Half-year report
2018

Significantly higher order intake – Continued solid order backlog

- Order intake CHF 216 million, up 53%
- Order backlog CHF 322 million, up 7% compared with the end of 2017, up 13% compared with mid of 2017 – capacity utilization for one year
- Sales of CHF 192 million, down 5% compared with the good prior-year period
- EBIT margin 3.4%
- Net income of CHF 4.3 million
- On track in terms of strategy, underperformance at one location depress results

CHF m	**2018** 01.01. – 30.06.	2017 01.01. – 30.06.	Change
Order intake	216.3	141.7	52.6%
Sales revenue	192.3	202.3	-4.9%
Operating result EBIT	6.6	8.0	-17.6%
Net income	4.3	6.4	-33.0%
EBIT as percentage of sales revenue	3.4%	4.0%	na.
Return on equity ROE	4.8%	8.0%	na.
Return on capital employed ROCE	4.4%	6.0%	na.
Cash flow from operating activities	1.7	-5.8	na.
Capital expenditure in non-current assets	3.9	7.0	-44.1%
Free cash flow	-2.1	-12.8	na.
Earnings per share (in CHF)	1.28	1.89	-32.5%
Employees (average number of FTEs during the reporting period)	1'511	1'505	0.4%

CHF m	**30.06.2018**	31.12.2017	Change
Order backlog	321.8	301.7	6.6%
Total assets	346.6	339.7	2.0%
Capital employed	226.1	225.4	0.3%
Net debt	27.0	20.7	30.7%
Shareholders' equity	175.0	179.6	-2.6%
Equity ratio	50.5%	52.9%	na.

Dear shareholders

High order backlog

At the end of June 2018, the Starrag Group had an order backlog for new machines of CHF 322 million; a 7% increase over the end of 2017. Compared to mid-2017, the increase amounted to 13%. This level of order backlog covers a full one year of basic capacity utilization. In addition, new machine business is always associated with substantial customer support services.

Order intake clearly up

In evaluating the Starrag Group's order intake, it is important to bear in mind that our capital equipment business has a longer-term character. Some periods may be sharply affected by the timing of the placement of major orders, i.e. when the customer actually issues the order. In the first half of 2018, the Group recorded CHF 216 million in new orders, up 53% versus the first half-year of 2017 (currency adjusted up 46%), although this is in comparison to a historically weak previous year period. The increase was ultimately aided by a number of major orders in the Aerospace and Transportation industries, namely from Asia and Europe, totaling CHF 47 million (prior-year period: CHF 23 million). On an annual basis (July 2017 to June 2018), the increase amounted to 5% in local currencies.

By region and customer industry

During the reporting period, new orders rose in all three market regions, led by Asia and Europe, with a more moderate increase in North America. Of the four customer industries, Industrial posted the highest growth, followed by Aerospace and Transportation. As expected, Energy remained stuck at a low level.

Sales slightly lower than the prior-year period

Sales for the first half-year of 2018 came in at CHF 192 million, or 4.9% below the good previous year figure for the first half (currency adjusted -9.5%). This decline is a result of delays in order processing at one of the Group's locations triggering a shortfall in output and hence revenues. In order to avoid these effects in the second half of the year, as well as in the medium term, management introduced targeted measures to further optimize the value chain both internally and externally.

Lower operating margin

Due to lower sales as well as exceptional effects at the aforementioned location, earnings before income and taxes (EBIT) fell from CHF 8.0 million in the prior-year period to CHF 6.6 million for the first six months of 2018. This resulted in an unsatisfactory operating margin of 3.4% (previous year period: 4.0%).

Net income for the reporting period stood at CHF 4.3 million (previous year period: CHF 6.4 million). The decline is primarily due to the lower EBIT, currency effects, and a non-recurring one-time tax credit in the previous year period. Net income per share was CHF 1.28 (prior-year period: CHF 1.89). The return on capital employed (ROCE) of 4.4%, was below the prior-year period figure of 6.0% as a result of the unsatisfactory operating result and a higher amount of capital employed.

Continued solid financing

At CHF 347 million, total assets on 30 June 2018 exceeded the value as per the end of 2017 by CHF 7 million. Net debt of CHF 27 million, which was higher by CHF 6 million compared with the end of 2017, was attributable to targeted work in advance of expected customer orders and the associated build-up of inventories. As at 30 June 2018, the Starrag Group's equity ratio remained solid at 50.5% (end of 2017: 52.9%).

On the right track with „Strategy 2020"

Despite the fact that in terms of profitability, the Starrag Group currently remains significantly short of its longer-term, sustainable objectives, we are convinced to be on the right track in view of the progress achieved to date with the implementation of the „Strategy 2020". In the medium term, we will be able to achieve our objective of posting an operating margin of 8%. This assessment is based on the continued strengthening of our leading application expertise, as supported by IPS, our in-house developed „Integrated Production System" (key word: Industry 4.0), on our concentration on market segments with the strongest growth and income potential, particularly China and the U.S, and on the ongoing improvement of our operational excellence, with the focus on boosting the efficiency of our customer service.

These efforts were systematically continued during the reporting period. The innovative generation of horizontal H5 machining centers introduced in the previous year found a positive response on the market, which was reflected in orders received during the first half of 2018. Customer service structures, which were further expanded regionally, helped to generate additional business, particularly also in Asia.

The measures introduced to strengthen operational excellence – including in the areas of project management, shop floor management, and supply chain – resulted in initial measurable improvements in order processing and are being rigorously continued.

In connection with our today's worldwide presence at the industry's leading trade fairs, we received an extremely positive response to our first-time attendance at CCMT (China CNC Machine Tool Fair) in Shanghai last April, which constitutes another step in the expansion of our presence in China. With the solutions that were on display, the Starrag Group once again demonstrated its leading application expertise.

A now firmly established tradition are the Starrag Group's Technology Days, at which customer representatives and strategic partners, but also trade media as well as institutes and technical colleges, can get an idea of the Group's latest developments and innovations. The well-attended Aerostructure Technology Days were held in January of this year, followed by the Turbine Technology Days in June. In addition, the Starrag Group has been focusing on the precision engineering market in the U.S., where it carried out a technology roadshow in February.

Personnel matters

As scheduled and previously announced, Christian Walti became CEO on 1 June 2018, taking over operational leadership of the Starrag Group from Walter Börsch. In addition, at the Annual General Meeting of 28 April 2018, Frank Brinken stepped down from the Board of Directors at his own request. Michael Hauser, CEO of Tornos SA in Moutier since 2011, was elected to replace him.

Outlook for 2018

In addition to the unremittingly strong pressure on prices and the ordering behaviour of customers, which continues to be focused on the short term, the recent months were characterised by customs and trade disputes between the large economic blocs. This undesirable development makes our globally oriented business considerably more difficult. It is therefore all the more important that the implementation of the „Strategy 2020" has created the basis on the market side for long-term, profitable growth. We are of course aware that it will take several reporting periods for the success of the strategy to manifest itself in full.

For the 2018 financial year as a whole, we continue to expect that order intake (in local currencies) will significantly exceed the prior-year value. However, this presupposes that there will be no further disruptions in the macroeconomic and political environment that would suppress the willingness of customers to make investments, particularly with respect to the large orders expected.

We expect that sales (in local currencies) for the second half of the year will exceed the figure for the first half. For the year as a whole, however, they will likely come in below the prior-year figure. This also depends on our suppliers, where delays have to be experienced due to their stretched capacity utilization. The high order intake during the reporting period, will in particular have a positive impact on sales in the 2019 financial year.

In terms of EBIT margin, the second half of the year is expected to be considerably better than the first semester. For full-year 2018, a margin in line with the previous year's level is strived for. A successful result improvement at the aforementioned location would significantly support this objective. Return on capital employed (ROCE) is expected to be lower than in 2017 due to a higher capital employed and an operating result that is below expectations.

Thank you

The Board of Directors and the Executive Board would once again like to thank all employees for their tremendous, motivated dedication. We would also like to thank our customers and suppliers and, not least, our shareholders, for their loyalty and the trust that they place in us.

Yours sincerely,

Daniel Frutig
Chairman of the Board of Directors

Dr. Christian Walti
CEO

Rorschacherberg, 27 July 2018

Financial commentary

Order situation

The order situation is positively characterised by a further increase in the order backlog for new machines to CHF 322 million. With a rise of 7% compared with the end of 2017, this corresponds to a normalisation, and compared with the middle of the previous year, the order backlog grew by 13%. Since new machine business is always associated with substantial additional customer services, this backlog of work ultimately represents solid base capacity utilization for a period of one year.

Order intake, which is subject to considerable fluctuations, totalled CHF 216 million for the first six months and was thus 53% higher than the level during the prior-year period, which was significantly below average. After adjusting for currency effects, the increase amounted to 46%. The incre-ase was ultimately aided by a number of major orders in the Aerospace and Transportation target industries, namely from Asia and Europe, totalling CHF 47 million (prior-year period: CHF 23 million). On an annual comparison (July 2018 to June 2018), which is reasonable in view of the longer-term character of the Starrag Group's equipment business, order intake totalled CHF 424 million, which corresponds to an increase in local currencies of 5% compared with the comparable prior-year period.

Income statement

Sales revenue for the first half of the year amounted to CHF 192 million, which was 5% below the prior-year period. Adjusted for currency effects, the decline was even 10%. The decline is attributable to capacity utilization problems at one of the Group's locations, mainly as a result of delays in order processing. In order to avoid these effects in the second half of the year, as well as in the medium term, management introduced targeted measures to further optimise the logistics chain both internally and externally.

Gross profit (sales revenue minus cost of materials plus/minus change in inventory) amounted to CHF 111 million, or 57% of sales revenue, and was thus at the level of the prior-year period, although the gross margin rose by 2.9 percentage points in absolute figures. The positive trend in the gross margin is primarily attributable to targeted work in advance of expected customer orders. In addition, the gross margin was positively impacted by higher margins owing to the higher average completion level of orders in production, as well as by that fact that the share of materials, which briefly spiked in the prior-year period, was lower. Rising procurement costs due to high capacity utilization in the supply chain had a negative impact.

Personnel costs increased a result of a slight rise in the headcount from an average of 1'505 to 1'511 full-time employees, while higher unit labour costs added CHF 1.4 million to personnel expenses, primarily as a result of collectively bargained wage increases in Germany. The share of personnel costs increased from 34.5% to 37.9% of sales, due partly to the lower sales volume. Other administrative expenses fell slightly from 13.8% to 13.6% of sales.

Due to lower sales as well exceptional deviations at the mentioned location, earnings before income and taxes (EBIT) fell from CHF 8.0 million in the prior-year period to CHF 6.6 million during the first six months of 2018. This resulted in an unsatisfactory operating margin of 3.4% (4.0%).

The financial result decreased by CHF 0.6 million to CHF -1.3 million due to negative currency effects. The tax rate amounted to 19.4% of earnings before taxes, whereas in the previous year, the tax rate was a low 12.6% as a result of a non-recurring one-time credit of CHF 0.8 million from prior periods. As a result, net income in the first half of 2018 fell from CHF 6.4 million to CHF 4.3 million. Earnings per share declined accordingly from CHF 1.89 to CHF 1.28.

Balance Sheet

Total assets as of 30 June 2018 amounted to CHF 347 million, an increase of CHF 7 million from the end of 2017. Current assets increased by CHF 9 million, primarily as a result of targeted work in advance of expected customer orders and the associated build-up of inventory levels. Fixed assets remained stable at CHF 108 million.

Liabilities were increased by CHF 12 million to financing the higher amount of capital employed. Operating liabilities rose by CHF 3 million, while financial liabilities rose by the remaining CHF 9 million. Since cash and cash equivalents also rose by CHF 3 million, net debt increased by CHF 6 million to CHF 27 million. This increase was primarily attributable to the mentioned build-up of inventory levels, whereas the financing level for orders in progress fell slightly to 75% (end of 2017: 78%).

Shareholders' equity declined by CHF 4.7 million compared to the 2017 annual financial statements. This was due to the dividend distribution of CHF 5.0 million, the remeasurement of cash flow hedges at CHF 2.6 million, and currency effects of CHF 1.4 million owing to the weaker euro as at the balance sheet date, which was counteracted by net income of CHF 4.3 million. As a result, the equity ratio fell by 2.4 percentage points to 50.5% compared to the end of 2017. Accordingly, the Starrag Group continues to have above-average financial flexibility.

The return on capital employed (ROCE) of 4.4% was below the prior-year figure of 6.0% due to the unsatisfactory operating result and higher capital employed.

Cash flow statement

Cash flow (before changes in net current assets) amounted to CHF 10.3 million (prior-year period: CHF 9.8 million). Operating cash flow after changes in non-cash net working capital amounted to CHF 1.7 million (prior-year period: CHF -5.8 million). This was influenced, in particular, by targeted work in advance of expected orders and the associated build-up of inventory levels.

Investments in non-current assets of CHF 3.9 million were mainly invested in improvements to existing production sites and IT upgrades. This resulted in a negative free cash flow of CHF -2.1 million for the first half of 2018 (prior-year period: CHF -12.8 million), mainly due to the mentioned temporary build-up of inventory levels.

Cash flow from financing activities amounted to CHF 4.8 million, consisting of an increase in financial liabilities of CHF 9.0 million minus the withholding tax-free dividend of CHF 5.0 million paid out of capital contribution reserves in May 2018 for fiscal year 2017.

Consolidated income statement

CHF 1'000	**2018** **01.01. – 30.06.**	2017 01.01. – 30.06.	2017 01.01. – 31.12.
Sales revenue	192'330	202'339	405'345
Other operating income	952	703	1'926
Change in inventory of finished and unfinished goods	8'814	-3'782	-10'923
Cost of materials and components	-90'994	-88'161	-174'240
Personnnel expenses	-72'797	-69'814	-139'132
Other operating expenses	-26'181	-27'893	-56'877
Earnings before interest, taxes, depreciation and amortization EBITDA	12'124	13'392	26'099
Depreciation of tangible fixed assets	-4'179	-4'303	-8'518
Amortization of intangible assets	-1'336	-1'069	-2'327
Operating result EBIT	**6'609**	8'020	15'254
Financial result	-1'264	-663	-1'568
Income before taxes	**5'345**	7'357	13'686
Income taxes	-1'035	-925	-1'578
Net icome	**4'310**	6'432	12'108
Thereof:			
‣ Shareholders of the company	4'297	6'365	12'023
‣ Minority shareholders	13	67	85
Earnings per share in CHF	1.28	1.89	3.58
Diluted earnings per share in CHF	1.28	1.89	3.58

Consolidated balance sheet

CHF 1'000	**30.06.2018**	30.06.2017	31.12.2017
Cash and cash equivalents	13'690	9'753	11'072
Receivables from goods and services	121'207	107'686	122'925
Other short-term receivables	4'709	5'334	4'000
Inventories	96'630	88'490	84'886
Prepaid expenses and deferred income	2'356	5'701	5'920
Total current assets	**238'592**	216'964	228'803
Tangible fixed assets	101'621	104'618	104'176
Intangible assets	6'421	6'322	6'743
Total non-current assets	**108'042**	110'940	110'919
Total assets	**346'634**	327'904	339'722

CHF 1'000	**30.06.2018**	30.06.2017	31.12.2017
Financial dept	37'381	42'251	27'853
Payables form goods and services	25'255	27'513	27'731
Other liabilities	8'730	6'734	10'328
Provisions	5'318	4'624	5'476
Accrued liabilities and deferred income	67'509	51'496	59'680
Total current liabilities	144'193	132'618	131'068
Financial debt	3'293	3'739	3'882
Provisions	24'156	23'479	25'127
Total non-current liabilities	**27'449**	27'218	29'009
Total liabilities	**171'642**	159'836	160'077
Share capital	28'560	28'560	28'560
Additional paid-in capital	55'244	60'284	60'284
Retained earnings	91'135	79'113	90'762
Total shareholders' equity, shareholders of the company	**174'939**	167'957	179'606
Minority shareholders	53	111	39
Total shareholders' equity	**174'992**	168'068	179'645
Total liabilities and shareholders' equity	**346'634**	327'904	339'722

Consolidated cash flow statement

CHF 1'000	**2018** 01.01. – 30.06.	2017 01.01. – 30.06.	2017 01.01. – 31.12.
Net income	4'310	6'432	12'108
Depreciation of tangible fixed assets and amortization of intagible assets	5'515	5'372	10'845
Change in non-current provisions	382	-916	-366
Other non-cash items	134	-1'104	-31
Change in			
‣ Receivables from goods and services	751	-15'736	-27'073
‣ Inventories	-12'610	8'770	16'146
‣ Other receivables, prepaid expenses and deferred expenses	-1'050	491	818
‣ Payables from goods and services	-1'900	-3'493	-5'043
‣ Other liabilitiies, accrued expenses and deferred income	6'194	-5'597	5'680
Cash flow from operating activities, net	**1'726**	-5'781	13'084
Capital expenditure for:			
‣ Tangible fixed assets	-2'850	-5'399	-8'614
‣ Intangible assets	-1'087	-1'611	-3'058
Disposals of fixed assets	97	30	2'468
Cash flow from investing activities, net	**-3'840**	-6'980	-9'204
Change in current financial debt	10'026	12'649	-2'207
Repayment of non-current financial debt	-137	-218	-354
Dividend payment	-5'040	-3'360	-3'450
Purchase of interest in subsidiary	-	-424	-424
Cash flow from financing activities, net	**4'849**	8'647	-6'435
Currency translation	-117	-161	-401
Net change in cash and cash equivalents	2'618	-4'275	-2'956
Cash and cash equivalents at beginning of period	11'072	14'028	14'028
Cash and cash equivalents at end of period	**13'690**	9'753	11'072

Consolidated statement of shareholders'equity

CHF 1'000	Share capital	Additional paid-in capital	Retained earnings	Total Share-holders' equity of the company	Minority share-holders	Total share-holders' equity
01.01.2017	28'560	63'644	68'328	160'532	827	161'359
Net income	-	-	6'365	6'365	67	6'432
Cash flow hedges	-	-	3'386	3'386	-	3'386
Currency translation	-	-	619	619	56	675
Purchase of interest in subsidiary	-	-	415	415	-839	-424
Dividend payment	-	-3'360	-	-3'360	-	-3'360
30.06.2017	28'560	60'284	79'113	167'957	111	168'068
01.01.2018	28'560	60'284	90'762	179'606	39	179'645
Net income	-	-	4'297	4'297	13	4'310
Cash flow hedges	-	-	-2'528	-2'528	-	-2'528
Currency translation	-	-	-1'396	-1'396	1	-1'395
Dividend payment	-	-5'040	-	-5'040	-	-5'040
30.06.2018	**28'560**	**55'244**	**91'135**	**174'939**	**53**	**174'992**

Notes to the interim consolidated financial statements

1. Accounting principles

The unaudited interim consolidated financial statements for 2018 were prepared in accordance with Swiss GAAP FER (Swiss accounting and reporting recommendations). This is a condensed interim report pursuant to Swiss GAAP FER 31 "Additional recommendations for listed companies".

The consolidated interim financial statements do not contain all of the information found in the consolidated annual financial statements and should therefore be read together with the financial statements for the 2017 fiscal year. The current accounting standards are congruent with the accounting standards used to prepare the 2017 financial statements (refer to pages 95 to 98 of the 2017 Annual Report), unless stated otherwise in the following section.

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

2. 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.

3. Additional information

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

4. Approval of interim consolidated report

No events have occurred after 30 June 2018 that would have a material effect on the interim accounts. The interim consolidated report was approved and released for publication by the Board of Directors on 17 July 2018.

Aero Structures Technology Days 2018

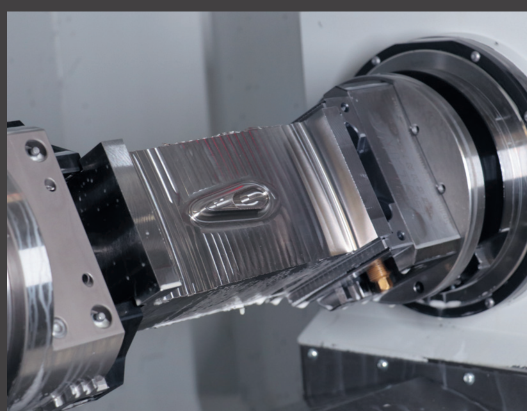
New manufacturing solutions for structural components

Over 160 participants from 16 countries travelled in January to the Aero Structures Technology Days in Rorschach.

In cooperation with Kennametal, Starrag offers state-of-the-art production possibilities for structural components, enabling the customer to optimise their unit costs, to reduce machining times and to ensure the quality of the components.

Flexible manufacturing systems are enjoying increasing popularity thanks to growing series sizes as well as the desire for automated production and assured quality. For over 25 years, Starrag has developed these so-called FMS (Flexible Manufacturing Systems) and assumed responsibility for all elements and the entire process — from machines, equipment and tools through to the automatic set-up and handling of workpieces by robots, and even the cell controller. Participants were presented with functional solutions that make users more productive.

Dr. Norbert Hennes, Starrag: "Our Aero Structures Technology Days are not only about demonstrating Starrag machines, but also presenting functional solutions that make users more productive".



The theme of Aero Structures Technology Days 2018: How can structural components be manufactured in an even more productive way?

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. Principal 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, 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 service subsidiaries in the most important customer countries.

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

Financial calendar

25 January 2019	Initial information on full-year 2018 results
8 March 2019	Presentation of 2018 results for analysts and the media in Zurich
26 April 2019	Annual general meeting in Rorschach
24 July 2019	Half-year report 2019

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

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