
Interest expenses	197	135	430
Interest income	-36	-50	-106
Depreciation and amortization	6'208	6'715	14'022
Change in non-current provisions	-24	1'392	124
Other non-cash items	1'504	-271	4
Change in inventory	-973	-7'005	-10'574
Change in other non-cash net current assets	-13'946	-16'479	-12'575
Income tax paid	-1'830	-1'400	-2'190
Cash flow from operating activities, net	**-4'796**	-8'205	7'341
Capital expenditure for:			
‣ Tangible fixed assets	-9'375	-3'261	-12'443
‣ Intangible fixed assets	-561	-1'155	-2'364
Disposals of fixed assets	355	109	224
Cash flow from investing activities, net	**-9'581**	-4'307	-14'583
Change in current financial liabilitites	19'735	15'858	3'213
Repayment of non-current financial liabilities	-124	-144	-286
Interest paid	-170	-140	-553
Interest received	36	50	106
Dividend payment	-6'048	-6'072	-6'096
Purchase of interest in subsidiary	0	-299	-299
Cash flow from financing activities, net	**13'429**	9'253	-3'915
Currency translation	-995	55	10
Net change in cash and cash equivalents	-1'943	-3'204	-11'147
Cash and cash equivalents at beginning of period	11'306	22'453	22'453
Cash and cash equivalents at end of period	**9'363**	19'249	11'306

Statement of shareholders'equity

CHF 1'000	Share capital	Additional paid-in capital	Retained earnings	Other reserve	Shareholders' equity of the company	Minority share-holders	Total share-holders' equity
01.01.2014	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
Dividend payment	-	-6'048	-	-	-6'048	-48	-6'096
Purchase of interest in subsidiary	-	-	-	-99	-99	-200	-299
30.06.2014	28'560	73'724	112'182	-23'401	191'065	829	191'894
31.12.2014	28'560	73'724	120'003	-27'294	194'993	881	195'874
Net income	-	-	3'094	-	3'094	48	3'142
Other comprehensive income	-	-	-	-18'258	-18'258	-51	-18'309
Total comprehensive income	-	-	3'094	-18'258	-15'164	-3	-15'167
Dividend payment	-	-6'048	-	-	-6'048	-	-6'048
30.06.2015	**28'560**	**67'676**	**123'097**	**-45'552**	**173'781**	**878**	**174'659**

Notes to the interim consolidated financial statements

1. Accounting principles

The unaudited interim consolidated financial statements for 2015 were prepared in accord-ance with International Financial Reporting Standards (IFRS). They have been prepared in condensed form in accordance with IAS 34 Interim Financial Reporting.

The consolidated interim financial statements do not contain all of the information found in the consolidated annual financial statements and should be read together with the financial statements for the 2014 fiscal year. The key accounting principles correspond to those ap-plied in the 2014 consolidated financial statements (see pages 82 to 85 of the 2014 Annual Report).

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

2. Equity interest in a subsidiary increased

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

3. Fair value of financial instruments

Foreign currency exposure is partially hedged by derivative financial instruments in order to react to short-term exchange rate fluctuations. These instruments are stated at fair value. The measurement of fair value is based on quoted market prices as of the reporting date (Level 2 of the fair value hierarchy). The fair value of the following balance sheet items roughly corresponds to their carrying amounts: Cash and cash equivalents, accounts receivable, other financial assets, financial liabilities and operational liabilities.

4. Additional information

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

5. Exchange rates

	2015 **01.01. – 30.06.**	2014 01.01. – 30.06.	2014 01.01. – 31.12.
Average rates (for income statement and cash flow statement)			
1 EUR	1.0761	1.2341	1.2274
1 USD	0.9604	0.8999	0.9225
1 GBP	1.4631	1.5007	1.5212
1 CNY	0.1544	0.1462	0.1499

	30.06.2015	30.06.2014	30.06.2014
Period end rates (for balance sheet)			
1 EUR	1.0484	1.2278	1.2146
1 USD	0.9367	0.8998	0.9988
1 GBP	1.4737	1.5331	1.5548
1 CNY	0.1509	0.1449	0.1611

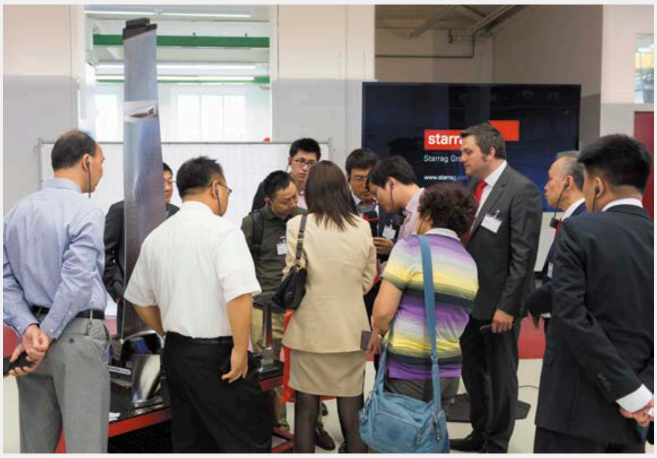
If the sales revenue had been converted in the first half-year 2015 at the same exchange rate like in the last year's period, the sales revenue had been higher by CHF 14.5 million.

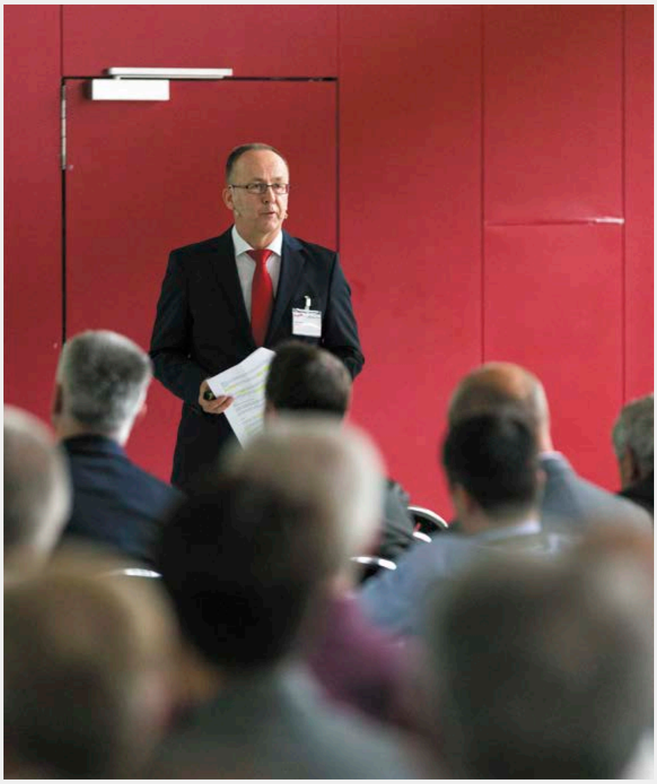
6. Approval of interim consolidated report

No events have occurred after 30 June 2015 that would have a material effect on the interim accounts. The interim consolidated report was approved and released for publication by the Board of Directors on 17 July 2015.

Open House «Turbine Technology Days»

The Turbine Technology Days of Starrag Group and Walter AG have become the industry event for turbine experts from the energy, aviation and aerospace technology sectors. 30 % more participants compared to 2013 could be welcomed at Starrag Rorschacherberg/CH to this year's event on 23 and 24 June: turbine manufacturers, experts from research and development as well as representatives of the trade press. Whole Europe was represented, along with numerous interested parties from China, India and Russia – belonging to the most important growth markets of the industry.





High-precision machine tools for greater productivity

Starrag Group is a global technology leader in manufacturing highprecision machine tools for milling turning, boring and grinding of workpieces made from metallic, composite and ceramic materials. Principle customers are internationally active companies in the Aerospace & Energy, Transportation & Industrial Components and Precision Engineering sectors. In addition to its portfolio of machine tools, Starrag Group provides integrated technology and maintenance services that significantly enhance customer productivity.

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

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

Financial calendar

3 November 2015	Information on third quarter 2015 results
29 January 2016	Initial information on full-year 2015 results
4 March 2016	Presentation of 2015 results for analysts and the media in Zurich
23 April 2016	Annual general meeting in Rorschacherberg
4 May 2016	Information on first quarter 2016 results
27 July 2016	Half-year report 2016

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