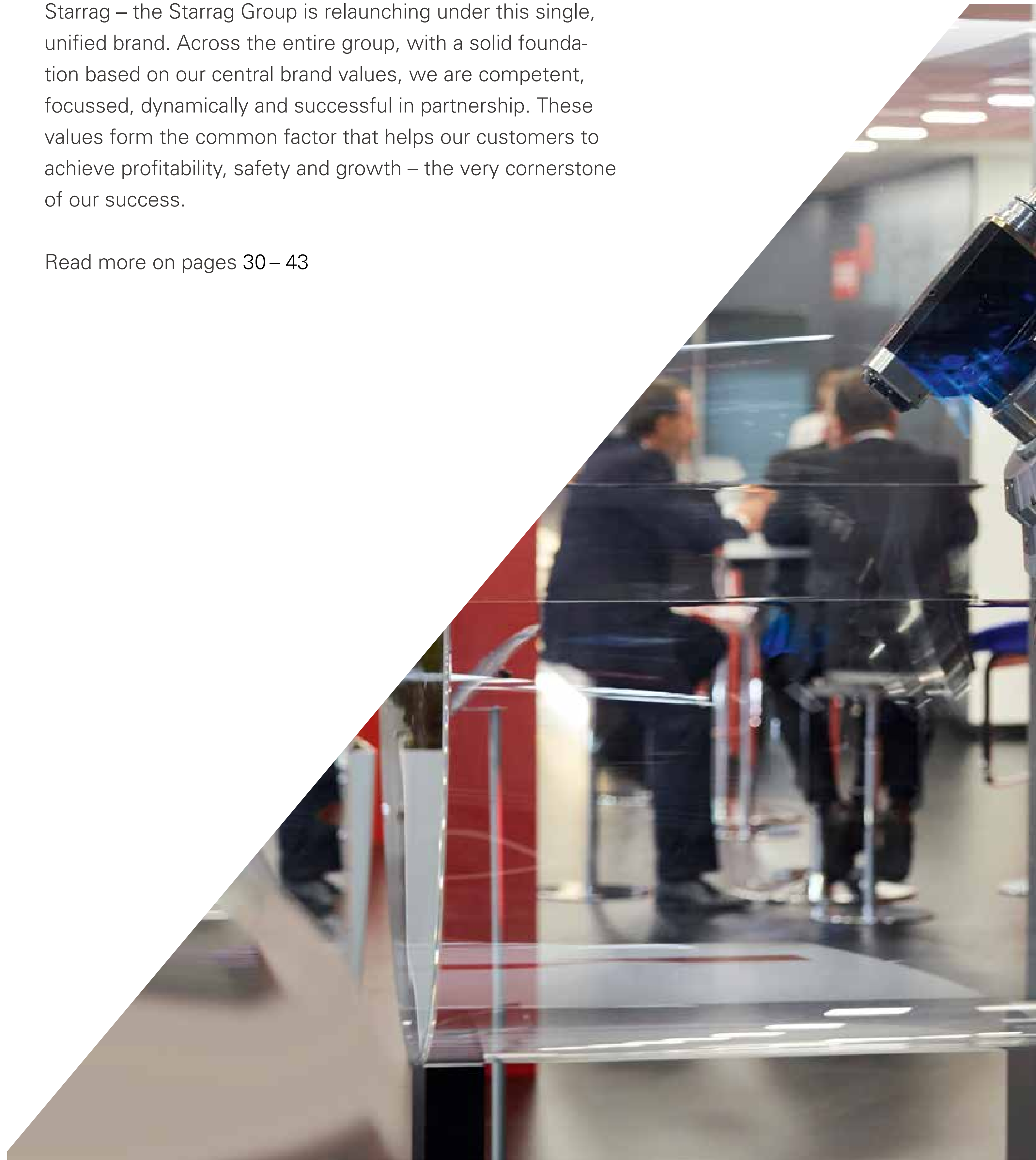
Starrag Group

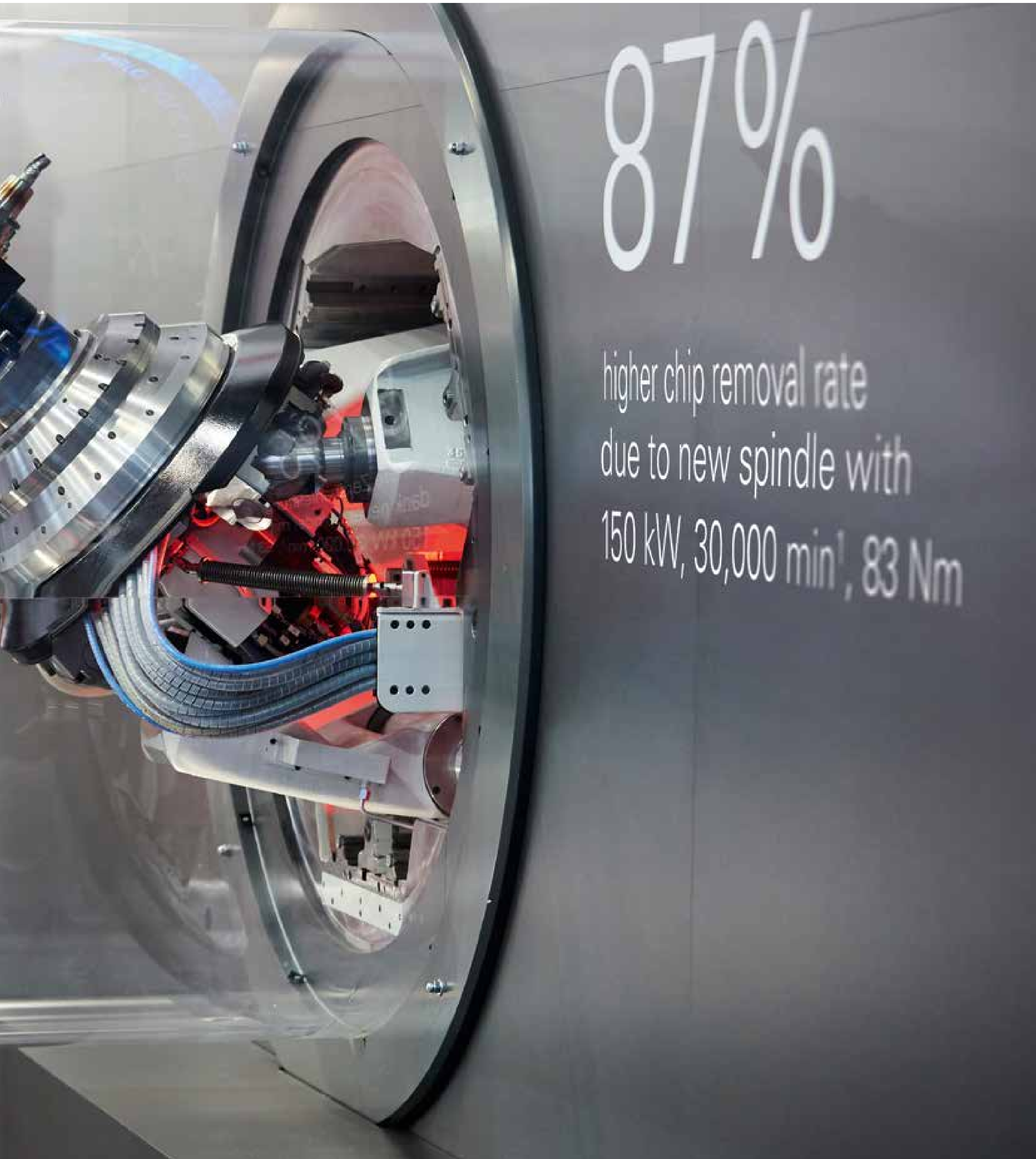
Annual Report
2017

One brand for every need

Starrag – the Starrag Group is relaunching under this single, unified brand. Across the entire group, with a solid foundation based on our central brand values, we are competent, focussed, dynamically and successful in partnership. These values form the common factor that helps our customers to achieve profitability, safety and growth – the very cornerstone of our success.

Read more on pages 30 – 43




87%
higher chip removal rate
due to new spindle with
150 kW, 30,000 min-1, 83 Nm

Content

Engineering precisely what you value

Starrag Group is a global technology leader in manufacturing high-precision machine tools for milling, turning, boring and grinding workpieces of metallic, composite and ceramic materials. Principle customers are internationally active companies in the Aerospace, Energy, Transportation and Industrial (Industrial Components, Luxury Goods, Med Tech) sectors. In addition to its portfolio of machine tools, Starrag Group provides integrated technology and maintenance services that significantly enhance customer quality and productivity.

The products are marketed under the brand Starrag and include the product ranges Berthiez, Bumotec, Dörries, Droop+Rein, Ecospeed, Heckert, Scharmann, SIP, Starrag, TTL and WMW. Headquartered in Rorschach/Switzerland, Starrag Group operates manufacturing plants in Switzerland, Germany, France, the UK and India and has established a network of sales and services subsidiaries in the most important customer countries.

The shares of Starrag Group Holding AG are listed on the SIX Swiss Exchange.

Dear shareholders

The 2017 financial year was a challenging one for the Starrag Group. As expected, order intake, which totalled CHF 349 million, lagged behind the historic high posted for the previous year (CHF 480 million), although the second half of the year was considerably better than the first. The decline was partly attributable to the fact that under a longer-term comparison, 2017 saw fewer major projects, particularly because in the target industry Aerospace, customers postponed their investment decisions, whereas the previous year benefited from individual major orders. In keeping with expectations, sales increased by 9.1% (7.9% after adjusting for currency effects) to CHF 405 million.

Earnings before interest and taxes (EBIT) came in at CHF 15.3 million, or 3.8% of sales, which was considerably higher than the previous year but still not at a satisfactory level. The increase was attributable not just to higher sales but also to numerous measures to improve operational excellence. Higher EBIT also resulted in considerably higher net income of CHF 12.1 million, with earnings per share amounting to CHF 3.58.

The ROCE (return on capital employed) amounted to 5.7%, which as a result of improved operating income was higher than the figure for the previous year (3.5%). At the close of the reporting year, the equity ratio remained at a very solid 53%, while net debt of CHF 20.7 million was slightly higher than the figure for the previous year. The strong balance sheet and the positive development in the second half of 2017 make it possible for the Board of Directors to propose to the Annual General Meeting on April 28 a dividend of CHF 1.50 per share, constituting an increase of 50%.

Attractively positioned

The Starrag Group is attractively positioned as a leading supplier in its four target industries of Aerospace, Energy, Transportation, and Industrial. We benefit from long-term megatrends, such as global mobility (Aerospace, Transportation) and energy efficiency (Aerospace, Energy, Transportation), as well as increasing miniaturisation (Industrial, with the Luxury Goods and Med Tech market segments), which offer our Group sustainable growth opportunities. We distinguish ourselves from the competition with our leadership in terms of innovation and quality, with our Starrag brand, which is recognised throughout the world, and with supplemental, renowned product areas and a high number of machines installed worldwide. We concentrate on attractive niche markets and service them with an intelligent product and production structure and with operational excellence in our processes, such as modular product lines that can be deployed in several market segments. With our management, our Board of Directors, and our major shareholder, we have an experienced, reliable team at the helm, which is tasked with translating this privileged position into sustainable financial success also in the coming years. Finally, the Starrag Group has a very solid balance sheet. Not only does this enable the management to develop long-term growth strategies; it is also the basis for a reliable dividend policy for the benefit of our shareholders.

Resolute implementation of strategy

In 2017 we steadfastly pushed ahead with the implementation of our Strategy "Starrag 2020". We demonstrated our leading application expertise with new applications for our Integrated Production System (IPS), which was developed in line with "Industry 4.0", as well as with the presentation of a new generation of machining centres. Also, as planned, we strengthened our geographic presence in China and the U.S. Under the motto of "operational excellence", which is a further pillar of our strategic measures, we are investing in the strengthening of our customer service structures, with an eye to gaining even greater market proximity. Entirely in line with this strategy is the decision taken in April 2017 to begin operating Group-wide under the common Starrag brand (see page 30).

We will tenaciously continue to pursue this path, with quality continuing to have the highest priority for the Starrag Group. We are therefore determined to achieve our medium-term growth and revenue targets, and we are confident that we will succeed at this. In specific terms, this means average sales growth of 5% and an operating margin of at least 8%, as an average over economic cycles.

Successful trade fairs and customer events

As usual, the Starrag Group was in attendance during the reporting year at the two leading trade fairs EMO in Hannover and CMIT in Beijing. The spotlight was on the latest networked manufacturing solutions in the spirit of Industry 4.0, with the focus on the Integrated Production System (IPS) that we developed in house.

In the reporting year, we again held the "Technology Days" customer events, which the Starrag Group has been conducting on site for several years now, at "Technology Days Precision Engineering", we presented our expertise in high-precision machining together with several partner companies, and at "Turbine Technology Days", the new "Service Plus" package was one of the main interests.

Further progress in transparency and performance

In the yearly ranking of annual reports conducted by the HarbourClub and the business magazine "Bilanz", our 2016 annual report was rated in the top 25 in the Value Reporting category out of a total of more than 220 listed companies that were evaluated, which is an outstanding result for a company of our size. We were once again able to improve our rating substantially compared with the previous year.
We have also introduced the key performance indicator ROCE for the first time in external reporting, which measures the return on capital employed. This is part of our ongoing efforts to improve transparency and demonstrate our future value creation for our shareholders.

Changes to the Board of Directors and the Executive Board

Erich Bohli was newly elected to the Board of Directors at the 2017 Annual General Meeting. At the upcoming Annual General Meeting on 28 April, Frank Brinken will step down from the Board of Directors at his own request. He has served as the Board's Vice-Chairman since 2014 after having previously been CEO of the Starrag Group since 2005. The Board of Directors owes him a debt of gratitude for his great commitment during this time.

It will be proposed at the Annual General Meeting that Michael Hauser be elected to the Board of Directors to fill the vacancy. He has been CEO of Tornos SA in Moutier since 2011. Prior to that, he held leading positions at Georg Fischer, Agie Charmilles, and Mikron and is thus an acknowledged expert in the machine tool industry. He is also active in Switzerland and internationally in relevant industry associations, such as chairman of the Swissmem specialist group "Machine tools and manufacturing technology", and is moreover a member of the Board of Directors of Schlatter Industries AG.

As announced on 9 February 2018, Christian Walti will take over as CEO of the Starrag Group on 1 June 2018, replacing Walter Börsch, who has served in that role since 2014.

Outlook

The Starrag Group is optimistic about 2018. We expect that order intake (in local currencies) will substantially exceed the figure for the previous year. However, this presupposes that we will not be confronted with any additional external uncertainties - whether economic or political or because of trends on the capital markets - that might dampen the willingness of customers to make investments. This applies in particular to expected major orders, which can have a strong short-term impact on incoming orders. We expect sales (in local currencies) to come in at least at the level of 2017. With respect to earnings, we anticipate that the operating margin and the return on capital employed ROCE will once again increase further compared with the previous year.

Dividend

The Board of Directors will propose a dividend of CHF 1.50 per share at the Annual General Meeting on 28 April (previous year: CHF 1.00). This corresponds to a payout ratio of about 42%, which is in the middle of the targeted range of 35% to 50%.

Thank you

Once again, we are very grateful for the tremendous dedication of our employees throughout the past year. We would also like to thank our customers and suppliers and, not least, you, our shareholders, for the continual trust that you place in the Starrag Group.

Daniel Frutig
Chairman of the Board of Directors

Walter Börsch
CEO

At a glance

Higher sales – solid workload – improved profitability

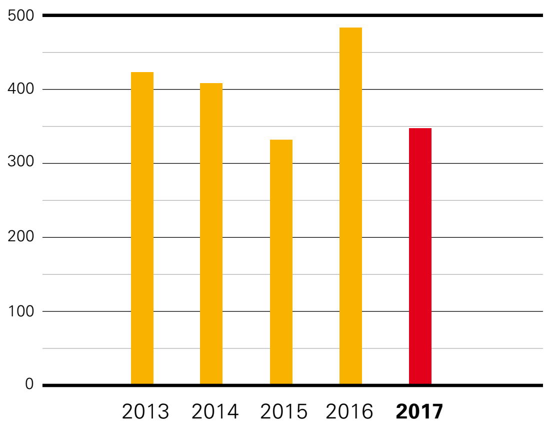
- Sales up 9% to CHF 405 million, organic growth +8%
- Order backlog of CHF 302 million secures capacity utilization for well over one year
- Order intake of CHF 349 million
- EBIT up 63% to CHF 15.3 million, operating margin 3.8%
- Net income doubled to CHF 12.1 million, earnings per share CHF 3.58, ROCE 5.7%
- Solid balance sheet with 53% equity ratio
- Dividend payout of CHF 1.50 per share, payout ratio 42%

CHF m	**2017**	2016	Change
Order intake	349.3	480.3	-27.3%
Sales revenue	405.3	371.6	9.1%
Operating result EBIT	15.3	9.3	63.2%
Net income	12.1	6.1	99.5%
EBIT as percentage of sales revenue	3.8%	2.5%	na.
Return on capital employed ROCE	5.7%	3.5%	na.
Return on equity ROE	7.5%	3.8%	na.
Cash flow from operating activities	13.1	21.2	-38.2%
Capital expenditure in non-current assets	9.2	19.4	-52.6%
Free cash flow	3.9	1.8	119.6%
Earnings per share (in CHF)	3.58	1.77	102.3%
Profit distribution per share (in CHF) [1]	1.50 [2]	1.00	50.0%
Employees (full-time equivalents, annual average)	1'503	1'524	-1.4%

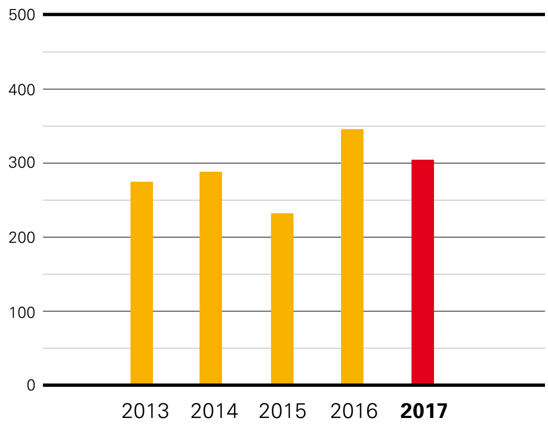
CHF m	**31.12.2017**	31.12.2016	Change
Order backlog	301.7	348.3	-13.4%
Total assets	339.7	316.3	7.4%
Capital employed	225.4	202.8	11.1%
Net debt	20.7	18.7	10.3%
Shareholders' equity	179.6	161.4	11.3%
Equity ratio	52.9%	51.0%	na.

[1] In the form of a distribution of capital contribution reserves free of withholding tax.
[2] Proposal from the advisory board to the General Meeting.

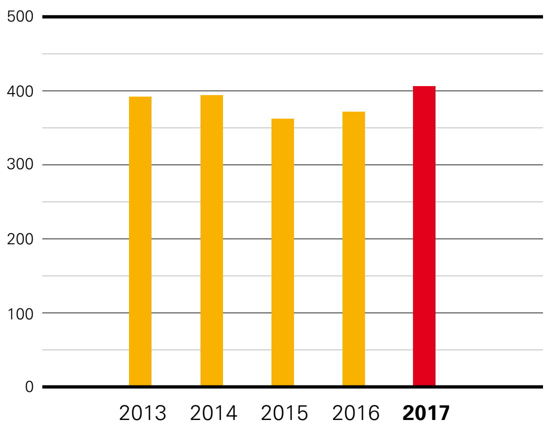
Order intake
CHF m



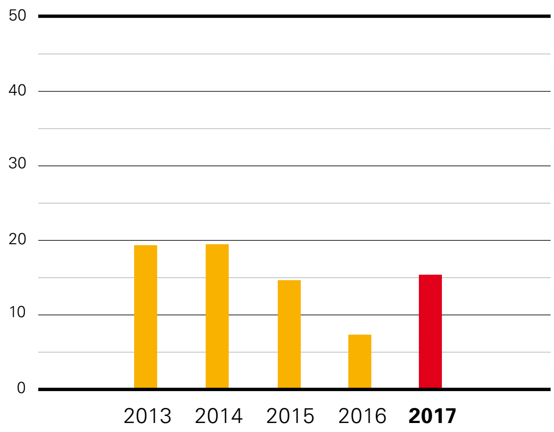
Order backlog
CHF m



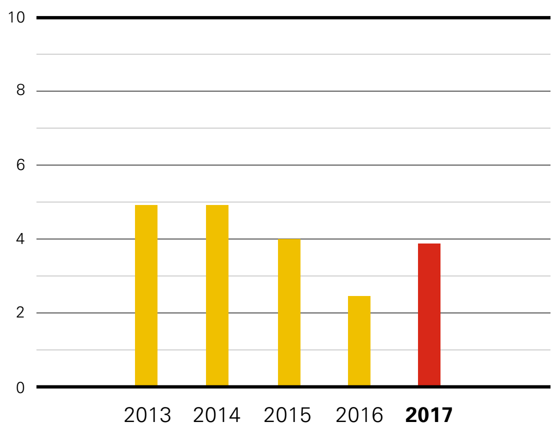
Sales revenue
CHF m



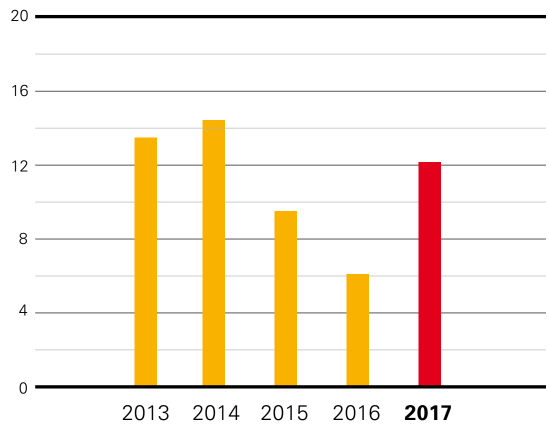
Operating result EBIT
CHF m



EBIT as percentage of sales revenue
%

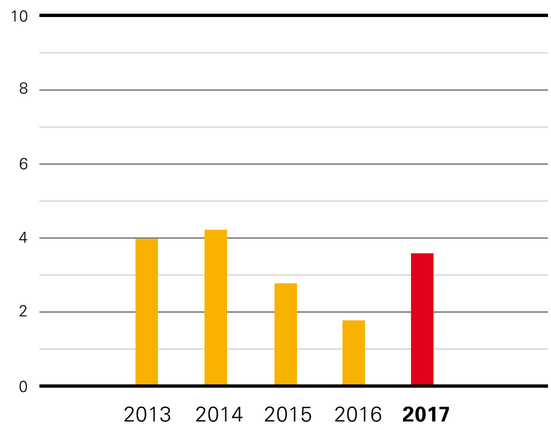


Net income
CHF m

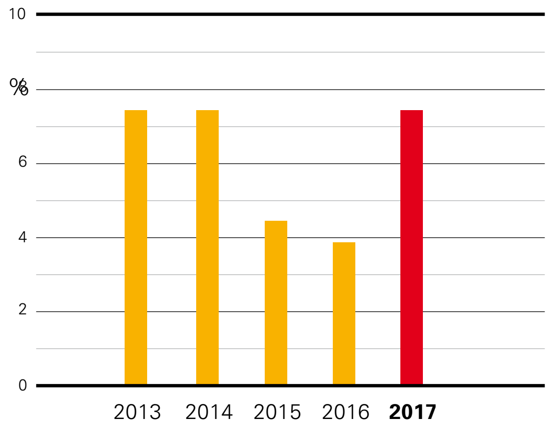


Since 2017, the financial statements of Starrag Group have been prepared in accordance with the Swiss GAAP FER accounting standards. The 2016 figures have been adjusted accordingly. The key figures for the years 2013 to 2015 are prepared in accordance with International Financial Reporting Standards (IFRS) and are only partially comparable to a limited extent.

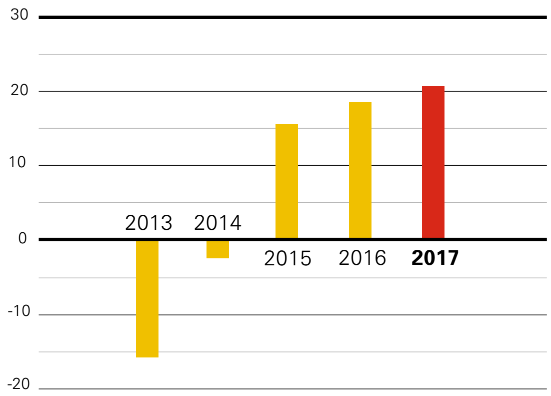
Earnings per share
CHF



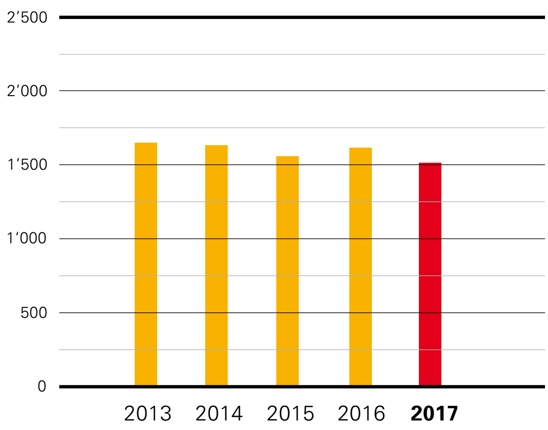
Return on equity
%



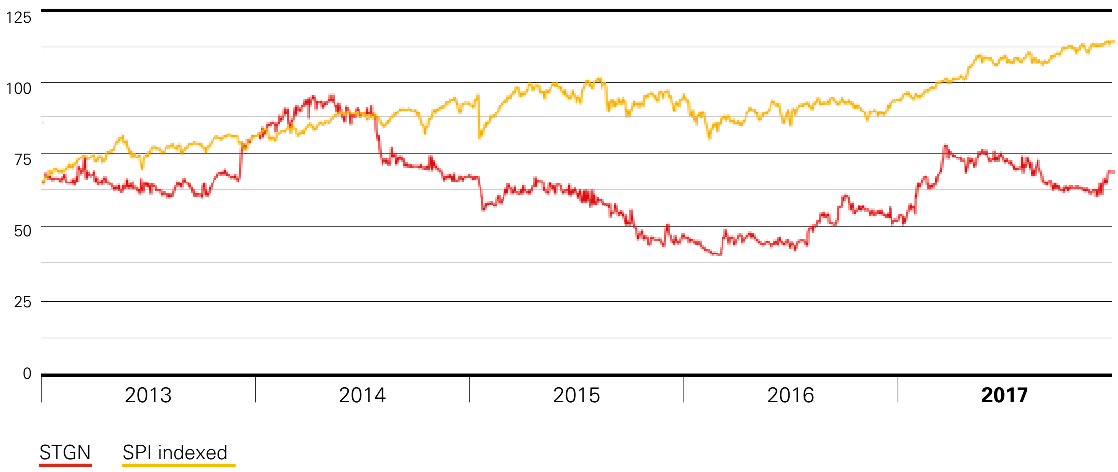
Net debt
CHF m



Employees
full-time equivalents, annual average



Share price
CHF



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Highlights

Customer training: precisely what you value

More efficient use of machinery thanks to optimal training: this is the goal of the new training centre for customers at the company's headquarters in Rorschacherberg, which – together with the other centres in Chemnitz and Mönchengladbach – focuses on tested and proven standardised training blocks.

Starrag develops each individual training course on the basis of these "learning nuggets". This enables the customer's machine operators to use their new production systems faster, more productively and for longer. The training is practice-oriented and is given either individually at the machine at the point of use or comprehensively at the manufacturer's plant. One of the highlights of 2017 was a custom-designed training course lasting several weeks for an aviation company in Malaysia that machines large jet engine housings on a Starrag STC 1800/170. The operation, programming and maintenance of the system are usually the focus, as optimally trained staff ultimately means comprehensive safety in production.

The centre also offers follow-up training for new employees or to pass on new know-how. Most customers prefer individual training, which is compensated according to the time spent. The participants receive specially matched documentation for each training focus.

All training materials are also available in electronic form via a document management system. All documents are offered in the customer's native language. So they are given the exact knowledge they need, true to our claim "precisely what you value".

Daniel Ramm, Head of Starrag's training centre:
"We train our customers in such a way that they can get the most out of the system they purchased from us."

EMO: the whole value chain in mind

At EMO 2017 Starrag attracted a record number of visitors with the presentation of their latest networked production solutions – Industry 4.0 on a 1:1 scale.

Every two years, the industry meets at EMO, the internationally acclaimed trade fair for machine tools. This event took place once again in September 2017 in Hanover, where the organiser hosted practical forums, exciting presentations, enjoyable panel discussions and interesting speakers.

Starrag had an exhibition area of over 700 m^2, where it presented the latest solutions connected with "Industry 4.0", including systems for highly efficient machining of large structural components made from aluminium.

The central theme of the trade fair appearance was the "Integrated Production System" (IPS) with its cell controller technology developed in-house. Using this system, Starrag has already implemented a digital networked production set-up on a large scale in the southwest of China. With a completion date of summer 2019, six linked ECOSPEED F 2060 machining centres are to be installed at Chengdu Aerospace's aircraft factory to create one of the most productive and efficient plants in the world for the complete processing of aluminium structural components.

The IPS is used as a platform for automating and digitising production – step by step if desired. The concept, which was presented at the trade fair stand, ranges from single machines to flexible manufacturing systems and complete production lines.

The new machining centres from the Heckert product range that Starrag presented in Hanover are no less innovative and also attracted a large amount of attention. The benefits speak for themselves: 30% smaller footprint and 15% higher productivity. Numerous new developments were also presented in the other product ranges. In short, this was the most successful EMO appearance for the group. Starrag never welcomed so many qualified customers on a booth before.

Highest level of precision for MedTech and Avionics

The Bumotec product range presented its latest solutions for demanding machining tasks to interested customers at two successful events in 2017.

Technology Days Precision Engineering 2017
In February, the TechCenter for Medical Technology and Precision Engineering founded by Starrag in 2015 in Immendingen, Baden-Württemberg, presented its know-how in high-precision machining together with various partner companies. The presentation looked at the complete process chain and the interaction of machine tools, measuring devices, tools, shrinking units, tool holders and fluid technology.

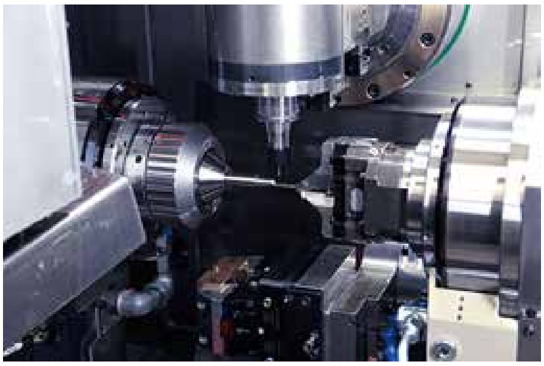
The focus was on demonstrations of two high-precision machine tools from the Bumotec product range, which precisely machine components to a thousandth of a millimetre.
"These two machines open up a wide range of machining capabilities", said Marc Lehmann, Head of the TechCenter. "Based on sample work, we optimise the machining process with a view to achieving the fastest possible cycle time. This helps our customers to be more profitable – whilst complying with process reliability and quality requirements."

While traditional machine tools are first and foremost designed for the machining of steel or aluminium, medical technology or precision engineering, for example, use cobalt-chrome, titanium and stainless steel. This calls for individual machining processes with different machining tools – e.g., in the case of instruments used for minimally invasive surgery.

Thanks to the outstanding flexibility of the Bumotec machining centres, the customer can manufacture complete sets, such as multi-part instruments, without running into problems further down the line during the assembly process. Another focus is the production of components and instruments for the dental sector using a variety of materials with strict tolerances.

Another speciality is the production of implants for orthopaedics and traumatology from slabs or blanks. The Bumotec machining centres boast very low downtimes as well as fast set-up processes, which means that the production of small batches – including single-unit batches – is still economical.

The TechCenter in the town of Immendingen in Baden-Württemberg serves German customers in the MedTech and micromechanics sectors and also functions as a service support centre for the southern German market. The specialists based there regularly share knowledge with their colleagues in the technology centres in Switzerland, the USA and China.



New machining processes for the aerospace industry
The Bumotec product range also features attractive solutions for the demanding area of avionics. Several dozen engineers gained insight into the possibilities of the Bumotec s191 turning and milling centre at Boeing's Advanced Manufacturing Research Centre (AMRC) in Sheffield, UK. The system was put through its paces and gave an impressive demonstration of its ability to machine small workpieces profitably in a single work step.

Visitors from the aviation sector and other industries were shown the numerous possibilities offered by the Bumotec s191 in a live demonstration and through various presentations. This tool allows grinding, toothing and incision, as well as turning and milling, to be carried out in a single clamping operation.
The high machining accuracy results from the linear drive and high thermal stability. “The Bumotec s191 gives us opportunities to develop revolutionary new machining processes for any material and any sector", commented an enthusiastic David Curtis, Technical Fellow of the AMRC.

The machining centres from the Bumotec s191 product line are used wherever extremely high precision with minimum tolerances is required.

This label signes future oriented Industry 4.0 solutions from Starrag.

Industry 4.0 à la carte

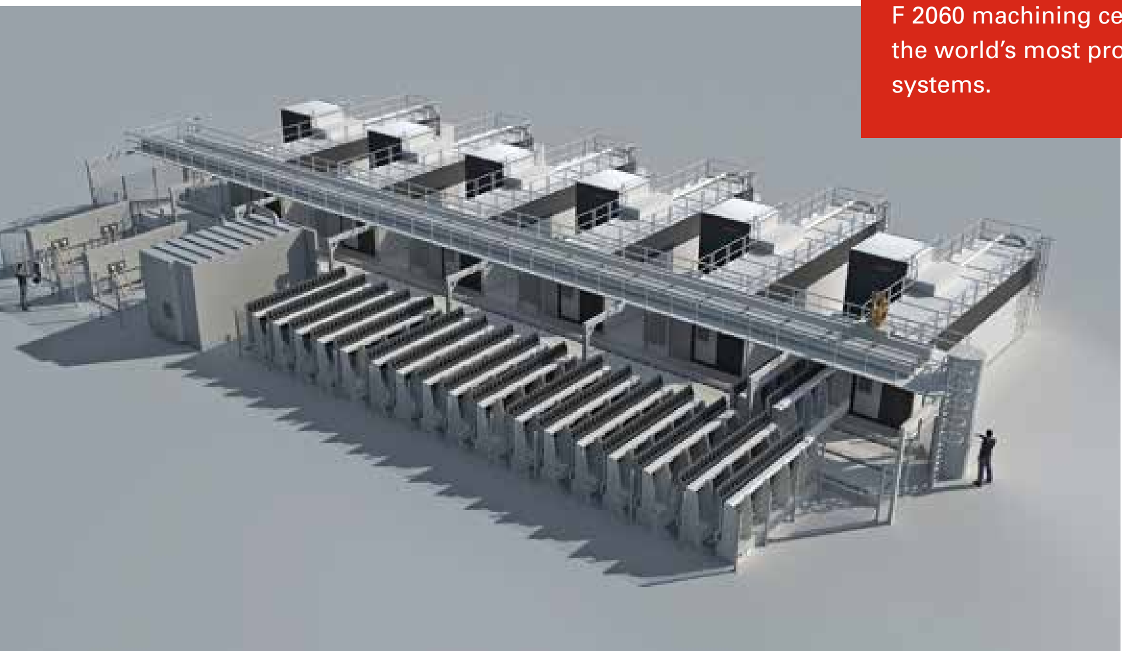
Integrated Production System, or IPS, is Starrag's answer to the challenges of Industry 4.0 – an intelligent modular system, from which customers select their own individual solution.

The IPS from Starrag should be thought of as a platform for optional automation and digitalisation of production – from individual machines to complete production lines. In contrast to other providers, Starrag focuses on products developed in-house. The core element is a cell controller, which monitors the entire system at all times with maximum process reliability. It controls and regulates the production process comprehensively, in conjunction with a higher-level ERP (Enterprise Resource Planning) system if necessary.

In addition, the cell controller ensures digital transparency in the factory – for example, by visualising the current status of the system. The cell controller is an open system that can be used to link different system components together.

True to the promise "Engineering precisely what you value", IPS is based on the individual tasks of the customer and achieves the desired added value for them with a wealth of features, systems and services.
In addition to reliability and safety in production, this is also reflected in a significant reduction in maintenance and downtime costs. Energy requirements and consumption can also be consistently monitored and controlled. These numerous benefits should enable customers to substantially increase profitability and generate growth.

Evidence of Industry 4.0: from 2019, complex aluminium structural components will be manufactured on this large-scale plant in the Chengdu Aerospace aircraft factory in China with six linked Ecospeed F 2060 machining centres. It is one of the world's most productive and efficient systems.



GREAT PLACE TO WORK®

Further improvement in employee satisfaction

A workplace culture based on trust is a key prerequisite for the success of the company as a whole. Starrag therefore carried out another company-wide survey about employee satisfaction in 2017, with pleasing results.

Willing and motivated employees are essential for achieving the company's goals. However, employees only remain committed if they are satisfied in their work environment. Starrag has discovered this through the periodic, company-wide systematic surveys it has carried out for many years. The results provide valuable indications of potential for further improvement and optimisation of working conditions, leadership performance, processes, and information and communication.

For example, following the survey in 2014, a further survey was carried out during the year under review, allowing valuable comparisons regarding where Starrag has improved and where there is still potential for optimisation. Once again, thanks to its compliance with high data protection standards, the external specialist was awarded the label "Great Place to Work".

The positive results of the most recent survey show significant progress. Starrag scored above the European average for the engineering industry, especially regarding teamwork between employees and the feedback culture. This also applies in relation to the level of trust between employees and management, and to the enjoyment of work. At the same time, the survey has identified opportunities for improvement in certain areas, which will be systematically addressed in conjunction with the employee's representatives.

Blank parts go in, finished parts come out

Flexible manufacturing systems (FMS) for automated series production are on trend worldwide. The aerospace and energy industries in particular take advantage of their qualitative and economic benefits. For more than 20 years, Starrag has been developing this type of sophisticated system for the production of turbine components and structural components for aircraft.

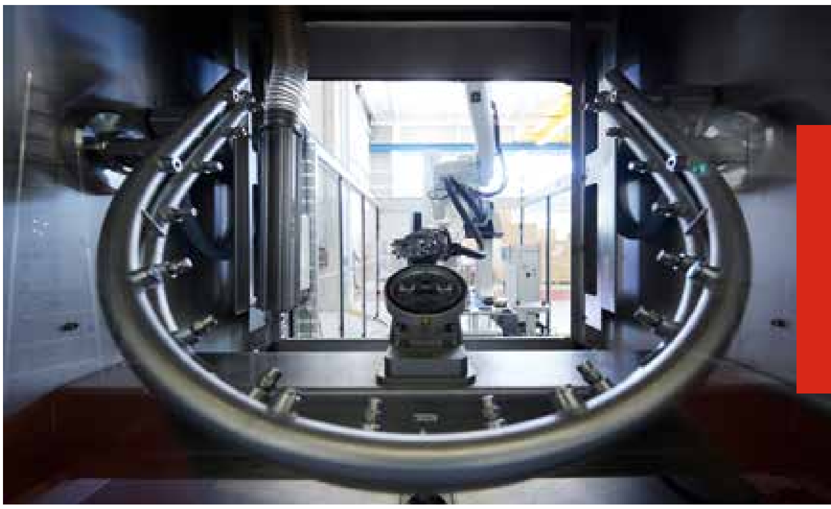
The most recent FMS conceived and realised by Starrag is being delivered to China. A company active in the Chinese aviation industry will use it to machine Inconel or titanium turbine blades right through to completion via a fully automated process. The operator simply places the unmachined parts into the magazine at the start, and at the end he/she removes the ready-to-install blades.

A total of seven identical LX 021 machining centres take care of the machining, of which four are arranged on one side and three on the other side. All handling is dealt with by a robot. Never before have such high demands been placed on this type of system.

Seven LX 021 machining centres for 35,000 turbine blades per year.

The new FMS is able to machine a total of 35,000 turbine blades per year, with four different blade types in sizes ranging from 80 mm to 200 mm. These blades are known as “variable guide vanes” and they are positioned in the vertical part of the turbine so that they can be adjusted to allow the flow or thrust to be modified as needed.

Since the effective batch size of the four types is around 200 pieces, the production system must also meet high requirements for precision and throughput, as well as flexibility.



A gantry robot takes care of all the handling. From the material storage area, which is equipped by an employee, it picks up the forging blank, clamps it in the first fixture and transports it to the machining centres.

Extensive Innovations

RVU, FOGS HD, X40, H50: not magic formulas, but proof of Starrag's strong innovative capabilities. Four current solutions with the common denominator that they all provide the customer with proven added value – a claim that applies to everything that Starrag does.

Size and maximum precision in perfect balance
The future not only involves plants for alternative energy production, but also new power plants that generate power using gas and steam turbines at an extremely high level of efficiency.

Innovation is also needed in production. Particularly high demands are placed on systems for high-precision, low-vibration and highly productive machining of the drive elements. The Berthiez product range based in Saint-Etienne, France, is an example of this. The complete machining of drive elements is a speciality of the Berthiez RVU 2800/250 machining centres.

The workpieces weighing several tonnes are positioned precisely to 5 μm (millionths of a metre).

They are suitable for grinding, turning, drilling, milling and inline measurement of components weighing up to 20 tonnes with diameters of up to 2,500 mm and heights of up to 1,500 mm in a single clamping operation.

The large facing head, rotating at up to 200 rpm with 51 kW drive, hydraulic collet chuck and hydrostatic positioning unit plays an important role, being used to centre very heavy workpieces with a deviation in the μ range.

A robot supports the equipping of the machining centre.

Customer inspired

Smart innovations often succeed best in close cooperation with the customer. This is demonstrated by the newly developed Droop+Rein FOGS HD (Heavy Duty) from the Bielefeld-based Droop+Rein product range, which was inspired by a customer.

"The user of a high-speed machining centre from the Droop+Rein FOGS series wanted another machine for machining heavy tools and machine components," explains Ulrich Wiehagen, Plant Manager of the product range.

Normally, the long Droop+Rein TF portal machine with movable table would be suitable in a case like this. However, in addition to the large space requirement; it would not be as easy to retrofit as a space-saving gantry machine in ongoing operation – e.g. for low-staffed night shifts.

Thanks to its high machine dynamics, finishing (removal of small amounts of material) is around 20% to 30% faster and more economical.

"Why don't we just combine the two types of machine already established on the market, Droop+Rein FOGS and Droop+Rein TF, into a single machine concept?" suggested Wiehagen, "and install the modules of the TF portal machine on top of the base." In this way, a powerful, precision-machining high gantry machine with fast, dynamic axes and extremely high torque was created. The "Heavy Duty" is designed for large components: X axis 3,000 to 31,000 mm; Y axis 3,000 to 6,000 mm; Z axis 1,500 and 2,500 mm.

The new Droop+Rein FOGS HD (Heavy Duty) with its impressive dimensions.

Using modular design to increase profitability
The newly developed horizontal Heckert X40 and Heckert H50 machining centres from the Heckert product range based in Chemnitz, Germany, are powerful and highly precise. The modular design of the horizontal five-axis centres with 400 mm or 500 mm pallet size allows for custom configuration in operations ranging from light metal machining to heavy-duty cutting.

Maximum rigidity is one of the key proven features. The strikingly low space requirements make for higher productivity, meaning that the two new developments represent a viable alternative to multispindle centres.

The modular design allows the machines to be individually configured for the customer and delivered within just ten weeks of the order.

While many parts are identical for all machine variants, the columns have various options. For example, for highly dynamic cutting there is a weight-optimised version available, while a more solid column is used for heavy-duty cutting, guaranteeing optimum damping.

- 30% reduction in footprint thanks to modular and compact design
- 15% increase in productivity due to maximum machine dynamics
- Reduced downtimes
- Currently the most rigid 5-axis horizontal machining centre on the market

The heart of the machine, the spindle, is also available in a large number of versions: universal HSK 63 spindles, high-speed spindles for dynamic machining of aluminium and high-torque HSK 100 spindles, as required for the machining of titanium.

The Heckert X40 5-axis machining centre for the complete production of complex workpieces in a single clamping position.

Company profile

Vision and strategy

Starrag Group, a leading manufacturer of highly productive and sustainable comprehensive solutions for precision milling machine tools, is the partner of choice for multinational customers in its target industries of Aerospace, Energy, Transportation and Industrial (Industrial Components, Luxury Goods and Med Tech). It offers an extensive range of high-end precision machine tools, enhanced and enlarged on a continual basis and backed by engineering expertise as well as maintenance and repair services, that is proven to generate significant and lasting quality and productivity gains for the customer. Starrag Group is pursuing the following strategic objectives to make this vision a reality:

- Concentration on clearly defined market segments
- Consistent focus on customers and their individual needs
- Concentration on the top-quality segment through technological and service-oriented leadership
- Qualified and motivated employees
- High internal flexibility
- Solid financial basis
- Innovative management

Starrag 2020 Strategy

The Group’s inherent growth and earnings potential has not yet been fully exploited. This challenge has been recognized and is reflected in the new “Starrag 2020” strategy with a clear ambition to achieve the mid-term growth and earnings targets as quickly as possible and sustainably. With the new strategy, we will focus even more than before on the most promising, i. e. the strongest growth and most profitable, market segments and regions in the future, paying particular attention to the aspect of services. By optimization of the market and product strategy, the current business model will be strengthened within the scope of the existing range of activities by prioritizing defined market segments. At the same time, we are also sharpening the value added for our customers in these market segments.

This strategy includes enhanced customer service, the promotion of the digitization strategy (keyword "Industry 4.0") as well as organizational and structural adjustments. Each business unit bears full responsibility for its profitability. In sales, we will further simplify customer communication in line with the motto "one face to the customer". In order to make the division-specific expertise available throughout the Group, the Group creates cross-divisional competence centres and invests in operational processes and additional personnel in this area. The Starrag Group will thus further differentiate itself from its competitors in terms of application competence, technology and service performance.

Market positioning

The elements of the strategic thrust determine the Starrag Group's market positioning, which can be summarized in the following claim: "Engineering precisely what you value".

On the one hand, this claim expresses one of the Starrag Group's most important core competencies: "Engineering" - The outstanding capabilities of our employees enable us to manufacture machine tools for the upper quality segment, which are characterized by highest performance and above all precision and for which we also offer all associated services.

“Precisely" stands on the one hand for precisely this precision and on the other hand for our consistent customer orientation. Our customers receive individual solutions that provide them with added value, and for which they are also willing to pay: "What you value!”

No more, but also no less. We work consistently to focus our work on bringing profitability, growth and security to our customers and their needs, in the sense of a partnership that is reliable in every respect.

One-brand strategy

The Group now operates consistently under the Starrag brand across all business units and product ranges. Starrag is the connecting link for everything we do for our customers. The common brand stands for the four core values that apply throughout the Group and are lived by: competent, focused, dynamically and successful in partnership. It expresses a shared understanding of our targets, values and performance. With regard to the market, this means: Individual customer solutions based on common values (see page 31). When implementing the single-brand strategy, care is taken to ensure that existing customer access to the existing individual brands is maintained and gradually transferred to the "Starrag" brand over several years

Customer industries

As of 2015, Starrag Group's organisation and operations have been aligned more closely with its target customer groups, in keeping with its customer centricity claim. Products and services are concentrated on the four target industries of Aerospace, Energy, Transportation and Industrial. These target industries are sub-divided into eleven market segments, which in turn are focused on specific applications.

Aerospace

The industry of Aerospace includes the market segments Aero Engines, Aero Structures, and Avionics.

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 requires 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 aircrafts 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.

The Avionics market segment
Avionics is a collective term for the electrical and electronic systems used on aircraft and satellites. Flight control, management, communications and navigation systems are the main avionics systems in use today. Avionics systems are highly complex and extreme precision is required. Starrag's machine tool competencies in this market segment are in the areas of injection systems, combustion chambers, gyroscopes and flight control components.

Energy
The target market of Energy includes the market segments Oil & Gas, Power Turbines and Renewables.

The Oil & Gas 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.

The Power Turbines market segment
In the field of turbo machine engineering, Starrag Group has the most experience in the machining of high-precision flow components. 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.

Market segment Renewables
Thanks to a clear focus on applications such as gearbox housings, planet carriers, torque arms, large bearing or Pelton turbines, we are able to create measurable added value in the renewable energy sector, for example in the wind energy sector.

Transportation
The target market of Transportation includes the market segments Heavy Duty Vehicles & Engines and On-Road Vehicles.

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.

Industrial

The target market of Industrial includes the market segments Industrial Components, Luxury Goods and Med Tech.

The Industrial Components market segment

This segment 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 centers that combine different machining technologies in a single machine.

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.

Product ranges

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 eleven precision machining product ranges under one roof, boasting a wide range of competencies that few rivals can match.

As part of our new one-brand strategy, the product ranges consistently operate under the name of Starrag, together with the figurative mark in red denoting high-precision machining capabilities. Both are registered and protected nationally and internationally. We will vigorously pursue our claims against any imitations, counterfeit products or patent infringements. The product ranges are used in all corporate and marketing communications, especially at leading fairs with a high international standing, at specialized trade fairs with a strong regional attraction and in our new customer magazine “Starrag Star”, which was launched in 2015. The best trademark ambassadors can be found in our installed base at customer sites around the world, where our machine tools substantiate our claim of “engineering precisely what the customer values”, every day. We assess perception of our appearance in the marketplace during our regular contacts with customers.

Berthiez

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

Ecospeed
The most productive solution for high performance machining of aluminium structural components on the market: The patented parallel kinematic machining head Sprint Z3, the heart of the Ecospeed series, surpasses the performance of all conventional bent axis and fork milling heads and enables performance increases of up to 87%.

Heckert
The perfect balance between long-lasting precision and productivity: Scaled range of high-precision and highly productive horizontal machining centers 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.

SIP
Uncompromising commitment to precision: Jig boring machines and machining centers 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 centers for emerging markets: Horizontal machining centers for rapidly developing emerging nations.

Flexible production at eight locations

Starrag Group manufactures its machines and production systems at eight production plants in Switzerland, Germany, France, Great Britain and India. All production facilities are part of our production network, which enables us to balance capacity and risk. Our development and technology centers are also situated in these locations. We us our exemplary technological expertise across all segments throughout the Group.

Keys to success

Sustainable commercial success, as the Starrag Group has distinguished it for many years, is based on a number of strategic success factors that we continue to nurture consistently: individual customer focus, global presence, continuous innovation, consistent efficiency enhancement and profitable, long-term oriented management.

Individual customer focus
The Starrag Group operates to a large extent discrete manufacturing according to the individual and therefore very different needs of its customers. In addition to stand-alone machines, there is a growing focus on system solutions in which individual Starrag machines are integrated into customer-specific, flexible production systems.. As a result, almost all the machines delivered are distinct items.

Global presence
Starrag Group is represented in the most important industrial centers (Europe, Asia and North America). 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 optimized transport routes and decentralized spare parts warehouses ensures fast and efficient parts supply. The intensive customer contact up to the delivery and commissioning of the machines, but also the operating phase enables a continuous and comprehensive survey of customer satisfaction. This is all the more so as the Starrag Group tends to serve specialized larger 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 market oriented innovation as the central driving force of our business. We operate research and development centers 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 one of our German subsidiaries.

Systematic increase in efficiency
As the overarching link, the Group ensures Starrag's high quality expectations and opens up synergies along the added value chain – from product development and purchasing to sales and service. This includes, for example, the development of joint modules that can be used and processed in various companies throughout the Group. Internally, this requires continuous improvement in procedures and processes to increase productivity. This is the task of our Business Process Management, which simplifies and standardizes processes wherever it makes sense. Defined key processes are regularly checked and improved. The best possible distribution of risk in terms of markets and regions as well as a solid financing structure should ensure growth and innovation over the long term.

Attractive for shareholders

Five key components make shares in the Starrag Group attractive for long-term, value-oriented investors.

Positioned in sustainable megatrends
We serve markets that are characterized by sustainable growth potential due to global trends and challenges: increased mobility (aviation and land transport with their demands on safety and fuel efficiency), investment needs in the global infrastructure (trucks and construction machinery), nutrition for a globally growing population (efficiency in agriculture), increasing need for energy with improved energy efficiency. In addition, increasing demands on the production efficiency require higher precision in production, both with larger work such as structural parts for aircraft or ship propellers as well

as with increasingly small and complex work such as precision mechanics, watches or medical technology. This is exactly in line with the core competences of the Starrag Group. Experts estimate that we have access to a market potential of around CHF 4.5 billion worldwide in our four customer industries, which is more than ten times the current sales revenue. This means that Starrag still enjoys substantial growth opportunities in these long-term growing markets.

Innovation leadership as a key differentiating element to the competition

The Starrag Group focuses its innovation activities systematically on customers and their individual needs, with a focus on the high-quality segment and the Group's own expectation of technological and service-oriented leadership. Every year, we invest a disproportionate share of, on average, around seven percent of our sales in research and development and, in addition, maintain close contact with the science sector. Our customers and other market experts confirm this technology leadership of the globally recognized brand Starrag – but also of our individual product areas. We are also well on the way to "Industry 4.0", for example, by networking with our customers' production systems. We systematically modularize our machines in order to expand the application possibilities of existing machine series to other market segments served by the Starrag Group while reducing complexity. Thanks to the core competence of the Starrag Group in optimizing the overall system of machine – software – application – system integration – customer service, we not only create added value for our shareholders, but also for our customers.

Focused strategy – "Reduced to the max, but this from A to Z"

Our strategy "Starrag 2020" focuses on the most promising, growing and profitable market segments and regions as part of a clear one-brand strategy – committed to providing our customers with our solutions for profitability, growth and security, in the spirit of a partnership that is reliable in every respect. We support our customers through a professional customer service organization, which makes a significant contribution to the profitability and stability of the Starrag Group with its innovative service products. Operational excellence with clear processes and reduced complexity is a key element for us. In this way, we can differentiate ourselves from our competitors and provide our customers with tailor-made added value.

Forward-looking management with undisputed track record – Major shareholder ensures continuity

The entrepreneurial members of our management team and Board of Directors have many years of professional and managerial experience in the industry, including the machine tool industry, and are therefore very familiar with their specific challenges and cycles. This is not only an important basis for careful planning, but also for the corresponding reliable external communication, for example with our investors. The focus on four customer industries means the Starrag leadership team already occupies a top ten position in all four industries today: In aerospace and energy we are even among the top 3 suppliers worldwide. With Walter Fust, the Starrag Group has a majority shareholder with a long-term orientation, who as an engineer is very familiar with the industry and its challenges and has successfully created a group of companies that specializes, among other things, in customer service. The corporate governance of the Starrag Group is committed to the highest standards, which has also been honoured in various external ratings.

Solid financial basis and management with long-term orientation using modern, value-based instruments

Primarily, the financial management of the Starrag Group is consistently focused on growth and increasing the earning power of the Starrag Group. These are measured by the key performance indicators growth in sales revenue and order intake, operating profitability (EBIT margin) and return on capital (Return on capital employed ROCE and Return on equity ROE). The Starrag Group's history of reliably distributing a dividend year after year with a planned payout ratio of 33% to 50% of net profit results in an attractive dividend yield (applied payout ratio for fiscal year 2017:42% or dividend yield of 2.3% on the year-end 2017). For many years, the Starrag Group has been able to report sustainable positive results. Even during the 2008/09 financial crisis, the Group was able to continue to distribute dividends uninterruptedly. The Starrag Group's extremely sound financing and capital structure - with an equity ratio of traditionally over 50% - is not only the basis for reliable dividend payments. It is also a valuable foundation for the long-term capital goods business and the successful conclusion of suitable, complementary acquisitions.

Outlook: Creating long-term value

The Starrag Group aims to achieve profitable growth in the interest of its sustainable, value-enhancing positioning, based on a strong financial base and a stable shareholder structure with a renowned anchor shareholder. We expect our activities to generate an EBIT margin of at least 8% on average over economic cycles and to earn the cost of capital. We intend to achieve this financial requirement in the future as well by means of a clear strategic positioning, the further improvement of operational excellence, the use of economies of scale, the operating leverage with rising sales revenue and by a consistent cost management.

Although recent growth has been driven primarily by acquisitions, organic growth will take precedence over the coming years with consistent use of the Group's synergy potential. In the medium term, we aim for an annual increase in sales of 5%. We expect this growth based on our "Starrag 2020" strategy as a result of the worldwide scalability of our expertise in areas of activity and markets in which we have not yet achieved the desired leading market position. In addition, we are focusing on further strengthening and expansion of our service business.

Sales with Asian customers should account for around 40% of the Starrag Group's sales in just a few years. The focus on organic growth does not rule out further complementary acquisitions in individual cases. The basic prerequisites for this continue to be the strategic "fit", an attractive and complementary market and product portfolio, cultural compatibility and, last but not least, an attractive valuation.

We remain committed to our sustained ambition to play a leading role in all four of our customer industries.

One for all

The Starrag Group now consistently operates under the Starrag brand. It stands as a unifying element for everything we do for our customers, namely "Engineering precisely what you value". It is expressed in a concrete way in the four brand values: competent, focused, dynamically and successful in partnership. These represent the common understanding of our goals, values and services and apply always and everywhere we are active.

Competent

A brand value with two facets: competent in business, competent in appearance. Our employees have the necessary technical and methodological skills and experience to offer customers the best solution for them. To this end, we are continuously developing and share our knowledge internally, across all areas. We create a professional, honest and authentic impression. Our employees listen and ask the right questions. We understand our customers and speak their language.
In a nutshell: we strive to make our work even simpler, more efficient, more productive and more profitable.

Focused

Our priority is clear: the customer comes first! Starrag employees always focus on the needs of the customer – precise, pragmatic, goal-oriented, efficient. To meet customer requirements, we prepare thoroughly, are disciplined and organised, and react quickly.

Dynamic

We recognise trends at an early stage and we incorporate changed customer requirements immediately. Starrag does not simply anticipate technological development but actively pursues it. Being dynamic also means remaining self-critical so that we can keep improving our services and processes. This dynamic way of thinking and acting is based on enthusiasm for our own performance, coupled with the desire to search for new solutions in new ways time and again.

Successful in partnership

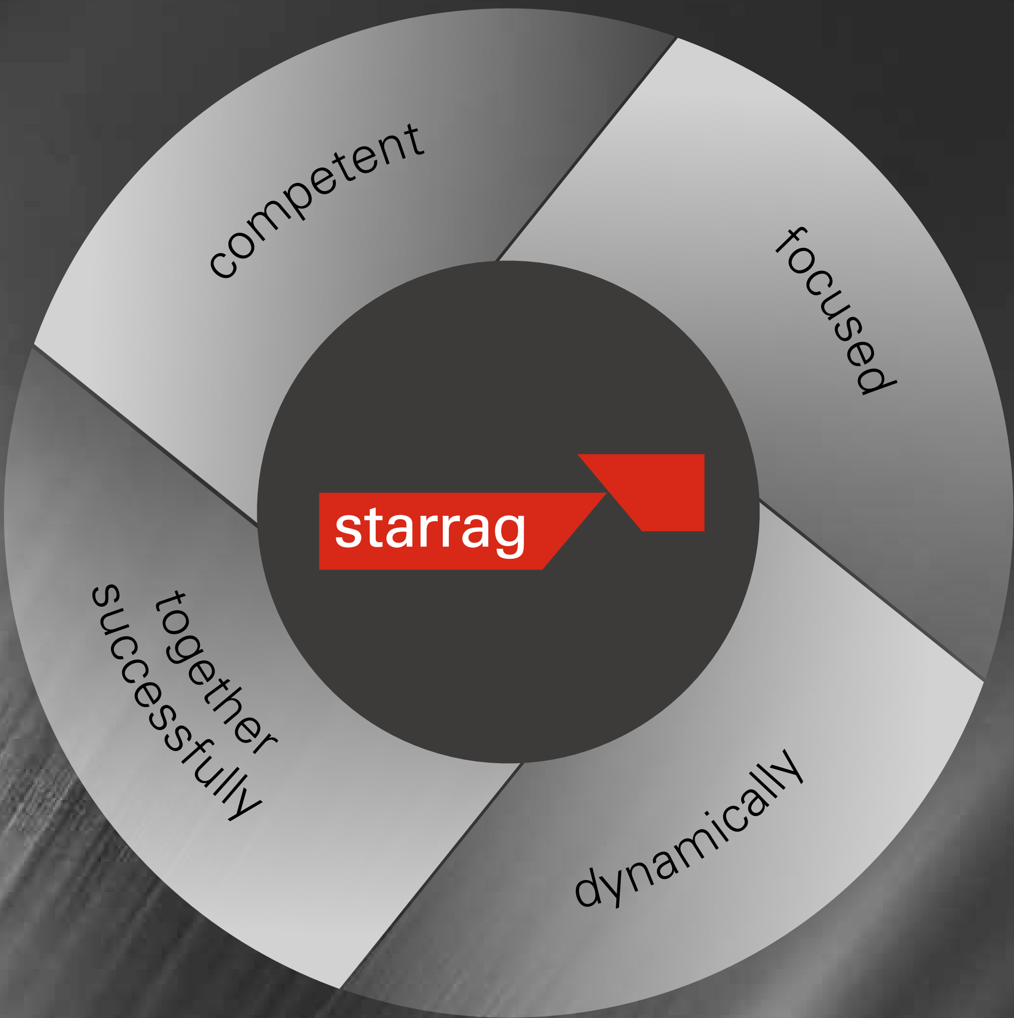
Success is based on partnership. We meet the customers and partners on an equal footing with respect and tolerance. We always look for a win-win situation. To do this, we need reliability, loyalty and honest feedback, as well as joy and enthusiasm for what we do.

For the profitability, safety and growth of our customers

These four key brand values are embodied by our employees – every day and everywhere we are active, under the umbrella of a strong, global brand. This common, group-wide understanding of our goals, values and services is ultimately about helping our customers to achieve profitability, safety and growth.

True to our claim "Engineering precisely what you value", we focus on individual solutions: customers get exactly what they want and need, and what gives them added value, always on the basis of our binding and unifying brand values – regardless of the user industry, market segment, application or machine series.

The four Starrag brand values:



Engineering precisely what you value

Individual customer solutions
based on common values.

Successful in partnership for the Super Versatile Jet.

Pilatus Flugzeugwerke AG relies on Starrag for the production of their new PC-24 jet.

Production capacity boost of 30%

A flexible manufacturing system consisting of two Ecospeed F 2040 machines from Starrag allows the Stans-based aircraft manufacturer to substantially increase the production capacity on a like-for-like basis and without any additional staff, resulting in improved profitability.

Reaching new heights

With their first PC-24 jet, Pilatus Aircraft have truly amazed the experts – and convinced buyers straight away. More than 80 units have already been ordered, and this is before the first machine has been delivered! The company has been successful over several decades and exports all over the world. Around two thirds of sales are achieved with Asian customers and nearly a quarter with American customers. With the PC-24 "Super Versatile Jet", Pilatus has started a new chapter in its history.

Placing the highest demands on production

This applies not just to the product itself but also to its production. Limited space and a limited ability to increase staffing numbers prompted Pilatus to reorganise its machining of medium-sized and large parts, with the goal of a significant increase in production capacity.

From nose to tail, the new business jet requires structural with lengths ranging from 750 mm to 4,000 mm to be machined from aluminium. "Machining them is one of our core competencies," emphasises Walter Duss, Head of the Mechanical Machining department.

The production cell controller developed by Starrag supports the highly automated production by controlling the interaction between the two Ecospeed F 2040 machines and the pallet and set-up stations.

"As they have a wall thickness of just 1.2 mm at times, they are extremely delicate. This is not the case for all aircraft manufacturers. Machining efficiency is therefore usually well over 90%."

Walter Duss (left): "With the ECOSPEED machines we achieve excellent quality and are much more productive than in the past."

In order to increase productivity in this expertise-intensive core segment, a flexible manufacturing system, allowing a largely automated production process, was required. Other important requirements in the list: equipping in parallel with machining with a work buffer in the pallet magazine and an overall reduction of equipping costs, in order to manufacture the over 200 (!) components economically in the respective sizes.

Not every supplier was able to offer this. Pilatus included all the well-known providers in the aerospace industry in the tendering process. They had to undergo a rigorous benchmark process including numerous machining trials. Finally, Starrag was awarded the contract for a flexible manufacturing system consisting of two Ecospeed F 2040 machines.

Ecospeed outshines the rest

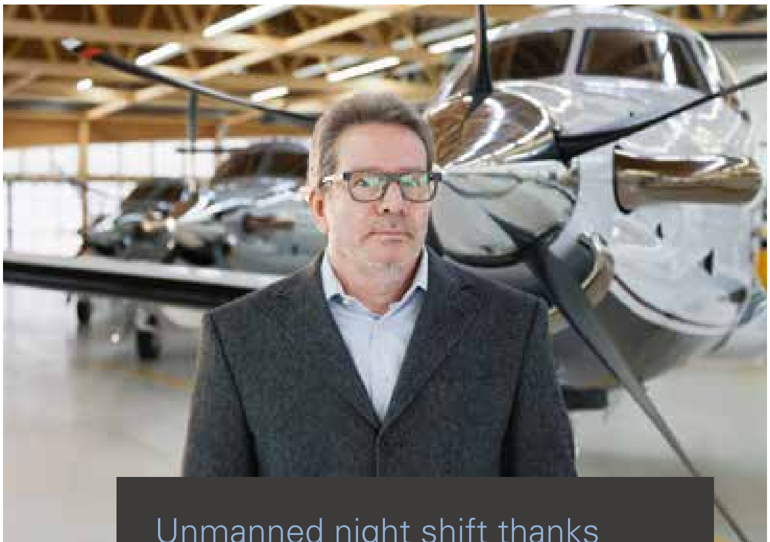
Beat Müller, Project Manager for Equipment Procurement at Pilatus and responsible for investment in the production system: "What really shone through for Starrag was their comprehensive system knowledge and their many years of experience completing successful turn-key projects." Specifically it was crucial that the Ecospeed is designed for the processing of aluminium structural parts and achieves a chip volume of up to 160 L/min. Beat Müller described the Sprint Z3 parallel kinematic machining head as particularly innovative: "It particularly impressed us for pocket milling in the corners with different setting angles." Another decisive factor was the spindle with its maximum speed of 30,000 rpm and an output of 120 kW. It provides a diagnostic function – "a must for us," explained Müller, "because this allows us to optimise the design of the process, including in terms of maintenance and other operating costs."

Where do the chips go?

The project manager also mentions optimal chip flow conditions as an important decision criterion: "Every year, almost 700 tonnes of raw material are likely to be processed in the system, of which more than 90% is machined. This results in an enormous volume of chips that must be removed." Owing to the vertical arrangement of the machine pallets, the chips fall freely into the central swarf conveyor.
The conveyor moves the chips to a cross conveyor in the basement, which in turn moves them to a silo with four briquette presses.

Project planning and engineering included

The production system also includes the handling of the 16 pallets, each of which measures 2,000 mm by 4,000 mm. The system also contains two set-up stations with a tilting table to allow horizontal loading. The highly automated production is supported by another product developed and supplied by Starrag: the production cell controller. This manages the interaction between the machine duo and the pallet and set-up stations.



Unmanned night shift thanks to high process reliability

"Up to now we have had a shift pattern from five in the morning to one at night, followed by four hours of operation without staff present. Thanks to the high process reliability of the new system, we can now run an unmanned shift for seven hours, from 10 p.m. to 5 a.m., and therefore use our staff for other tasks."

Beat Müller, Project Manager Equipment Procurement, Pilatus

Competent and dynamically for more productivity

Markus Zwicker (left) with Starrag Customer Advisor Erwin Fässler in the Heckert 800 X5 MT machine room.

The Heckert 800 X5 MT horizontal machining centre was the obvious choice for Zwicker Präzisionsmechanik AG.

Growth through automation and flexibility

The Swiss machining firm Zwicker has geared itself up for the future with a five-axis Heckert 800 X5 MT machining centre together with a supplementary linear pallet system. Thanks to this fully automated production unit the company can tap into new markets as a result of its increased productivity and additional flexibility.

In order to survive in the highly competitive market in the long term, a specialisation is indispensable. Markus Zwicker, who took over the management of the company from his father Othmar in 2015, is convinced of this: "We need to set ourselves apart from other providers.
We achieve this by offering precision machining." As part of its building expansion, the company decided to invest in a large machining centre with 800 mm pallets. "In this way, we can machine even large parts cost-effectively. That's really something special at our site."

The search for an all-rounder

When selecting the machine, quality, flexibility and process reliability were central. The requirements profile was clearly defined: horizontal, five-axis milling centre with a fast-rotating table for effective turning, pallet storage for unmanned shifts, large tool magazine, angle head, replaceable CNC-controlled U axis for demanding contours such as valve seats and a vacuum clamping table to clamp thin-walled aluminium parts without warping them.

Most of the manufacturers who were asked to propose a solution failed when it came to this demanding and comprehensive profile. But not Starrag! The Heckert 800 X5 MT impressed with its configuration of the X and Y axis in the tool and the Z axis in the rotary swivel table. Thanks to its thermally symmetrical design, the machining centre operates with the ultimate rigidity, resulting in excellent surface quality and reducing clamping positions. Together with the digital AC feed drives,
and the profile rail guides and ball screw spindles that are mounted with the highest precision on all linear axes, this ensures a solid basis for rotary machining and milling with a high level of process reliability.

Tool magazine with 240 slots

Markus Zwicker: "This capacity makes us very flexible and means we don't have to constantly re-tool, even for the smallest series runs. One of the things we machine is aluminium housings for communication technology, which have deep cooling ribs. To allow us to produce these in one run, we use side milling cutters with diameters of up to 350 mm. If these couldn't be changed automatically, an unmanned night shift would be impossible."

Markus Zwicker, a certified master mechanic, is delighted that now even large parts can be machined cost-effectively.

"These features mean that the machine is perfect for the automation processes we want to achieve", states Markus Zwicker, who also highlights the design of the work space: "The chips can fall freely into the central swarf conveyor. This prevents chips from piling up in the work space, which would also endanger process safety."

Linear pallet system for automated 24-hour operation

For Zwicker, there is no doubt that such a high-end machining centre must be able to deliver three-shift operation, which is why it was stipulated from the outset that it should be equipped with an automated pallet system. On Starrag's recommendation, the customer decided on a flexible Loadmaster loading system, which was tailored to the system comprising 15 storage locations on three floors, designed with the specific space requirements in mind.

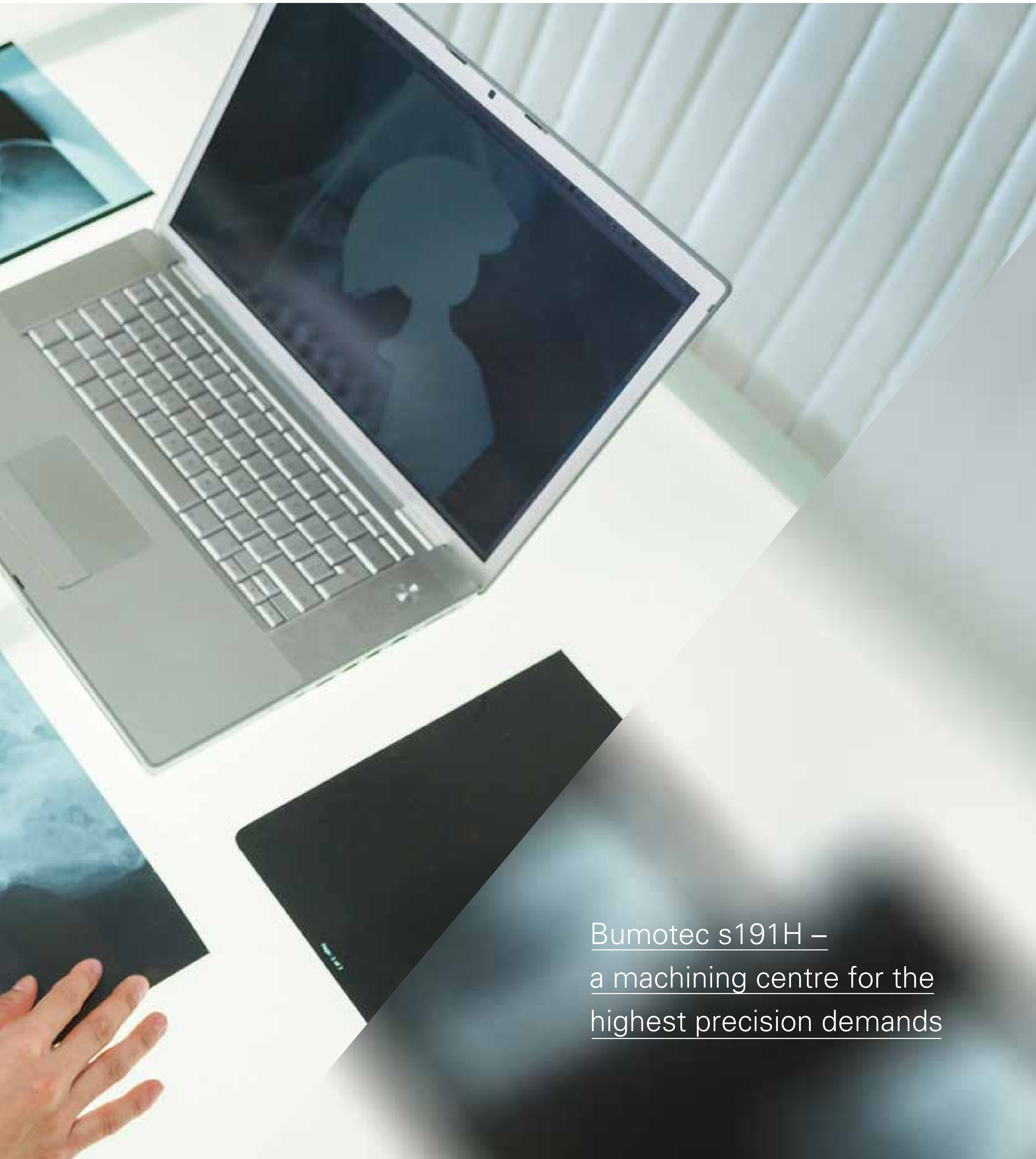
Zwicker also placed great emphasis on equipping the set-up point with an ergonomic tilting rotary table. If a clamping cube is used for multiple clamping, it can also be turned. "This investment has also paid off. Our employees enjoy working at this set-up point."

Zwicker Präzisionsmechanik AG

Founded in 1994, Zwicker Präzisionsmechanik AG in Engelburg, near St. Gallen/Switzerland, has approximately 20 employees and manufactures small and large parts from a variety of materials such as aluminium, steel, brass, bronze, titanium and Inconel on modern CNC machines –from individual production to small series through to the assembled product. Its customers mainly come from Switzerland, Germany and Austria from the areas of machine and equipment construction, vacuum technology, conveyor technology, microwave technology, and the aerospace industry.

Despite the complexity of the plant, it is easy to operate.

Focused on the tips.



Bumotec s191H – a machining centre for the highest precision demands

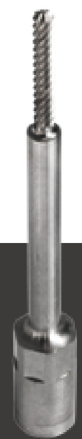
Precision combined with profitability

Bone surgeries are delicate and therefore require the highest precision. The crucial elements are the cutting tips that come into direct contact with the patient. The Chinese customer SMTP Technology was impressed by the Bumotec s191H machining centre and has been producing these key parts with the tool for the last two years, to the complete satisfaction of already more than 150 leading hospitals in China.

SMTP Technology Co. Ltd, located in Zhangjiagang, China, develops and distributes the therapeutic ultrasound devices in the XD series. They are used for orthopaedic surgery, neurosurgery and joint operations. The XD series product is designed as a power tool that uses ultrasonic vibrations to cut bones during surgical operations.

Surgeons rate the devices highly because of their performance, safe operation, efficiency and precision. This is the third generation of this type of tool, after hammers and bone pliers were used initially (first generation), followed by high-speed drills, although these damaged the soft tissue around the bone (second generation). The XD series, in contrast, only cuts through solid tissue. This eliminates the risk of damage to soft tissues, such as the blood vessels or the spinal cord. That's why the XD series products are the first choice of many surgeons for very delicate procedures such as operations on the spinal column and skull base.

The high-quality cutting tips that come into direct contact with the patient are crucial in such precise procedures. SMTP manufactures an extensive range of these tips specifically for the XD series. They are produced in accordance with the strictest requirements.



The eight spiral teeth on the end of the cutting tip are the result of high-precision five-axis simultaneous machining by the Bumotec s191H machining centre.
There must be no burrs inside the channel separating each tooth.
The maximum permissible deviation is 10 µm (10 millionths of a metre). The teeth must be exactly the same height and have the same circumference.

This helix cutting tip was manufactured from an 8 mm thick titanium rod with a diameter of 2 mm at the narrow end. The production time is 38 minutes.

A wide range of cutting tips, manufactured on the Bumotec s191H machining centre, which can also be used for small series.

Precise as well as cost-effective

During its search for a machining centre that met the specified requirements profile, SMTP came into contact with Starrag at the international Chinese machine tool trade fair CIMT in Beijing in 2015.

Impressed by the product demonstration at the trade fair stand, SMTP opted to use the Bumotec s191H. This machining centre machines rods up to 65 mm in diameter in an FTLR configuration and is combined with a high-pressure unit and a rod feed. It has simplified the development process as the tips are produced after a single set-up, and the cycle of production is considerably faster. On average, a model can be developed or optimised within a week.

To the fullest satisfaction

Since the machine was put into operation at SMTP at the end of 2015, it has worked perfectly and with its help a number of new cutting tips have already been developed. The machining centre is operated by two people in shifts from 6 a.m. until 11 p.m. The turning and milling functions and the five-axis simultaneous machining functions are used most frequently.
The high-pressure unit is often deployed for cutting, drilling and deep drilling (up to 120 mm) of the thread. In particular, this means that drill holes with a very small diameter can be repeated with the highest degree of consistency.

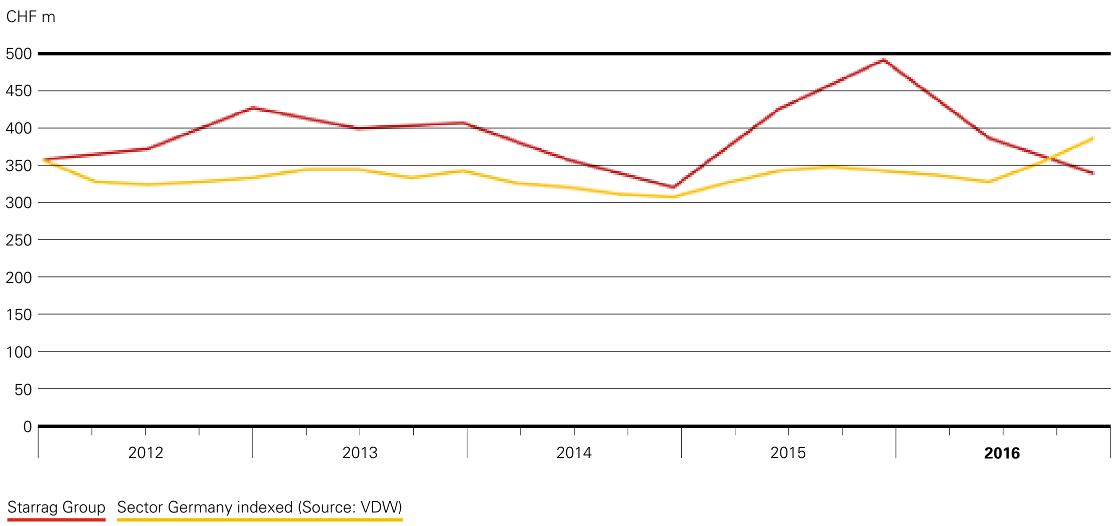
Gao Fang, Production Manager at SMTP

Management Report

A challenging 2017

The results for the 2017 financial year by and large confirm the estimates communicated in connection with publication of the half-year figures. In a challenging global environment, order intake as anticipated lagged behind the record figure in 2016, which was mainly attributable to the unexpectedly large-scale postponement of major projects, namely in the target industry Aerospace, whereas the previous year benefited from individual major orders. All told, order intake was therefore made up of numerous small and medium-sized orders, which also reduced the risk exposure accordingly. On the other hand, significant progress was achieved in terms of operating results, also as anticipated. This is evidence that our new Strategy "Starrag 2020" is beginning to produce the desired results. The strategy aims to strengthen our position as an innovative leader, expand our geographic presence, and increase operational excellence.

Order intake by sector

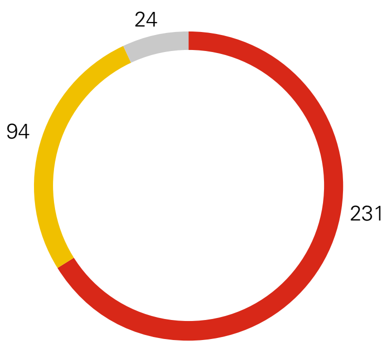


Differentiated development in the target industries

Of the important target industries, Aerospace in particular experienced a clear decline in new orders after posting above-average results in the previous year. This was mainly due to customers postponing decisions regarding major orders. Order intake also fell in the Industrial segment. However, the positive trend in the Luxury Goods segment that was becoming apparent within the Industrial sector during the first six months continued in the second half of the year. In the Energy segment, new orders also declined, whereas the Transportation segment showed renewed growth in 2017 after stagnating in the previous year. The two most important target industries - Aerospace and Industrial - collectively account for about 75% of the Group's new orders.

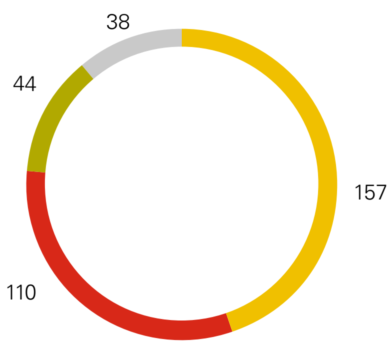
In the second half of the year, the Starrag Group received prestigious orders from the watch industry, primarily as a result of innovations in multi-spindle machining centres with the utmost precision and productivity.

Order intake by region



	CHF m 2017		2016
Europe	231	66%	205
Asia	94	27%	174
America	24	7%	101

Order intake by market segment



	CHF m 2017		2016
Industrial	157	45%	194
Aerospace	110	31%	200
Transportation	44	13%	36
Energy	38	11%	50

Two thirds of new orders from Europe

Of the main sales regions, Europe performed very well, accounting for about two thirds of new orders in the reporting year. Order intake from Asia fell after posting a high figure in the previous year, mainly as a result of major projects being delayed. The share from Asia of the overall total thus declined temporarily to 27%. In the mid- and long-term however, our sales share in this high-growth region should increase to around 40%. In North America as well, order intake fell after a very good previous year.

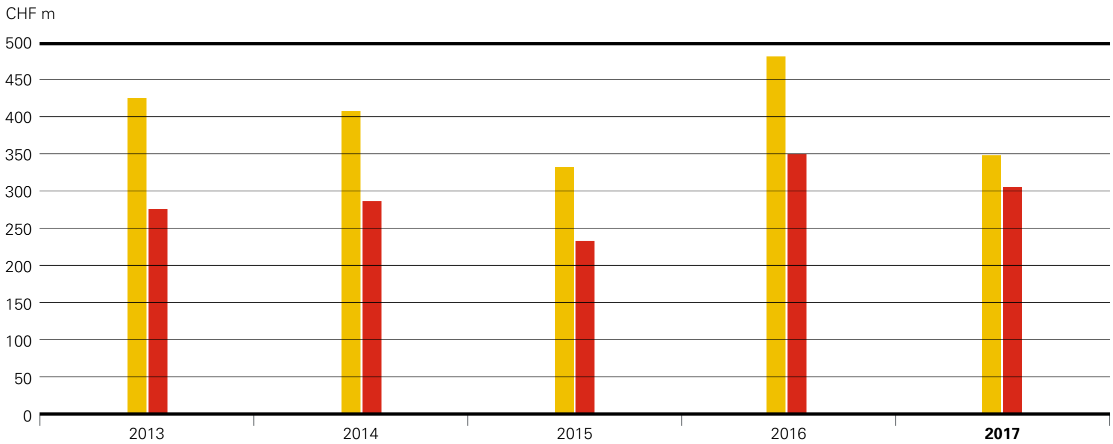
As at the end of 2017, the order backlog amounted to CHF 302 million, which is the second highest total in the history of the Starrag Group. With a decline of 13% compared with the end of 2016, this corresponds to a certain normalization. This work in hand means that base capacity utilisation continues to be assured for more than one year.

As expected, lower order intake

At CHF 349 million, order intake came in 27% below the historical high of CHF 480 million posted for the previous year (-28% after adjusting for currency effects). While the first six months closed with a low CHF 142 million, the second half-year was considerably better, with CHF 208 million. According to the VDW (German Machine Tool Builders` Association), order intake by German manufacturers rose by about 8% in the past year.

As was also expected, sales increased by 9% in 2017 to CHF 405 million. After adjusting for currency effects, the increase was 8%.

Trend of order intake and order backlog



CHF m	2013	2014	2015	2016	**2017**
Order intake	425	407	333	480	349
Order backlog	275	288	238	348	302

Clear improvement in operating results

Earnings before income and taxes (EBIT) came in at CHF 15.3 million, or 3.8% of sales, which was considerably higher than the previous year (CHF 9.3 million, or 2.5%). The increase was attributable not just to higher capacity utilisation in the plants, but also to numerous measures to improve operational excellence. The ROCE (return on capital employed) amounted to 5.7% in the reporting year (previous year: 3.5%), reflecting the progress made with operating income. Higher EBIT also resulted in considerably higher net income, which together with a one-off tax credit of CHF 1.3 million amounted to CHF 12.1 million, or 3.0% of sales, with earnings per share amounting to CHF 3.58.

Solidly financed

As at the end of the reporting year, the equity ratio again stood at a solid 53%. Free cash flow amounted to CHF 3.9 million (previous year: CHF 1.8 million) and was negatively affected by a lower level of financing for construction orders in progress. Net debt stood at CHF 20.7 million, which was slightly higher than the figure for the previous year.

Following completion of the construction of a modern production plant in Vuadens/Switzerland, investments in fixed assets of CHF 12.1 million were considerably lower than in the previous year. They mainly consisted of required investments to replace and expand production equipment and IT for the purpose of further process optimisation.

Over the year, the Starrag Group averaged 1’503 employees (full-time positions, previous year 1’524) and 162 trainees and student employees.

Progress in line with strategy

The 2017 financial year of the Starrag Group was marked by the continued steadfast efforts to implement the Strategy "Starrag 2020", which also found expression in the positive development of profitability. The key aspects were the further strengthening of the application expertise with respect to the networking of the delivered machines with business management systems (Integrated Production System, or IPS), the expansion of our geographic presence, particularly in China and the U.S., and the strengthening of our dealer network, as well as the further expansion of the service structures of the whole group. With preventive maintenance and services, our customers can count on constant reliability and in this way benefit from proven added value, which ultimately finds expression in an increase in their profitability.

Following relocation of production from the Geneva and Sâles facilities to the new 20,000 m2 plant in Vuadens, which was built in conformity with the latest energy standards with a "zero carbon footprint", ultra-precision machine tools for manufacturing high-quality components are continuing to be manufactured using state-of-the-art production processes with corresponding productivity gains. In the interest of long-term planning, the capacity was intentionally sized for further growth in the future. In the interim, a portion of the space is to be leased to third parties. The sale of the old plant in Sâles has been partially completed. Taking into account the eliminated infrastructure costs in Geneva, the Starrag Group thus on balance has substantially more production space at the new location with unchanged total costs.

In the reporting year, we again held the "Technology Days" customer events, which the Starrag Group has been conducting on site since 2006. The events, which were well attended, are an excellent platform for presenting our latest innovations to industry representatives, the trade media, and academics. At "Technology Days Precision Engineering" (see page 14), we presented our expertise in high-precision machining together with several partner companies. At "Turbine Technology Days", the new "Service Plus" package was one of the main interests. Thus, based on collaboration with Starrag that is geared toward the long term, customers are assured of smooth machinery operation and state-of-the-art technology.

As a leading company in the machine tool industry, the Starrag Group was again in attendance during the reporting year at the two main trade fairs EMO and CIMT. At the EMO in Hannover, the spotlight was on the latest networked manufacturing solutions as the next generation of machine tools in the spirit of Industry 4.0, with the focus on the Integrated Production System (IPS) developed by Starrag (see page 16). The CIMT (China International Machine Tool Show) in Beijing enabled us to make numerous contacts with Chinese customers and confirmed that we were correct in making China a regional focus. As a result, we are optimistic that in the medium term we will achieve our business objectives in this high-growth market.

The company-wide employee satisfaction survey conducted in 2017 produced encouraging results, as we were able to further improve on a number of key points (see page 17).

Risk management

For information about our holistic risk management process, please see page 92.

Limited currency effects

In recent years, the Starrag Group has gradually reduced its dependence on the Swiss franc. Compared with Swiss industry as a whole, our exposure to currency fluctuations is below average. Currently 71% of sales come from foreign locations; materials are procured within the eurozone as far as possible. Nevertheless, 22% of costs were incurred in francs in 2017. In order to further reduce exchange-rate exposure, procurement contracts are constantly being renegotiated and costs strictly monitored in all areas.

Outlook for 2018

We are generally optimistic about the current 2018 financial year. The German machine tool builders' association VDW, which anticipates production growth of 5% in 2018 for its members, also shares this mood. However, our estimate is subject to the proviso that there will be no financial or political disruptions that would negatively impact the order behaviour of our customers and lead to the postponement of necessary investments.

From a regional standpoint, we again expect that European markets will develop in a stable manner. In North America, we are pursuing our successful strategy on this highly important market by continuing to strengthen distribution in the reporting year. We are also generally optimistic about Asia, where we already maintain a strong position. The declining order intake from China during the reporting year was attributable to delays in the anticipated large orders and their postponement to the following year, meaning that we expect significant advances in 2018. Also working to the advantage of our Group is China's stated ambition to focus more on qualitative growth in order to increase its international competitiveness. This in turn requires correspondingly high-quality production resources.

With regard to our target industries, we anticipate positive development in Aerospace, in line with the positive momentum in the sector. The same applies to the target industry Industrial, where the Luxury Goods segment has rebounded significantly. After weakening in the previous year, the target industry Energy is expected to remain weak in 2018. Finally, the picture for the target industry Transportation is varied depending on the specific market segment.

For 2018, the Starrag Group expects that order intake (in local currencies) will substantially exceed the figure for the previous year. However, this presupposes that we will not be confronted with any additional external uncertainties - whether economic or political or because of the latest trends on the capital markets - that might dampen the willingness of customers to make investments. This applies in particular to expected major orders, which can have a strong short-term impact on incoming orders. We expect sales (in local currencies) to come in at least at the level of 2017. With respect to earnings, we anticipate that the operating margin and the ROCE will once again increase further compared with the previous year.

Resolutely into the future

The progress that we have made thus far with Strategy "Starrag 2020" strengthens our determination to resolutely continue along this path. As a Group, we are excellently positioned with our leading, innovative products, and we benefit in our segments from a variety of sustainable growth trends, such as energy efficiency, global mobility, and miniaturisation. Supported by the continuous development and enhancement of products and services, as well as by tenacious, continuous cost control, we are convinced that in the coming years, we will be able to translate the potential inherent in the Group into corresponding successes on the market. The Executive Board and the Board of Directors are therefore confident that the Group's medium-term growth and revenue targets will be achieved. In specific terms, this means an average sales growth of 5% and an operating margin of at least 8%, as an average over economic cycles.

Comprehensive understanding 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 deliver a top performance. The central elements of our leadership culture are therefore mutual trust, respect, regular exchange of information, cooperation, appreciation and promoting the continued development of the individual employee.

The Starrag Group is valued as an attractive employer. Whatever their area of expertise, all our employees come into direct contact with our products at various stages in the value chain and can derive the benefit for the customer as a result. This creates a natural identification with their own work. Our employees are proud to play an active part in delivering high-tech solutions to the customer based on the wealth of know-how in the workforce at every step from design to onsite maintenance around the world.

Periodic employee surveys conducted by «Great place to work», an external consultancy that specialises in workplace culture assessment and employee surveys, bolster our confidence that we are taking the right approach. These surveys convey valuable signals on ways to improve and enhance working conditions in and around the workplace, leadership performance, information and communication, and training requirements. The most recent survey conducted in the year under review was supplemented by additional questions regarding the employee's health. It showed us once again valuable potential for improvement, which we will focus on realizing in the next years. We are particularly pleased that we have been able to improve further in various areas compared with the last survey in 2014.

The Starrag Group undertakes a variety of efforts to increase employee commitment for achieving the company's targets. Employees and employees' representatives are regularly informed by their managers, the site managers and at least once a year also by the CEO personally, at all locations, about the current state of business, current topics and projects. Furthermore, the customer magazine «Star», 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 the annual formal employee performance review and target agreements, additional training and skills development needs are assessed. The courses provided by our Starrag Training Centers are particularly valuable in supporting our management level employees in the planning and realization 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, cross-location and cross-functional groups, our managers dealt constructively with various aspects of leadership 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 financial year 2017, we organized a group-wide leadership meeting to focus on strategic priorities, management aspects and the exchange of information and experience. In addition, we invested substantially in the training of sales staff and focused on the increased training of skilled workers.

An important aspect is our active search for solutions in the field of succession planning for retiring specialists as well as the further improvement of practical training within the company.

Further training on the job is equally important, since certain skills and knowledge can only be acquired during the day-to-day business, learning how to deal with issues that cannot be taught in the classroom. Our own vocational training programme plays a key role in acquiring qualified specialists. In 2017, we trained 162 apprentices and students in more than ten professions (previous year: 163). All of our production locations feature modern vocational training centres in which our apprentices receive an educational foundation. These training centres were further expanded in the reporting year with targeted investments in training machines and innovative course content. To improve apprentice quality, open days were held in 2017 in the training centres for secondary school pupils, students and other candidates. Apprentices who complete their apprenticeship with good scores are retained if possible. In the reporting year, the Mönchengladbach site was once again honoured by the local Chamber of Industry and Commerce as one of the top training companies in the Central Lower Rhine area.

In the framework of systematic health management – and currently based on the findings of the above-mentioned employee survey 2017 - , 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 and sick absences remained at low levels also in 2017; 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 2017. A number of nutrition, healthcare and physical activity measures at the various sites are designed to enhance employee well-being. Our company sporting events such as the annual skiing day, bike-to-work event and company fun run as well as family events were again immensely popular.

Product energy efficiency as a central starting point

The main starting point for a greener approach in our corporate group is the energy consumption of the machines we deliver to customers, where they will be in operation for decades. 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 for higher energy efficiency and sustainability in manufacturing technology, and to incorporate the relevant recommendations into the development of new products. The main driver for energy efficiency in the machining of work pieces is however the cycle time. Since the Starrag Group's entire machine portfolio is characterized by higher cutting performance and as a result, shorter production times compared to the competitive environment, an investment in our machines is particularly worthwhile from the point of view of energy-savings.

Under our own eeMC (energy efficient Machining Center) label, the entire range of machine systems were made more energy-efficient. The measures range from energy-efficient engines, minimizing base load losses and using frequency-controlled pumps and regenerating braking 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 reducing the need for energy consuming air conditioning of production plants.

Collaborating in national and international standardization committees such as «Energy efficiency in machine tools» and the related defining of the new ISO standard 14 955 has been an important priority for us. Participating in research projects in various countries to increase the energy efficiency of machines tools means that we can quickly introduce new discoveries and technologies into product developments. The focus is on cost savings in the energy consumption of machine tools, in particular making progress in terms of drive systems, cooling lubricants, mechanical drives and stand-by and warm-up settings to reduce the required preheating time. This opens up significant potential by reducing the amount of air-conditioning in the production halls without compromising quality and functionality thanks to more precise and more intelligent production technology. The energy-saving potential over time to be attained across the entire production process and infrastructure is clearly in the double digit percent range.

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. The group-wide energy consumption in 2017 was with 19’200 MWh clearly below the level of the previous year (22’100 MWh), this in spite of increased production output, thus marking once again the lowest level for many years.

The ISO 50001-based certified energy management system introduced in 2015 at the Bielefeld, Chemnitz and Mönchengladbach production sites is expected to boost Starrag Group’s energy efficiency by tapping into unused energy efficiency potential, lowering energy costs and reducing greenhouse gas emissions (including carbon emissions) and other environmental impacts.

Specifically, we implemented measures to raise energy efficiency at a number of sites in the reporting year, including measures for heat recovery in compressor units, by equipping additional factory halls with energy-efficient LED technology and investing in lighting control.

The photovoltaic plant with a surface of 8250 m^2 which is part of our new production site in Vuadens and which has become effective in the second quarter of 2016, produced 1’300 MWh of electricity in 2017 and fed it into the grid. The factory is equipped with a state-of-the-art lighting management system using LED luminaires only. The approximately 100 MWh of electricity produced annually by the photovoltaic plant at the Rorschacherberg site is consumed by the company itself. The filling station for electric vehicles there, installed in the year under review, is contributing to the “electro-mobile” future.

The company's own paint shops use environment friendly water-soluble paints rather than solvent based paints wherever possible. Recyclable materials and waste such as oil, grease and chips are reused as part of a systematic recycling process. In addition, splitting systems for cooling lubricants ensure that these materials are disposed of properly or returned to the system for re-use.

Corporate Governance

Group structure and shareholders

Management organisation

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

CEO
Walter Börsch

Aerospace & Energy	Transportation & Industrial Components	Precision Engineering
Dr. Norbert Hennes	Dr. Marcus Otto	Jean-Daniel Isoz
Market Segments:	**Market Segments:**	**Market Segments:**
› Aero Engines	› Heavy Duty Vehicles & Engines	› Avionics
› Aero Structures	› Industrial Components	› Luxury Goods
› Power Turbines	› On-Road Vehicles	› Med Tech
› Oil & Gas		
› Renewables		

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
    - **Starrag GmbH**
      Chemnitz / DE
    - **Starrag Technology GmbH**
      Mönchengladbach / DE
      - **Starrag S.A.S.**
        Saint-Etienne / FR
      - **Starrag Service Center GmbH & Co. KG**
        Ichtershausen / DE
      - **FIRMUS Grundstücks-Vermietungs-gesellschaft GmbH & Co. KG**
        Mönchengladbach / DE
      - **Scharmann GmbH**
        Mönchengladbach / DE
  - **Starrag India Private Limited**
    Bangalore / IN
  - **Starrag Vuadens SA**
    Vuadens / 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 119 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 2017 was CHF 219.6 million.

Shareholders

There were 1'018 shareholders registered in the company's share register on 31 December 2017. Distribution by number of shares held was as follows:

More than 100'000 shares	3 shareholders
10'001 to 100'000 shares	11 shareholders
1'001 to 10'000 shares	95 shareholders
1 to 1'000 shares	909 shareholders

292’203 shares or 8.7% were not registered in the share register on 31 December 2017.

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

- Walter Fust, Freienbach, Switzerland 1’812’282 shares, 53.94%
- Eduard Stürm AG, Goldach, Switzerland 311'079 shares, 9.26 %
- Max Rössler, Hergiswil / Parmino Holding AG, Goldach, Switzerland, 268’000 shares, 7.98%

No disclosure notifications were made during the 2017 financial year in accordance with Art. 20 of the Swiss Federal Act on Stock Exchanges and Securities Trading.

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 about 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 a maximum of CHF 5'695'000 by issuing a maximum of 670‘000 fully paid-in registered shares with a nominal value of CHF 8.50 at any time until 23 April 2018. 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

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 April 2014 and its Chairman since April 2015.

Since April 2015 he is a member of the Board of Directors of Eugster/Frismag AG, Amriswil/Switzerland and since July 2017 Vice-Chairman and Delegate of the Board of Directors. From beginning 2015 to November 2017 Daniel Frutig was CEO of the international medical group Medela Holding AG, based in Zug/Switzerland. From 2011 to 2014 he 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, France 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: Dr. Erich Bohli, Daniel Frutig, Prof. Dr. Frank Brinken, Prof. Dr. Christian Belz, Adrian Stürm, Walter Fust

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.

Dr. Erich Bohli (1950, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since April 2017.

After completing his business studies (1977) and his doctorate (1980) at the University of Zurich, Erich Bohli held various positions at Unilever (Switzerland), including Internal Auditor, General Secretary, PR Manager and Marketing Manager for several international brands. He then worked as an independent turnaround manager, a profession he pursued for the next 15 years. During this time, he managed some international companies in a variety of fields of computer training/direct sales, branded consumer goods, OTC pharmaceuticals, multimedia and e-commerce development. From 1999 to 2010, he served as CEO of Dipl. Ing. Fust AG and also served on the boards of AEG (Schweiz) AG, Swiss Dairy Food AG and Service 7000 AG. Since then, he has been working in the area of business development and as an Internet entrepreneur. From 2010 to 2014, Erich Bohli completed a third degree in cultural and literary studies at the University of Zurich, which he completed in 2014 with a Master of Arts in Social Science.

Prof. Dr. Frank Brinken (1948, Swiss) has been a member of the Board of Directors of Starrag Group Holding AG since 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 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 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 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, Operational Risk Control and Risk Management at UBS Switzerland AG since 2001. Prior to that he was an auditor with KPMG Zurich and London 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 2017 financial year the Board of Directors held eight meetings and the average duration was 6 hours. Frank Brinken was excused at one meeting. Appart from that, all members of the Board of Directors attended all meetings.

The duties and powers of the Compensation Committee are presented in the Compensation Report (page 75). 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 Starrag Technology GmbH, Mönchengladbach, Germany and Walter Fust and Prof. Dr. Frank Brinken as members of the Board of Directors of Starrag Vuadens SA, Vuadens, Switzerland.

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.

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 92.

Internal auditing

In accordance with the simplifications stated in the Swiss Code of Best Practice for Corporate Governance, the Board of Directors has decided not to implement an internal audit.

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

Executive Board

Members of the Executive Board

The Board of Directors has appointed an Executive Board and has specified its authorities and duties in the organizational guidelines and the accompanying functions diagram:

From left to right: Jean-Daniel Isoz, Dr. Marcus Otto, Gerold Brütsch, Walter Börsch, Günther Eller, Dr. Norbert Hennes

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 and SIP in Geneva (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 2015, with responsibility for the product range Berthiez, Dörries, Droop+Rein, Scharmann, Starrag and TTL covering the market segments Aero Engines, Aero Structures, Oil & Gas and Power Turbines.

He had previously managed the former Business Unit 3 in Mönchengladbach with the brands Berthiez, Dörries, Droop+Rein, and Scharmann since 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 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 2015, with responsibility for the product range-Bumotec and SIP covering the market segments Avionics, Luxury Goods 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 SIPfrom 2006. After first working as sales manager for SIP from 2000 to 2002, he took over as CEO of Bula Machines until end of 2005. Prior to that, he held various management positions in production and customer service at Bobst SA Lausanne, USA and Asia since 1985.

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

Dr. Marcus Otto (1964, German) is in charge of the Business Unit Transportation & Industrial Components since September 2016. This unit with the Heckert and WMW product range is focused onto the market segments Heavy Duty Vehicles & Engines, On-Road Vehicles and Industrial Components. Since May 2016, Dr. Marcus Otto had acted as interim managing director of the Heckert GmbH in Chemnitz.

He previously held various management and as managing director positions at Thyssen-Krupp (1991 to 2001) and Gildemeister (2001 to 2011). Since 2011, Dr. Marcus Otto has beenan independent management consultant and interim manager, among others, for Schiess Tech GmbH, Berlin, and as Senior Adviser for Staufen AG.

Dr. Marcus Otto obtained his diplomas in engineering and business engineering at Ruhr-University Bochum, where he also received his PhD degree.

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 74) and information regarding participation can be found in the notes to the financial statements (page 120).

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 2018. 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 2017 financial year and charged to the consolidated financial statements for 2017 amounted to TCHF 287.

Additional fees

No additional non-audit fees were paid to Pricewaterhouse-Coopers AG in the financial year 2017.

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 and his deputy attended one Board meeting each. At those meetings, the audit schedule, scope, and results as well as other important elements of auditing were discussed.

Information policy

The company informs its shareholders and the capital market in an open and timely fashion and with the highest possible levels of transparency. The most important information tools are the business and interim reports, the www.starrag.com website, media releases, balance sheet presentations for the media and analysts and the Annual General Meeting.

As a company listed on the stock exchange, the Starrag Group Holding AG is required to disclose information relevant to the share price in accordance with the listing regulations of the SIX Swiss stock exchange. Any interested party can register at http://www.starrag.com/index.php/en/ (click on E-Mail distribution under Investors) to receive potential information relevant to the share price directly from the company via the E-Mail distribution list. This information is also available on the website (http://www.starrag.com/index.php/en/, click on Media releases under Investors) and can be provided to any interested parties upon request.

Corporate calendar:

- **28.04.2018**
  Annual General Meeting in Rorschach
- **27.07.2018**
  Letter to shareholders on 1H 2018 results
- **25.01.2019**
  Initial information on full-year 2018 results
- **08.03.2019**
  Presentation of 2018 results for analysts and the media in Zurich
- **26.04.2019**
  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:

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Compensation Report

Compensation report

Introduction

This compensation report contains information on the compensation of the members of the Board of Directors and the Executive Board. 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 management with the aim of ensuring that management compensation is in line with market conditions and thus ensuring that qualified executives can be recruited and remain with the company in the long-term. Compensation policy also promotes entrepreneurial thinking and acting and aligns the interests of executive bodies with those of the shareholders.

The compensation of the members of the Board of Directors and the Executive Board is determined on the basis of individual tasks and performance, the course of business of the Company, market conditions in the respective global sales and local labour market as well as salary comparisons with regard to the function, business activity, size and internationality of employers with similar positions. These criteria are applied individually for each member of the Executive Board at their due 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-transferable power to:

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

Each year, the ordinary General Meeting approves the maximum total compensation of the Board of Directors for the period until the next ordinary General Meeting as well as the maximum total compensation of the Executive Board for the financial year following the General Meeting. Furthermore, the General Meeting retrospectively approves the compensation report in a non-binding advisory vote.

Board of Directors

Subject to the powers of the General Meeting, the Board of Directors is responsible, on the proposal 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 performed its statutory tasks in the financial year 2017 in two meetings with complete composition and by means of repeated informal consultations, among other things also involving the CEO. In the year under review, the Compensation Committee developed and introduced a new system based on the "Starrag 2020" strategy for the variable salary component of Executive Board members valid for the years 2018 to 2020, with the aim of focusing even more consistently on growth and increasing the profitability of the individual units and the Group.

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 Board of Directors and the Compensation Committee performed their duties without the involvement of external consultants.

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 variable profit-sharing scheme for members of the Board of Directors is calculated on the basis of the net profit, reduced by an upfront interest charge on shareholders' equity depending on the interest rate development. The amount of the upfront interest charge and the shares of the individual members of the Board of Directors in the assessment basis as well as the further details (terms of payment and payment date, possible limitation of the variable profit-sharing, etc.) are determined by the Board of Directors. If the net profit falls below the fixed amount of the upfront interest charge, there is no variable profit-sharing. In the year under review, variable profit-sharing for members of the Board of Directors was subject to an upper limit..

The Board of Directors determines the variable performance-related compensation of the members of the Executive Board depending on individual performance components that depend on the respective management area and/or collective performance components that depend on the consolidated results. In particular, components of success can include order intake, sales revenue, operating result EBIT, net income and other key figures. The Board of Directors may also make variable profit-sharing dependent on the degree of fulfilment of other company objectives.

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. 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.

Remuneration

CHF 1'000	**2017**					2016				
	Fixed	Additional services	Variable	Pension and other	Total	Fixed	Additional services	Variable	Pension and other	Total
Prof. Dr. Christian Belz	50	-	29	6	85	50	-	-	3	53
Dr. Erich Bohli (from 28.4.2017)	33	15	20	3	71	-	-	-	-	-
Prof. Dr. Frank Brinken	50	32	29	7	118	50	62	-	5	117
Daniel Frutig	80	30	29	11	150	80	-	-	6	86
Walter Fust	50	44	29	5	128	50	21	-	3	74
Adrian Stürm	50	12	29	7	98	50	12	-	3	65
Total Board of Directors	**313**	**133**	**165**	**39**	**650**	280	95	-	20	395
Variable as percentage of total compensation			27%					0%		
Total Executive Board	**1'801**	**-**	**620**	**332**	**2'753**	1'876	-	544	318	2'738
Variable as percentage of total compensation			26%					22%		
Thereof:										
‣ Walter Börsch	368	-	246	106	720	368	-	244	99	711
Variable as percentage of total compensation			40%					40%		

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.

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 650 (previous year TCHF 395). Short-term compensation to the Executive Board amounted to TCHF 2'753 (previous year TCHF 2'738). No benefits or other compensation were paid following termination of the working relationship.

Notes regarding remuneration

Compensation for additional services of members of the Board of Directors is owed in connection with the recruitment of a new CEO, the membership of Walter Fust and Adrian Stürm on the Supervisory Board of Starrag Technology GmbH in Mönchengladbach, the overhauling of the system for the performance-based salary component for management applicable to the years 2018 to 2020 and the membership of Walter Fust and Prof. Dr. Frank Brinken on the Board of Directors of Starrag Vuadens SA. The performance-based compensation paid to the members of the Board of Directors in 2017 was higher, as there was no such compensation in the previous year because the net profit did not reach the specified upfront interest.

The fixed compensation for management was lower in 2017, as higher year-on-year compensation was paid due to the change in the Director of Transportation and Industrial (departure of Eberhard Schoppe as of 18 March 2016, compensation during the period of release, assumption of the position by Marcus Otto as of 1 October 2016). The performance-based compensation paid to management in 2017 was higher than in the previous year, since better earnings were achieved in various units, while components related to incoming orders were lower.

All compensation was assigned to the appropriate period on the basis of the professional recommendations for accounting in accordance with the Swiss GAAP FER accounting standards (accrual basis).

Loans and credits

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

Report of the statutory auditor

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

We have audited the remuneration report of Starrag Group Holding AG for the year ended 31 December 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) on Pages 78 to 79 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.

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pwc

Opinion
In our opinion, the remuneration report of Starrag Group Holding AG for the year ended 31 December 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Beat Inauen

Audit expert
Auditor in charge

Oliver Illa

Audit expert

St. Gallen, 28. Februar 2018

Financial Report

Financial commentary

Higher sales – solid workload – improved profitability

- Sales up 9% to CHF 405 million, organic growth +8%
- Order backlog of CHF 302 million secures capacity utilization for well over one year
- Order intake of CHF 349 million
- EBIT up 63% to CHF 15.3 million, operating margin 3.8%
- Net income doubled to CHF 12.1 million, earnings per share CHF 3.58, ROCE 5.7%
- Solid balance sheet with 53% equity ratio
- Dividend payout of CHF 1.50 per share, payout ratio 42%

CHF m	**2017**	2016	Change
Order intake	349.3	480.3	-27.3%
Sales revenue	405.3	371.6	9.1%
Operating result EBIT	15.3	9.3	63.2%
Net income	12.1	6.1	99.5%
EBIT as percentage of sales revenue	3.8%	2.5%	na.
Return on capital employed ROCE	5.7%	3.5%	na.
Return on equity ROE	7.5%	3.8%	na.
Cash flow from operating activities	13.1	21.2	-38.2%
Capital expenditure in non-current assets	9.2	19.4	-52.6%
Free cash flow	3.9	1.8	119.6%
Earnings per share (in CHF)	3.58	1.77	102.3%
Profit distribution per share (in CHF) [1]	1.50 [2]	1.00	50.0%
Employees (full-time equivalents, annual average)	1'503	1'524	-1.4%

CHF m	**31.12.2017**	31.12.2016	Change
Order backlog	301.7	348.3	-13.4%
Total assets	339.7	316.3	7.4%
Capital employed	225.4	202.8	11.1%
Net debt	20.7	18.7	10.3%
Shareholders' equity	179.6	161.4	11.3%
Equity ratio	52.9%	51.0%	na.

[1] In the form of a distribution of capital contribution reserves free of withholding tax.
[2] Proposal from the advisory board to the General Meeting.

The Starrag Group generated a net profit of CHF 12 million in financial year 2017, which was double the amount achieved in the previous year thanks to the improvement in capacity utilization. The EBIT margin was at 3.8% of sales and was also significantly higher than in the previous year, but still not at a satisfactory level. The newly introduced key performance indicator ROCE (Return on Capital Employed) for measuring the return on capital invested was 5.7% (previous year: 3.5%).

Incoming orders reached CHF 349 million and thus fell 27% from the previous year's record high, which was positively influenced by individual major orders. The order backlog is nevertheless at the second highest level in the company's history, which ensures a stable basic capacity utilization in future.

The Board of Directors will propose a profit distribution of CHF 1.50 per share to the Annual General Meeting on 28 April 2018 in the form of a distribution of capital contribution reserves free of withholding tax. This corresponds to a payout ratio of 42% of the net profit or a dividend yield of 2.3%.

Clear increase in sales

At CHF 405 million, sales revenue was 9.1% above that of the previous year (CHF 372 million). After adjusting for currency effects, the increase was 7.9%. This clearly positive development in sales was primarily driven by the high order backlog at the end of the previous year and the associated higher added value.

Order situation

The order situation is defined by an ongoing high order backlog for new machines totalling CHF 302 million, the second highest level in the history of the Starrag Group. Compared to the end of 2016, the 13% decline represents a normalization. Since the new machinery business is always associated with substantial additional customer services, this workload of work overall represents a solid capacity utilization for nearly one year. The book-to-bill ratio (incoming orders to sales) was 0.86 (previous year: 1.30).

Incoming orders, which are subject to sharp fluctuations, totalled CHF 349 million and were thus 27% below the level of the previous year. After adjusting for currency effects, the decrease was 28%. Following a low CHF 142 million in the first six months, the second half of the year was considerably better with CHF 207 million.

Incoming orders from the basic business, consisting of smaller and medium-sized orders (with an order value of less than CHF 5 million, excluding recurring service share), amounted to CHF 240 million (previous year: CHF 180 million) and developed correspondingly well. The service share also increased from CHF 67 to 69 million. As a result, the decline in incoming orders is attributable to a significantly lower number of large orders, which in turn was due in part to the postponement of customer decisions, after the year 2016 saw an extraordinarily positive effect from large individual orders.

Significant improvement in operating margin

Gross profit (sales revenue minus cost of materials plus / minus change in inventory) amounted to CHF 222 million, and was thus CHF 16 million or 7.6% above the previous year (CHF 207 million). The gross margin of 54.8% was 0.8 percentage points below the previous year's figure of 55.6%. This decline is explained in particular by the CHF 10.9 million reduction in inventories of work in progress and finished goods, which were recognized as sales revenue in the year under review, whereas the related work done had already been performed in the previous year.

In addition, the gross profit was positively affected by higher margins due to the change in the product mix, savings in purchasing, the higher average completion level of orders in process and the associated higher margin achieved as well as the absence of negative effects from the selective revaluation of individual projects in the previous year. Negative influences resulted from partial increases in material prices and from system business with a higher share of external purchasing.

At CHF 139 million, HR costs were 3.7% above the previous year (currency-adjusted +2.8%). The decline in the headcount with a reduction from 1’524 to 1’503 full-time employees on average during the year and the CHF 0.6 million in staff costs saved through greater restructuring costs were offset negatively by cost increases due to higher unit labour costs (which could not be passed on to the market), namely in Germany and emerging markets. The share of personnel expenses fell from 36.1% to 34.3% of sales revenue.

Earnings before interest, taxes, depreciation and amortization (EBITDA) increased substantially by CHF 6.3 million to CHF 26.1 million (previous year: CHF 19.8 million) on the one hand due to the improvement in the capacity utilization of the plants and, on the other, as a result of numerous measures to improve operational excellence. Earnings before interest and taxes (EBIT) increased accordingly by CHF 6.0 million to CHF 15.3 million (previous year CHF 9.3 million). This results in an operating margin of 3.8% (previous year 2.5%). This increase stems primarily from the increase in the sales volume and the associated higher gross profit.

Other operating expenses amounted to CHF 57 million, 8.0% above the previous year, mainly due to significantly higher order-related operating costs on account of higher volumes. Thanks to the rise in sales volume, the share fell from 14.2 to 14.0 percentage points. Depreciation and amortization of fixed assets increased slightly to CHF 10.8 million (previous year: CHF 10.4 million), mainly due to the new production plant in Vuadens, Switzerland.

Increase in return on employed capital

The Starrag Group substantially improved the return on capital employed (ROCE) to 5.7% in the year under review (previous year: 3.5%). This improvement reflects, on the one hand, the significant increase in operating earnings and, on the other hand, continuous efforts to limit capital employed. Return on capital employed (ROCE) thus remains below the weighted cost of capital in the year under review and is therefore not satisfactory.

Investments in development on a high level

Investments in the development of new products remained at a high level. In the year under review, CHF 28.1 million or 6.9% of sales were used for the development of innovative products and processes and customer-specific development. After public sector grants as well as the capitalization and amortization of development projects are taken into account, a net amount of CHF 27.4 million (6.8% of sales) was charged to the income statement (previous year: net amount of CHF 28.3 million or 7.6% of sales).

Doubling of the net profit and earnings per share

The financial result remained stable at CHF -1.6 million. The tax expense was at a low 11.5% (previous year: 23.2%). It was positively influenced by a one-off tax credit from previous years of CHF 1.3 million. As a result, the net profit rose disproportionately from CHF 6.1 million to CHF 12.1 million. Earnings per share also doubled from CHF 1.77 to CHF 3.58. This increased the return on equity to 7.5% (previous year 3.8%).

Continued healthy balance sheet

Total assets as of 31 December 2017 amounted to CHF 340 million and were 7.4% higher than in the previous year (CHF 316 million, +2.9% when adjusted for currency effects) as a result of the increase in capital employed for processing the order backlog and the strengthening of the euro over the course of 2017.

The capital employed resulting from production construction contracts in progress increased in net terms from CHF 35 million to CHF 61 million due to a significantly higher level of construction contracts in progress and despite slightly higher advance payments. CHF 91 million was reported under receivables (previous year CHF 61 million) and CHF 30 million under liabilities (previous year CHF 26 million). The capital employed is comprised of order costs and realized profit shares of CHF 281 million (previous year CHF 254 million) minus CHF 220 million in advance payments (previous year CHF 219 million). As a result, the level of financing for construction contracts fell from 86.1% to 78.4% as of the reporting date.

Current assets increased by 10.6% to CHF 229 million in the year under review (previous year CHF 207 million, +5.3% when adjusted for currency effects). Trade receivables increased by CHF 33 million as a result of the increase in the capital employed for processing the order backlog, while inventories fell by CHF 12 million due to the work performed in the previous year, which were recognized as sales revenue in the year under review. The receivables still have a healthy maturity structure. Fixed assets were almost unchanged at CHF 111 million (previous year CHF 110 million). Investments in fixed assets amounted to CHF 12 million (previous year CHF 19 million) and were compensated by depreciation of CHF 11 million (previous year 10 million) and divestitures of CHF 2.5 million.

Liabilities increased by 3.3% to CHF 160 million (previous year CHF 155 million, -1.3% when adjusted for currency effects). The currency-adjusted decrease was primarily due to lower trade payables, while liabilities for construction contracts in progress had increased as of the reporting date. Financial debt remained virtually unchanged at CHF 32 million.

Shareholders' equity increased significantly, from CHF 161 million to CHF 180 million. The increase is attributable to the net profit of CHF 12 million, currency translation differences of CHF 6 million due to the stronger euro as of the balance sheet date, and valuation gains on cash flow hedges of CHF 4 million recognised directly in shareholders' equity. This was offset by the dividend distribution of CHF 3.4 million. The capital structure of the Starrag Group remains solid, with the equity ratio at the end of the reporting year being a high 52.9% (previous year: 51.0%).

Higher free cash flow despite decline in operating cash flow

Cash flow from operating activities declined from CHF 21.2 million to CHF 13.1 million as a result of the increase in the capital employed for processing the order backlog. Operating cash flow at the end of 2017 was positively impacted by the lower level of inventories, while the cash flow fell due to a lower level of financing for construction contracts in progress and higher receivables for construction contractsfinally accepted by customers prior to the end of the year.

Payments made on account of investment activities in the amount of CHF 9.2 million were again significantly below the level in the previous year (CHF 19.4 million) and also below the depreciation of CHF 10.8 million after the completion of construction of the modern production plant in Vuadens, Switzerland.

Despite the lower cash flow from operating activities, free cash flow increased to CHF 3.9 million (previous year: CHF 1.8 million) due to lower investments. The capital expenditures in fixed assets included CHF 4.1 million for the new building in Vuadens/Switzerland and the energy-saving modernization of existing plant buildings. In addition, CHF 6.2 million were used for the expansion and modernization of the machinery and production equipment in the manufacturing plants and the development of new technologies and products, and CHF 1.7 million were used for upgrading the IT systems, including for the continuing integration of the global network of the Starrag Group and the further development of IT support for the business processes. A total of CHF 5 million were spent on expansion investments and CHF 7 million on replacement investments. Divestitures generated CHF 2.5 million, mainly for the sale of part of the previous production plant in Sâles, Switzerland.

CHF 6.4 million were used for financing activities. This includes the repayment of financial liabilities of CHF 2.6 million as well as the dividend paid out in April 2017 from the capital contribution reserves of CHF 3.4 million, which was withholding tax free. This corresponds to a pay-out ratio of 57% of the net profit for 2016. In addition, the remaining 15% of the shares in Toolroom Technology Limited were acquired in May 2017 for a purchase price of CHF 0.4 million.

Currency effects

Since the Swiss franc was still below the average exchange rate in 2016 in the first few months of 2017, the strong increase in the euro in the second half of the year compared with the previous year had only a minor impact on the currency translation for the income statement and the cash flow statement. The significantly higher exchange rate at the end of the year as compared to the previous year, by contrast, led to significant currency translation effects in the balance sheet, which resulted in an increase in equity of CHF 6 million, among other things. The annual average exchange rate for the translation of the income statement and the cash flow statement was 1.1208 and thus slightly above that of the previous year (1.1014), while the year-end exchange rate for the translation of the balance sheet was substantially higher at 1.1808 (previous year 1.0866).

The influence of the transaction effects was limited to the revaluation of open foreign exchange positions, which led to a positive foreign currency result of CHF 0.5 million thanks to the stronger euro, among other things.

Overall, the Starrag Group was affected less than average by currency fluctuations when compared to Swiss industry. Currently 71% of sales come from plants abroad (previous year 75%); materials are procured within the eurozone as far as possible. In spite of that, 22% of costs were incurred in Swiss francs in 2017, while 18% of revenue was collected in Swiss francs (previous year 23% of costs and 17% of revenue). To reduce the economic currency risk and thus to maintain the competitiveness of the Swiss plants, the Starrag Group places great emphasis on continuous improvements in productivity to counter the pressure from the ongoing strength of the Swiss franc.

Consolidated income statement

CHF 1'000		2017	2016
Sales revenue	1	405'345	371'611
Other operating income	2	1'926	1'445
Change in inventory of finished and unfinished goods		-10'923	-3'125
Cost of materials and components		-174'240	-163'416
Personnnel expenses	3	-139'132	-134'116
Other operating expenses	4	-56'877	-52'640
Earnings before interest, taxes, depreciation and amortization EBITDA		**26'099**	19'759
Depreciation of tangible fixed assets	9	-8'518	-8'217
Amortization of intangible assets	10	-2'327	-2'195
Operating result EBIT		**15'254**	9'347
Financial result	5	-1'568	-1'443
Income before taxes		**13'686**	7'904
Income tax expenses	17	-1'578	-1'836
Net income		**12'108**	6'068
Thereof:			
‣ Shareholders of the company		12'023	5'944
‣ Minority shareholders		85	124
Earnings per share in CHF	6	3.58	1.77
Diluted earnings per share in CHF	6	3.58	1.77

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the beginning of 2017. The previons year's figures were adjusted accordingly (see Group accounting principles). The enclosed notes are part of the consolidated financial statements.

Consolidated balance sheet

CHF 1'000		31.12.2017	31.12.2016
Cash and cash equivalents		11'072	14'028
Receivables from goods and services	7	122'925	90'050
Other receivables		4'000	3'346
Inventories	8	84'886	96'396
Prepaid expenses and deferred income		5'920	3'017
Total current assets		**228'803**	206'837
Tangible fixed assets	9	104'176	103'782
Intangible assets	10	6'743	5'718
Total non-current assets		**110'919**	109'500
Total assets		**339'722**	316'337

CHF 1'000		31.12.2017	31.12.2016
Financial debts	11	27'853	28'972
Payables for goods and services		27'731	31'406
Other liabilities		10'328	9'132
Provisions	13	5'476	4'788
Accrued expenses and deferred income	12	59'680	54'142
Total current liabilities		131'068	128'440
Financial debts	11	3'882	3'786
Provisions	13	25'127	22'752
Total non-current liabilities		29'009	26'538
Total liabilities		**160'077**	154'978
Share capital	14	28'560	28'560
Additional paid-in capital		60'284	63'644
Retained earnings	15	90'762	68'328
Total shareholders' equity, shareholders of the company		**179'606**	160'532
Minority shareholders		39	827
Total shareholders' equity		**179'645**	161'359
Total liabilities and shareholders' equity		**339'722**	316'337

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the beginning of 2017. The previons year's figures were adjusted accordingly (see Group accounting principles). The enclosed notes are part of the consolidated financial statements.

Consolidated cash flow statement

CHF 1'000		2017	2016
Net income		12'108	6'068
Depreciation of tangible fixed assets and amortization of intangible assets		10'845	10'412
Change in non-current provisions		-366	984
Other non-cash items		-31	617
Change in:			
‣ Receivables from goods and services		-27'073	9'575
‣ Inventories		16'146	-7'125
‣ Other receivables, prepaid expenses and deferred expenses		818	-1'332
‣ Payables from goods and services		-5'043	7'809
‣ Other liabilities, accrued expenses and deferred income		5'680	-5'823
Cash flow from operating activities, net		**13'084**	21'185
Capital expenditure for:			
‣ Disposals of tangible fixed assets		-8'614	-17'706
‣ Intangible assets		-3'058	-1'971
Disposals of tangible fixed assets		2'468	259
Cash flow from investing activities, net		**-9'204**	-19'418
Chang in current financial debts		-2'207	7'682
Repayment of non-current financial debts		-354	-254
Dividend payment		-3'450	-4'122
Purchase of interest in subsidiary	23	-424	-
Cash flow from financing activities, net		**-6'435**	3'306
Currency translation		-401	-472
Net change in cash and cash equivalents		-2'956	4'601
Cash and cash equivalents at beginning of period		14'028	9'427
Cash and cash equivalents at end of period		**11'072**	14'028

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the beginning of 2017. The previons year's figures were adjusted accordingly (see Group accounting principles). 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	Shareholders' equity of the company	Minority share holders	Total share holders' equity
31.12.2015 (according to IFRS)	**28'560**	**67'676**	**88'921**	**185'157**	**909**	**97'145**
Restatement Swiss GAAP FER 24	-	-	-24'934	-24'934	-	-
01.01.2016 (according to Swiss GAAP FER)	**28'560**	**67'676**	**63'987**	**160'223**	**909**	**161'132**
Net income	-	-	5'944	5'944	124	6'068
Cash flow hedges	-	-	-835	-835	-	-835
Currency translation	-	-	-768	-768	-116	-884
Dividend payment	-	-4'032	-	-4'032	-90	-4'122
31.12.2016	**28'560**	**63'644**	**68'328**	**160'532**	**827**	**161'359**
31.12.2016	28'560	63'644	68'328	160'532	827	161'359
Net income	-	-	12'023	12'023	85	12'108
Cash flow hedges	-	-	3'953	3'953	-	3'953
Currency translation	-	-	6'043	6'043	56	6'099
Purchase of interest in subsidiary 23	-	-	415	415	-839	-424
Dividend payment	-	-3'360	-	-3'360	-90	-3'450
31.12.2017	**28'560**	**60'284**	**90'762**	**179'606**	**39**	**179'645**

The consolidated financial statements have been prepared in accordance with Swiss GAAP FER since the beginning of 2017. The previons year's figures were adjusted accordingly (see Group accounting principles).
The enclosed notes are part of the consolidated financial statements.

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 workpieces of metallic, composite and ceramic materials. Principle customers are internationally active companies in the Aerospace, Energy, Transportation and Industrial (Industrial Components, Luxury Goods, Med Tech) sectors. In addition to its portfolio of machine tools, Starrag Group provides integrated technology and maintenance services that significantly enhance customer quality and productivity.

The products are marketed under the brand Starrag and include the product ranges Berthiez, Bumotec, Dörries, Droop+Rein, Ecospeed, Heckert, Scharmann, SIP, Starrag, TTL and WMW. Headquartered in Rorschach/Switzerland. Starrag Group operates manufacturing plants in Switzerland, Germany, France, the UK and India and has established a network of sales and services subsidiaries in the most important customer countries.

The shares of Starrag Group Holding AG are listed on the SIX Swiss Exchange.

As per 31 December and as per end of previous year, Starrag Group Holding AG held the following fully consolidated investments directly and indirectly (capital share 100%):

- Starrag Group Holding GmbH, Chemnitz, Germany
- Starrag Group Holdings Ltd., Birmingham, UK
- Starrag SAS (former Berthiez SAS), Saint-Etienne, France
- Starrag Vuadens SA (former Bumotec SA, Sâles), Vuadens, Switzerland
- Starrag Technology GmbH (former Dörries Scharmann Technologie GmbH), Mönchengladbach, Germany
- Starrag GmbH (former Heckert GmbH), Chemnitz, Germany
- Starrag AG, Rorschacherberg, Switzerland
- Toolroom Technology Limited, Haddenham, UK (Capital and voting share 100%, until 10.05.2017 85%)
- Starrag (Shanghai) Co. Ltd., Shanghai, China
- 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 Garcia, Mexiko
- Starrag RU Ltd., Moskau, Russia
- Starrag UK Limited, Birmingham, UK
- Starrag USA Inc., Hebron USA
- SIP Société d'Instruments de Précision SA, Satigny, Switzerland (as of 1 January 2017 absorbed by merger with Starrag Vuadens SA, Vuadens, Switzerland)

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 11). 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, a balanced 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, Oil & Gas, Power Turbines and Renewables. Transportation & Industrial Components is responsible for the market segments Heavy Duty Vehicles & Engines, Industrial Components and On-Road Vehicles. Precision Engineering is responsible for the market segments Avionics, Luxury Goods and Med Tech. An essential part of the employees is working 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.

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- 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.

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 construction contracts

While preparing the accounts, the Group 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 8 (inventories) and 16 (construction contracts).

Provisions for warranty obligations and onerous contracts

While doing regular business, the Group 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 13).

Income tax

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 17).

Key accounting principles

Basis of presentation

The consolidated financial statements of the Starrag Group have been prepared in accordance with the Swiss GAAP FER accounting and reporting standards. In addition, the provisions of the Listing Rules of the SIX Swiss Exchange and Swiss accounting law were complied with. These consolidated financial statements are based on historical costs, with the exception of cash and cash equivalents and derivative financial instruments, which are valued at market value. The reporting is in Swiss francs (CHF). These financial statements include estimates and assumptions that affect the reported figures and related disclosures. Actual results may differ from these estimates.

Principles of consolidation

The scope of consolidation comprises the annual financial statements of Starrag Group Holding AG and all directly or indirectly controlled subsidiaries. Assets and liabilities as well as income and expenses are fully included in the consolidated financial statements using the full consolidation method. All intragroup relationships (income and expenses, receivables and liabilities) and intercompany profits on intragroup transactions and inventories are eliminated.

Capital consolidation is based on the purchase method, i.e. the acquisition costs of an acquired company are offset against the net assets measured at fair value at the time of acquisition. Any resulting goodwill is offset directly to the retained earnings in shareholders' equity. In the Notes to the financial statements, the effects of a theoretical capitalization and any impairment are shown using a depreciation period of five years. In the event of a possible subsequent sale, the goodwill offset against shareholders' equity at the time of the acquisition is recognized in profit or loss against the proceeds of the sale. The earnings of acquired companies are included in the consolidated accounts as of the 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 recorded directly in retained earnings.

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 construction 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. The impairment allowance is determined on the basis of due dates and recognizable credit risks. Receivables include receivables from percentage of completion valued construction 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. Inventories also include advance payments to suppliers.

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 offset against retained earnings in shareholders' equity at the time of an acquisition. In the notes to the financial statements, the effects of a theoretical capitalization and any impairment are shown using a depreciation period of five years.

Other intangible assets are carried at acquisition or production cost less accumulated depreciation required for business purposes. These intangible assets are amortized on a straight-line basis over their estimated useful lives, i.e. 3 to 8 years for software and 5 to 10 years for development costs.

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.

Employee benefits
The occupational pension situation for the Starrag Group companies' personnel is governed by the legal regulations and practices of the respective country and is accordingly structured differently.

The pension situation of the companies located in Switzerland is governed by the provisions of the Swiss Federal Law on Occupational Benefits. The Swiss pension fund of the Starrag Group is a foundation which is legally independent of the Starrag Group, and which has reinsured the pension plans (according to the law defined contribution plans) with an insurance company in a congruent manner. The plans are financed by employer and employee contributions, which are periodically determined in such a way that the insurance premiums due can be financed.

The German companies do not maintain any occupational pension plans. Staff is insured with the national pension insurance of Germany.

The economic obligations or benefits of Swiss pension plans are determined on the basis of the financial statements prepared in accordance with Swiss GAAP FER 26 "Accounting for Pension Funds" accounting standard. The economic impact of pension plans of foreign subsidiaries is using local valuation methods. Employer contribution reserves and comparable items are capitalized in accordance with Swiss GAAP FER 16.

Financial instruments
Financial assets include cash, cash equivalents and receivables. Financial liabilities mainly include financial debts and operating liabilities. These are valued according to the "effective interest method" at discounted costs. In addition to the effective interest payments, interest expenses also include the annual compound interest and pro-rata transaction costs.

In order to be able to react to short-term price fluctuations, derivative currency hedges can be held. These are recognised at fair value. In the case of currency hedges ("cash flow hedges") concluded to hedge contracts denominated in foreign currencies, changes in market value are recorded in retained earnings insofar as the requirements regarding documentation, effectiveness and valuation are met. The changes in value accumulated in the retained earnings are recognised in the income statement at the time when the planned transaction is reported at profit or loss.

If the requirements are not met, the currency hedges are reported at fair value as financial assets held for trading. The gain/loss is reported in the financial result.

Change in accounting principles
The 2017 consolidated financial statements were prepared for the first time using the Swiss GAAP FER accounting standards. The figures for 2016 have therefore been adjusted accordingly. This change will reduce the complexity that is increasing under the International Financial Reporting Standards (IFRS) and, at the same time, also lower costs. Swiss GAAP FER is a recognized accounting standard based on the principle of "true and fair". It covers the requirements of the Starrag Group in its entirety and will continue to provide a reliable picture of the financial situation.

The following key points of the accounting principles used to prepare and present the 2017 consolidated financial statements differ from the 2016 consolidated financial statements prepared in accordance with IFRS:

Intangible assets from acquisitions
Goodwill from acquisitions and acquired brands, customer relationships and technologies are offset directly against retained earnings in shareholders' equity for each acquisition in accordance with the option under Swiss GAAP FER 30 "Consolidated Financial Statements". Under IFRS, goodwill was capitalized and tested annually for impairment. Brand names, customer relationships and technologies were capitalized separately under IFRS as part of the purchase price allocation and amortized over their estimated economic useful life. Transaction costs incurred in connection with acquisitions are treated as part of the acquisition costs in accordance with Swiss GAAP FER. Under IFRS, the transaction costs were recognized at profit or loss.

Employee benefits
According to Swiss GAAP FER 16 "Pension Obligations", economic obligations or benefits from Swiss pension plans are determined on the basis of the financial statements prepared in accordance with Swiss GAAP FER 26 "Accounting of Pension Funds". The economic impact of pension plans of foreign subsidiaries is determined in accordance with the local valuation methods used. Employer contribution reserves and comparable items are capitalized in accordance with Swiss GAAP FER 16. Under IFRS, defined benefit plans were calculated using the projected unit credit method and reported in accordance with IAS 19.

Deferred income taxes
The aforementioned valuation and accounting adjustments result in corresponding effects on deferred income taxes in the balance sheet and income statement.

Translation differences
As part of the change to Swiss GAAP FER, the cumulative translation differences were reversed or netted with retained earnings.

Presentation and structure
The presentation and structure of the balance sheet, income statement, cash flow statement and statement of equity has been adjusted to the requirements of Swiss GAAP FER.

The previous periods were adjusted accordingly for the purpose of comparing the presentation in the current reporting period (restatement). The effects of the aforementioned restatements on the equity and the income statement of the Starrag Group are summarized in Note 24.

Segment information

1. Sales revenue by production site

CHF 1'000	**2017**	2016
Switzerland	117'793	92'037
Germany	244'687	242'945
Other countries	42'865	36'629
Total	**405'345**	371'611

Notes to the income statement

2. Other operating income

Other operating income include in particular compensation payments form insurance companies, income from subleases, gains on the sale of fixed assets and government grants.

3. Personnel expenses

	CHF 1'000	**2017**	2016
Wages and salaries		111'543	107'156
Pension benefit expenses	18	2'384	2'456
Other social benefit expenses		19'015	18'089
Other personnel expenses		6'190	6'415
Total personnel expenses		**139'132**	134'116

4. Other operating expenses

Other operating expenses include in particular project risk costs, expenses for premises, travel expenses, maintenance and repairs of fixed assets, selling expenses and administrative expenses.

5. Financial result

	CHF 1'000	**2017**	2016
Interest income		183	84
Interest expenses		-652	-658
Currency result		467	299
Other financial expenses		-1'566	-1'168
Total financial result		**-1'568**	-1'443

6. Per share data

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 2017, this 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 12.0 million (prior year CHF 5.9 million) net earnings per share amount to CHF 3.58 (prior year CHF 1.77). As the company has not issued any stock options or convertible bonds, earnings per share were not diluted.

Notes to the balance sheet

7. Receivables from goods and services

CHF 1'000		31.12.2017	31.12.2016
Total receivables from goods and services		31'849	28'745
Receivables from construction contracts	16	91'076	61'305
Total receivables from goods and services		**122'925**	90'050
Thereof:			
‣ not due		113'159	84'125
‣ past due < 90 days		7'380	4'810
‣ past due ≥ 90 days		2'386	1'115

Receivables are stated net of value adjustments of CHF 1.4 million (prior year CHF 1.5 million).

8. Inventories

CHF 1'000	31.12.2017	31.12.2016
Raw materials and components	47'930	46'337
Work in progress	25'342	30'515
Finished products	6'578	10'322
Prepayments to suppliers	5'036	9'222
Total inventories	**84'886**	96'396

In 2017, expenses for the value adjustment of inventories of CHF 2.7 million (prior year CHF 2.9 million) were recognized.

9. Tangible fixed assets

CHF 1'000	2017 Land and buildings	2017 Machinery and equipment	2017 Other tangible fixed assets	2017 Total	2016 Land and buildings	2016 Machinery and equipment	2016 Other tangible fixed assets	2016 Total
Cost at beginning of year	115'408	49'799	12'278	177'485	102'598	47'382	11'364	161'344
Additions	3'961	4'413	428	8'802	13'002	3'428	1'650	18'080
Disposals	-3'321	-1'981	-655	-5'957	-	-697	-661	-1'358
Currency translation	3'471	2'802	687	6'960	-192	-314	-75	-581
Cost at year end	**119'519**	**55'033**	**12'738**	**187'290**	115'408	49'799	12'278	177'485
Accumulated depreciation at beginning of year	28'954	35'571	9'178	73'703	26'219	32'490	8'320	67'029
Depreciation	3'565	3'798	1'155	8'518	2'847	3'833	1'537	8'217
Disposals	-895	-1'495	-647	-3'037	-	-505	-611	-1'116
Currency translation	1'312	2'037	581	3'930	-112	-247	-68	-427
Accumulated depreciation at year end	**32'936**	**39'911**	**10'267**	**83'114**	28'954	35'571	9'178	73'703
Net carrying value at beginning of year	86'454	14'228	3'100	103'782	76'379	14'892	3'044	94'315
Net carrying value at year end	**86'583**	**15'122**	**2'471**	**104'176**	86'454	14'228	3'100	103'782

10. Intangible assets

CHF 1'000	2017 Software	2017 Development cost	2017 Total	2016 Software	2016 Development cost	2016 Total
Cost at beginning of year	11'457	13'822	25'279	10'253	13'421	23'674
Additions	1'153	1'905	3'058	1'491	480	1'971
Disposals	-1'245	-1'500	-2'745	-249	-	-249
Currency translation	575	639	1'214	-38	-79	-117
Cost at year end	**11'940**	**14'866**	**26'806**	11'457	13'822	25'279
Accumulated amortization at beginning of year	8'983	10'578	19'561	8'355	9'461	17'816
Amortization	1'091	1'236	2'327	898	1'297	2'195
Disposals	-1'245	-1'500	-2'745	-241	-	-241
Currency translation	459	461	920	-28	-180	-208
Accumulated amortization at year end	**9'288**	**10'775**	**20'063**	8'983	10'578	19'561
Net carrying value at beginnig of year	2'474	3'244	5'718	1'898	3'655	5'553
Net carrying value at year end	**2'652**	**4'091**	**6'743**	2'474	3'244	5'718

Goodwill resulting from the acquisition of a company is offset against retained earnings in shareholders' equity at the time of an acquisition. The effects of a theoretical capitalization and any impairment using a depreciation period of five years would be as follows:

CHF 1'000		2017	2016
Cost at beginning of year		28'285	28'505
Currency translation		2'072	-220
Cost at year end	15	**30'357**	28'285
Accumulated amortization at beginning of year		27'942	27'102
Amortization		343	1'062
Currency translation		2'072	-222
Accumulated amortization at year end		30'357	27'942
Theoretical net carrying value at beginning of year		343	1'403
Theoretical net carrying value at year end		-	343

CHF 1'000	31.12.2017	31.12.2016
Shareholders' equity	179'645	161'359
Theoretical net bock value	-	343
Theoretical shareholders' equity	**179'645**	161'702

CHF 1'000	2017	2016
Net income	12'108	6'068
Theoretical amortization	-343	-1'062
Theoretical net income	**11'765**	5'006

11. Financial debts

CHF 1'000	31.12.2017	31.12.2016
Current financial debts	27'853	28'972
Non-current financial debts	3'882	3'786
Total financial debts	**31'735**	32'758
Thereof in:		
‣ EUR	17'154	8'422
‣ CHF	14'581	24'336
Average interest rate	0.9%	1.1%
Unused current cash credit line	79'564	59'743

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 2017 and 2016 the financial covenants were complied with in 2017 and 2016.

12. Accrued expenses and deferred income

CHF 1'000		**31.12.2017**	31.12.2016
Project costs		7'196	7'458
POC-valued construction contracts	16	30'477	25'888
Personnel		14'230	10'503
Commissions		393	310
Derivative financial instruments	20	526	2'413
Current income taxes		1'043	1'503
Other		5'815	6'067
Total accrued expenses and deferred income		**59'680**	54'142

13. Provisions

	2017				2016			
CHF 1'000	Deferred income taxes	Warranty	Other Provisions	Total	Deferred income taxes	Warranty	Other Provisions	Total
Carrying value at beginning of year	20'645	6'670	225	27'540	20'460	7'894	304	28'658
Additions	2'079	6'965	-	9'782	851	5'095	-	5'322
Utilization	-543	-6'526	-225	-7'287	-637	-6'301	-79	-6'031
Releases	-	-115	-	-790	-	-	-	-362
Currency translation	979	449	-	1'358	-29	-18	-	-47
Carrying value at year end	**23'160**	**7'443**	**-**	**30'603**	20'645	6'670	225	27'540
Thereof:								
‣ current	-	5'476	-	5'476	-	4'563	225	4'788
‣ non-current	23'160	1'967	-	25'127	20'645	2'107	-	22'752

Provisions are split into the categories deferred income tax expense, warranty for products sold and other provisions. Other provisions include provisions for onerous contracts, personnel expenditure and project risks.

14. Share capital

The share capital of CHF 28.6 million comprises 3’360’000 registered shares with a nominal value of CHF 8.50 each. At the Annual General Meeting on 23 April 2016, the Board of Directors was authorized to increase the share capital up to a maximum of CHF 5’695’000 by issuing a maximum of 670’000 fully paid-in registered shares with a nominal value of CHF 8.50 at any time until 23 April 2018.

As at 31 December 2017, non-distributable reserves amounted to CHF 5.7 million, unchanged from the previous year.

15. Retained earnings

CHF 1'000		Currency translation	Cash flow hedges	Goodwill offset 10	Other reserves	Total
31.12.2015 (according to IFRS)		35'587	-768	-	54'102	88'921
Restatement Swiss GAAP FER	24	-35'587	-	-28'505	39'158	-24'934
01.01.2016 (according to Swiss GAAP FER)		**-**	**-768**	**-28'505**	**93'260**	**63'987**
Net income		-	-	-	5'944	5'944
Cash flow hedges		-	-835	-	-	-835
Currency translation		-988	-	220	-	-768
31.12.2016		**-988**	**-1'603**	**-28'285**	**99'204**	**68'328**
Net income		-	-	-	12'023	12'023
Cash flow hedges		-	3'953	-	-	3'953
Currency translation		8'115	-	-2'072	-	6'043
Purchase of interest in subsidiary	23	-	-	-	415	415
31.12.2017		**7'127**	**2'350**	**-30'357**	**111'642**	**90'762**

Other disclosures

16. Construction contracts

CHF 1'000	2017	2016
Revenue from construction contracts valued using the Percentage of completion method	314'174	284'540

CHF 1'000		31.12.2017	31.12.2016
Contract costs incurred and recognized profit share		280'938	254'404
Advance payments received		-220'339	-218'987
Net carrying value		**60'599**	35'417
Thereof:			
‣ Receivables from goods and services	7	91'076	61'305
‣ Accrued expenses and deferred income	12	-30'477	-25'888

17. Income taxes

CHF 1'000	2017	2016
Income before taxes	13'686	7'904
Expected tax rate	22.5%	15.0%
Expected income tax expenses	3'083	1'183
Debits/credits from prior reporting periods	-208	-20
Non-deductable expenses/non-taxable income	-159	184
Effect of unrecognized tax loss carryforwards	-1'138	490
Income tax expenses	**1'578**	1'836
Thereof:		
‣ Current income tax expenses	-1'881	-732
‣ Deferred income tax expenses	303	-1'104

The expected tax rate was 22.5% (prior year 15.0%) and corresponds to the weighted average tax rate resulting from the profit/loss before tax and the tax rate of each individual Group company. The change in the expected tax rate is the result of changes in the profit situation and tax rates at various Group companies.

On 31 December 2017 there are unrecognized tax loss carryforwards of CHF 10.7 million (prior year CHF 11.4 million), whereof CHF 0.5 million expire within one to three years (prior year CHF 0.5 million), CHF 2.7 million expire within four to seven years (prior year CHF 2.6 million) and CHF 0.2 million expire after more than seven years (prior year CHF 0.4 million). Deferred tax assets on tax loss carry-forward of CHF 3.3 million (prior year CHF 4.7 million) have not been recognized.

18. Pension benefits

CHF 1'000	2017 Patronage funds	2017 Employee benefit plans without surplus/deficit	2017 Employee benefit plans with surplus	2017 Total	2016 Patronage funds	2016 Employee benefit plans without surplus/deficit	2016 Employee benefit plans with surplus	2016 Total
Surplus/deficit pension benefit plan at end of year	1'300	-	6'119	**7'419**	1'094	-	5'090	6'184
Economic benefit at end of year	-	-	-	**-**	-	-	-	-
Change in economic benefit	-	-	-	**-**	-	-	-	-
Contributions concerning the business period	-	291	2'093	**2'384**	-	243	2'213	2'456
Pension benefit expenses 3	-	291	2'093	**2'384**	-	243	2'213	2'456

There are no employer contribution reserves.

19. Pledged assets

CHF 1'000	**31.12.2017**	31.12.2016
To ensure financial debts in the amount of the following land and buildings are mortgaged	3'495	3'559
‣ Net carrying value	7'352	7'234
‣ Charge	7'352	7'234

20. Derivative financial instruments

CHF 1'000	**31.12.2017**	31.12.2016
Forward currency exchange contracts: Contract value	**63'669**	99'164
Replacement value:		
‣ positive	4'475	456
‣ negative 12	-526	-2'413

21. Operating lease liabilities

CHF 1'000	**31.12.2017**	31.12.2016
‣ Due within 1 year	2'078	1'718
‣ Due within 2 to 5 years	2'142	956
Total operating lease liabilities	**4'220**	2'674

The lease contracts are for premises, cars and IT-equipment.

22. Other off-balance sheet obligations

The Starrag Group is occasionally confronted with claims for damages, which are to be regarded as a normal side effect of ordinary business activities. These mainly relate to warranties, material and financial damages as well as product liability. There are provisions and sureties for these obligations, which the Starrag Group assumes will cover all foreseeable risks.

23. Purchase of remaining shares in a subsidiary

On 11 May 2017 Starrag Group Holding AG acquired an additional 15% stake in Toolroom Technology Limited at a cost of CHF 0.4 million. Starrag Group now owns 100% of Toolroom Technology's Limited's capital stock. At the time of acquisition the carrying amount of the corresponding minority shares was CHF 0.8 million. This amount was derecognized in the equity attributed to noncontrolling interests and the CHF 0.4 million difference to the acquisition cost was recognized in the retained earnings of the company.

24. Adjustments due to first-time application of Swiss GAAP FER

CHF 1'000	01.01.2016	31.12.2016
Shareholders' equity in accordance with IFRS	186'066	186'845
Offset of goodwill from acquisitions	-17'405	-17'199
Offset of purchased brands, customer relationships and technologies	-17'892	-16'053
Adjustment of pension benefit obligation	6'445	3'936
Adjustment of Provision for deferred income taxes	3'918	3'830
Shareholders'equity in accordance with Swiss GAAP FER	161'132	161'359

CHF 1'000	2016
Net income in accordance with IFRS	4'593
Adjustment of amortization of purchased brands, customer relationships and technologies	1'839
Adjustment of pension benefit expenses	197
Adjustment of deferred income tax expenses	-561
Net income in accordance with Swiss GAAP FER	6'068

25. Exchange rates

CHF 1'000	2017	2016
Average rates (for income statement and cash flow statement)		
1 EUR	1.1208	1.1014
1 USD	0.9953	0.9945
1 GBP	1.2794	1.3528
1 CNY	0.1471	0.1499

CHF 1'000	31.12.2017	31.12.2016
Year end rates (for balance sheet)		
1 EUR	1.1808	1.0866
1 USD	0.9883	1.0309
1 GBP	1.3298	1.2658
1 CNY	0.1517	0.1484

26. Events after the balance sheet date

The consolidated financial statements were approved and released for publication by the Board of Directors on 28 February 2018. They are also subject to approval by the Annual General Meeting of the shareholders scheduled for 28 April 2018.

Report of the statutory auditor

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

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Starrag Group Holding AG and its subsidiaries (the Group), which comprise the consolidated income statement for the year ended 31 December 2017, the consolidated balance sheet as at 31 December 2017, the consolidated statement of cash flows and consolidated statement of changes in equity, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 87 to 110) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Swiss GAAP FER and comply with Swiss law.

Basis for opinion
We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 2'000'000

We concluded full scope audit work at six reporting units in two countries. Our audit scope addressed over 80% of the Group's revenue.

As key audit matters the following areas of focus have been identified:

Accounting for construction contracts

Conversion from IFRS to Swiss GAAP FER

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Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The audit strategy for the audit of the consolidated financial statements was determined taking into account the work performed by the component auditors in the PwC network. As Group auditor, we performed the audit of the consolidation, the disclosures and the presentation of the consolidated financial statements as well as the change from IFRS to Swiss GAAP FER. Where audits were performed by component auditors, we ensured that, as Group auditor, we were adequately involved in the audit in order to assess whether sufficient appropriate audit evidence was obtained from the work of the component auditors to provide a basis for our opinion. Our involvement comprised the inspection of the reporting, taking part in telephone calls with the component auditors during the interim audit and the year-end audit, communicating the risks identified at Group level, specifying the audit procedures relating to the recognition and measurement of term construction contracts and specifying the materiality levels to be applied.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 2'000'000
How we determined it	0.5% of sales revenue
Rationale for the materiality benchmark applied	We chose sales revenue as the benchmark for determining materiality. This benchmark takes into account the volatility of the business environment and it is a generally accepted benchmark for materiality considerations.

We agreed with the Board of Directors that we would report to them misstatements above CHF 180'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting construction contracts

Key audit matter	*How our audit addressed the key audit matter*
Starrag Group has construction contracts, which it recognises and measures using the percentage-of-completion (PoC) method in accordance with Swiss GAAP FER 22 – Long-term contracts. The degree of completion is determined on the basis of the direct contract costs excluding costs of materials. Management has to estimate the progress of projects as of the balance sheet date and the costs to be incurred in the future until their completion. An incorrect estimate could have a significant impact on the result for the period. Please refer to page 94 (Management assumptions and estimates), page 95 (Key accounting principles – Sales revenue and profit realisation) and page 107 (Other notes – Percentage-of-completion-valued construction contracts) in the notes to the consolidated financial statements.	Our audit procedures regarding the recognition and measurement of construction contracts using the percentage-of-completion (PoC) method comprised in particular the following: • We assessed the design and the existence of the key controls regarding the production orders and tested the effectiveness of selected controls. • We selected various production orders (sample testing based on the contract volumes, the contribution margin and changes in the margin compared with the planning phase) and focussed our testing on the following, in particular: – We assessed the contract-related calculations to determine whether the contractual terms – including sale proceeds and penalties for non-performance – had been recorded appropriately. – We discussed with the project controllers and project managers the progress of the projects based on the latest project accounts, the costs still to be incurred until their completion and changes in the margin. – We obtained written information from the legal representatives of the Group. We inspected this written information with regard to indications of potential quality deficiencies or penalties for non-performance and assessed whether these matters were presented appropriately in the consolidated financial statements. • During the audit, we conducted on-site inspections of various machines still under construction and assessed the progress of the projects. • For the production orders completed during the year under review, we compared various final parameters with the estimates made in the planning phase or those as of the previous balance sheet date in order to assess, with hindsight, the accuracy of the estimates made by Management. • We checked the arithmetical correctness of the key assessments relating to the progress of projects, costs to be incurred in the future and sales revenue. • We checked whether the disclosures in the consolidated financial statements were made in accordance with Swiss GAAP FER 22 – Long-term contracts. The results of our audit support the recognition and measurement of construction contracts and their disclosure in the 2017 consolidated financial statements.

Conversion from IFRS to Swiss GAAP FER

Key audit matter	*How our audit addressed the key audit matter*
With effect as of 1 January 2017, Starrag Group Holding AG changed the accounting framework it uses from International Financial Reporting Standards (IFRS) to Swiss GAAP FER. This change has significant impact on the 2017 consolidated financial statements and the prior-year figures. Additionally, the Board of Directors and the Executive Group Management have exercised various policy choices and implemented for the first time the disclosure requirements in accordance with Swiss GAAP FER. Please refer to pages 97 and 98 (Key accounting principles - Change in accounting principles) and page 109 (Other disclosures - Adjustments due to first-time application of Swiss GAAP FER)	In our audit of the change from IFRS to Swiss GAAP FER, we performed in particular the following audit procedures: • We requested the Executive Group Management's assessment of the impact of the change on the opening balance as at 1 January 2016 and on the 2016 income statement, and we then assessed whether – all the effects of the change in accounting standards had been identified and recorded by the Management; – the goodwill from acquisitions, acquired brands, client relationships and technologies had been correctly offset against equity; – the requirements of Swiss GAAP FER 16 'Pension benefit obligations' had been correctly implemented; – deferred taxes had been correctly restated to take into account the effects of the change. • We checked whether the figures prepared according to Swiss GAAP FER in the opening balance as at 1 January 2016 and the 2016 income statement were restated correctly. Additionally, we checked that the reconciliation of the shareholders' equity as at 1 January 2016 and 31 December 2016 and the net income for 2016 were disclosed correctly in the 2017 consolidated financial statements. • We assessed the completeness and the appropriateness of the disclosures according to Swiss GAAP FER in the 2017 consolidated financial statements. The results of our audit are consistent with a correct implementation of the Swiss GAAP FER requirements in the 2017 consolidated financial statements.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with Swiss GAAP FER and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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, 28 February 2018

Income statement

CHF 1'000	**2017**	2016
Other operating income:		
‣ Income from investments	19	28
Financial income	7'648	4'367
Total revenue	**7'667**	4'395
Personnel expenses	-665	-339
Other operating expense	-619	-534
Depreciation and value adjustments of fixed assets	-431	-440
Financial expenses	-94	-736
Income tax expenses	-6	-6
Net income	**5'852**	2'340

Balance sheet

CHF 1'000		**31.12.2017**	31.12.2016
Cash and cash equivalents		8	8
Other receivables:			
‣ from group companies		4'805	4'049
Prepaid expenses		25	35
Total current assets		**4'838**	4'092
Financial assets:			
‣ Loans to group companies		54'453	68'129
Investments	7	123'517	108'081
Total fixed assets		**177'970**	176'210
Total assets		**182'808**	180'302

CHF 1'000		**31.12.2017**	31.12.2016
Other liabilities:			
‣ to group companies		600	1'768
‣ to third parties		73	27
Accrued expenses and deferred income		1'435	299
Total current liabilities		**2'108**	2'094
Total liabilities		**2'108**	2'094
Share capital	8	28'560	28'560
Legal capital reserves:			
‣ Capital contribution reserves	12	59'521	62'881
‣ Other legal capital reserves		1'222	1'222
Retained earnings		85'545	83'205
Net income		5'852	2'340
Total shareholders' equity		**180'700**	178'208
Total liabilities and shareholders' equity		**182'808**	180'302

Notes to the financial statements

Key accounting principles

1. Basis of presentation

The financial statements of Starrag Group Holding AG, Rorschacherberg were prepared in accordance with the provisions of the Swiss Law on Commercial Accounting defined by the Swiss Code of Obligations.

The company prepares consolidated financial statements in accordance with the Swiss GAAP FER accounting standards. 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 receivables 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. Investments

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 SAS (former Berthiez SAS), Saint-Etienne, France
- Starrag Vuadens SA (former Bumotec SA, Sâles), Vuadens, Switzerland
- Starrag Technology GmbH (former Dörries Scharmann Technologie GmbH), Mönchengladbach, Germany
- Starrag GmbH (former Heckert GmbH), Chemnitz, Germany
- Starrag AG, Rorschacherberg, Switzerland
- Toolroom Technology Limited, Haddenham, UK (Capital and voting share 100%, until 10.05.2017 85%)
- Starrag (Shanghai) Co. Ltd., Shanghai, China
- 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
- SIP Société d'Instruments de Précision SA, Satigny, Switzerland
  (as of 1 January 2017 absorbed by merger with Starrag Vuadens SA, Vuadens, Switzerland)

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 23 April 2016, the Board of Directors was authorized to increase the share capital up to a maximum of CHF 5’695’000 by issuing a maximum of 670'000 fully paid-in registered shares with a nominal value of CHF 8.50 at any time until 23 April 2018.

9. Major shareholders

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

	31.12.2017	31.12.2016
Walter Fust, Freienbach, Switzerland	53.94%	53.80%
Eduard Stürm AG, Goldach, Switzerland	9.26%	9.26%
Max Rössler, Hergiswil / Parmino Holding AG, Goldach, Switzerland	7.98%	7.98%

10. Remunerations

Remunerations to the Board of Directors and to the Executive Board are disclosed in the remuneration report from page 74 of the annual report.

11. Participations of the Board of Directors and Executive Board

Number of shares	**31.12.2017**	31.12.2016
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	2'240	2'240
Walter Fust, Member of the Board of Directors	1'812'282	1'807'558
Adrian Stürm, Member of the Board of Directors	27'150	27'150
Walter Börsch, CEO	1'001	1'001
Gerold Brütsch, CFO	400	400
Günther Eller, Head Customer Service	200	200
Dr. Norbert Hennes, Leiter BU Aerospace & Energy	700	-

12. Capital contribution reserves

The reported legal capital contribution reserves at 31 December 2017 amounted to CHF 59.5 million (prior year CHF 62.9 million), of which CHF 56.3 million (prior year CHF 59.7 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. Securities for the benefit of Group companies

The total amount of securities furnished for third-party liabilities constitutes CHF 321.2 million (prior year CHF 300.4 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	2017	2016
Retained earnings	85'545	83'205
Net income	5'852	2'340
Retained earnings	**91'397**	85'545
To be carried forward	**91'397**	85'545

Proposal of the Board of Directors for the appropriation of legal capital contribution reserves

CHF 1'000		2017	2016
Available capital contribution reserves	12	**59'521**	62'881
Withholding tax free distribution		-5'040	-3'360
To be carried forward		**54'481**	59'521

At the General Meeting on 28 April 2018, the Board of Directors will propose the distribution of a dividend of CHF 1.50 per share from the capital contribution reserves (total dividend CHF 5.0 million). In addition, the Board of Directors will propose that the retained earnings of CHF 91.4 million will be carried forward.

According to the resolution of the Annual General Meeting held on 23 April 2016, a distribution of a dividend of CHF 1.00 per share (total dividend CHF 3.4 million) was carried out. In addition, the Annual General Meeting decided that the retained earnings of CHF 85.5 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 on the audit of the financial statements

Opinion
We have audited the financial statements of Starrag Group Holding AG, which comprise the income statement for the year ended December 31, 2017, the balance sheet as at 31 December 2017 and notes, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 116 to 121) as at 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for opinion
We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 900'000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

Impairment testing of investments in subsidiaries

Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

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Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 900'000
How we determined it	0.5% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is a relevant bechmark for holding company, and it is a generally accepted benchmark for holding companies.

We agreed with the Board of Directors that we would report to them misstatements above CHF 90'000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment testing of investments in subsidiaries

Key audit matter	*How our audit addressed the key audit matter*
Investments in subsidiaries is a significant asset category on the balance sheet (CHF 123.5 million). Impairment testing of investments whose book value is greater than the book value of the underlying net assets requires Management to consider capitalised earnings. Doing so involves significant scope for judgement, particularly to determine the assumptions to use concerning future business results. In identifying the potential need for impairment of investments in subsidiaries, Management uses a predefined impairment testing process. Please refer to page 118 and 119 (Investments) of the notes to the financial statements.	In our audit of investments in subsidiaries, we performed the following main audit procedures: • We compared the book value of the investments in the year under review with their pro-rata share of the respective company's equity or the company's valuation, based on capitalised earnings. • We checked for plausibility the key assumptions applied by Management (revenue and margin growth). We consider the valuation process and the assumptions used to be an appropriate and adequate basis for the impairment testing of the goodwill as at 31 December 2017.

Responsibilities of the Board of Directors for the financial statements
The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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 reserves 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, 28 February 2018

Five-year overview

CHF m	**2017**	2016	2015	2014	2013
	Swiss GAAP FER			IFRS [1]	
Order intake	349.3	480.3	333.4	407.3	424.9
Order backlog at year end	301.7	348.3	237.8	287.6	274.7
Sales revenue	405.3	371.6	363.7	393.2	390.7
Operating result before deprecation and amortization EBITDA	26.1	19.8	27.1	33.2	32.4
Operating result EBIT	15.3	9.3	14.7	19.1	19.0
Net income	12.1	6.1	9.5	14.4	13.5
EBITDA as % of sales revenue	6.4%	5.3%	7.4%	8.4%	8.3%
EBIT as % of sales revenue	3.8%	2.5%	4.0%	4.9%	4.9%
Cash flow from operating activities	13.1	21.2	11.0	7.3	8.8
Capital expenditure in non-current assets	11.7	19.4	22.3	14.6	11.2
Free cash flow	3.9	1.8	-11.3	-7.2	-2.3
Total assets	339.7	316.3	341.5	356.3	348.7
Capital employed	225.4	202.8	n/a	n/a	n/a
Return on capital employed ROCE	5.7%	3.5%	n/a	n/a	n/a
Net debt	20.7	18.7	15.9	-2.4	-16.1
Shareholders' equity	179.6	161.4	186.1	195.9	193.6
Equity ratio	52.9%	51.0%	54.5%	55.0%	55.5%
Return on equity ROE	7.5%	3.8%	4.9%	7.5%	7.3%
Earnings per share (in CHF)	3.58	1.77	2.78	4.26	3.97
Share price at year end (in CHF)	65.35	52.50	46.00	64.50	75.75
Profit distribution per share (in CHF)	1.50 [2]	1.00	1.20	1.80	1.80
Total shareholder return TSR	26.4%	16.7%	-25.9%	-12.5%	25.9%
Employees (full-time equivalents, annual average)	1'503	1'524	1'573	1'622	1'640

[1] Since 2017, the financial statements of Starrag Group have been prepared in accordance with the Swiss GAAP FER accounting standards. The 2016 figures have been adjusted accordingly. The key figures for the years 2013 to 2015 are prepared in accordance with International Financial Reporting Standards (IFRS) and are only partially comparable to a limited extent.

[2] Proposal of the Board of Directors to the Annual General Meeting in the form of a distribution of capital contribution reserves free of withholding tax.

Financial calendar

28 April 2018	Annual General Meeting in Rorschach
27 July 2018	Letter to shareholders on H1 2018 results
25 January 2019	Initial information on full-year 2018 figures
8 March 2019	Annual report 2018, media and analysts conference in Zurich
26 April 2019	Annual General Meeting in Rorschach

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