œrlikon

Annual Report **2019**

Delivering Customer Value

Oerlikon's technologies and services are engineered to enhance the performance of customers' industrial components and production systems. They enable efficiency gains, savings in cost, energy and resources and extend the lifetime of tools and components. They empower customers to do things they could not do before.

Oerlikon's surface solutions enhance material and surface properties to provide over 20 possible functions like wear, thermal, abrasion, corrosion and environmental protection. The company's solutions address the challenges faced by industries and customers. The treated surface now has a purpose and added value for the customer.

Oerlikon's manmade fibers equipment and systems are optimally designed to support the balance between cost reduction, production efficiency and consistent quality. Customers benefit from reduced energy consumption and a smaller equipment footprint for the production of filaments, yarns and nonwovens.

Aerospace

5%

overall increase in engine efficiency

Automotive

2–4%

reduction in fuel consumption

Power Generation

2%

overall efficiency increase for a 530 megawatt gas turbine

General Industries & Tooling

~67%

extension of tool lifetime

Apparel & Industrial Textiles

~30%

energy savings

Leading Technology & Engineering Group

Oerlikon engineers materials, equipment and surfaces and provides expert services to enable customers to have high-performance products, solutions and systems with desired functions and extended lifespans. The Group is committed to continually investing in and delivering value adding technologies, products and services for customers to meet challenges in their markets.

A global technology company founded in Switzerland, Oerlikon looks back on almost 100 years of tradition in engineering and innovation. Today, the Group operates its business in two segments – Surface Solutions and Manmade Fibers. It has a global footprint of more than 11 100 employees at 182 locations in 37 countries and generated sales of CHF 2.6 billion in 2019.

Total Sales in %

57%
Surface Solutions

43%
Manmade Fibers

Surface Solutions Segment

A world-leading supplier offering advanced materials and surface technologies. The segment has over 80 years of know-how in the field of engineering and developing advanced materials and surface solutions for components and tools used in a wide range of industrial applications where superior materials and surface performance are required. Progressing from surface to structure, the additive manufacturing business was established within the segment.

Manmade Fibers Segment

A world market leader for solutions and systems used in manufacturing manmade fibers. The segment has 98 years of expertise in enabling customers to produce high-quality synthetic fibers. These fibers are processed into clothing, carpets, safety belts, airbags, hygiene products, industrial textiles and geotextiles. The segment also offers consulting, engineering, life cycle management and smart (Industry 4.0-based) plant solutions.

2019 at a Glance

Group sales was maintained while order intake was slightly lower compared to the prior year despite market weakness.

Group EBITDA margin was lower due to investments and exceptional expenses related to restructuring. Excluding the exceptional items, EBITDA margin was 15.1%.

Surface solutions business developed broadly in line with market developments.

A high level of orders and sales was sustained and double-digit operating profitability was achieved in the manmade fibers business.

Successfully closed sale of the drive systems business to Dana Incorporated on February 28, 2019.

Share buyback program launched to repurchase up to 10% of share capital over the next 36 months.

Shareholders voted at 2019 AGM to increase the Board of Directors to seven members, four of whom are non-affiliated to the major shareholder.

Philipp Müller assumed role as CFO, effective January 1, 2020, replacing retired CFO, Jürg Fedier.

Proposing a dividend payout of CHF 1.00 per share.

First productivity program initiated in 2019. Second phase of the program is being worked on. Program goals are to expand market reach, improve capital, operational and administrative efficiency and boost profitability in the medium term.

2019 Key Group Results

Order Intake in CHF	2.6 billion
Sales in CHF	2.6 billion
EBITDA Margin[1]	14.1% Excl. exceptional items 15.1%
Net Result[2] in CHF	-66 million
Operating Cash Flow[3] in CHF	322 million
Net Cash in CHF	333 million
Earnings per Share[2] in CHF	-0.21
Dividend Proposal[4] in CHF	1.00

[1] Includes CHF 25 million of exceptional expenses related to restructuring.

[2] Includes CHF -284 million non-cash cumulative translation differences and other items from other comprehensive income related to the Drive Systems Segment divestment.

[3] Before changes in net current assets.

[4] Includes an extraordinary dividend of CHF 0.65 per share.

> 2019 was the year in which we completed the strategic transformation of our portfolio to two key businesses.

Prof. Dr. Michael Süss
Chairman of the Board of Directors

> Given the challenging market environment, we did well in sustaining our 2019 performance at around the same level as in 2018.

Dr. Roland Fischer
Chief Executive Officer

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From left to right:
Prof. Dr. Michael Süss, Chairman of the Board
and Dr. Roland Fischer, Chief Executive Officer.

Chairman and CEO Letter

Dear Shareholders

2019 was a challenging year for Oerlikon and many of the industries we serve. Nevertheless, we were able to deliver a good overall performance in the challenging market environment. Our results confirm that we have the right strategy and business model.

Since we assumed leadership of the company some five years ago, we have successfully transformed Oerlikon from an industrial conglomerate with diverse businesses to a focused company holding leading positions in key markets and applications. We have also strengthened our business fundamentals and capabilities – from investing in R&D and innovation, so as to develop cutting-edge technologies for customers, to strengthening governance, increasing efficiency and building effective processes. Today, we have a strong business and financial foundation and an excellent team of employees to support Oerlikon's growth in the medium and long term – making Oerlikon an attractive company and a good long-term investment.

We are of the opinion that shareholders should share in our successes. In 2018, our dividend payout was increased to CHF 0.35 per share. In 2019, we matched that dividend and added an extraordinary dividend payout of CHF 0.65 per share, which stemmed from proceeds from the sale of the drive systems business. This year, the Board of Directors is proposing again a dividend payout of CHF 1.00, comprising an ordinary dividend of CHF 0.35 per share and an extraordinary dividend of CHF 0.65 per share. As we expand Oerlikon's position as a leading powerhouse in surface solutions and advanced materials, we will continue to grow Oerlikon organically and through targeted acquisitions. We will acquire only at the right price, at the right time and for the right value. In the absence of attractive opportunities, we view our dividend payout as an efficient use of our current cash and capital. This will not impact our future ability to acquire companies that add value to our portfolio and strengthen our market position.

2019 Financial Performance

We delivered a robust performance in 2019 in a challenging market environment. Customers took a more cautious stance toward investment, impacting orders. Group order intake amounted to CHF 2.6 billion, a decrease of 5.2% over 2018 (2018: CHF 2.7 billion). Group sales of CHF 2.6 billion were at around the same level as in the prior year, which was a record year for us (2018: CHF 2.6 billion). Organically, we slightly improved sales. Group EBITDA was lower at CHF 366 million, corresponding to a margin of 14.1% (2018 EBITDA margin: 15.6%). This is attributed to higher operating expenses related to investments in our businesses and to exceptional expenses of CHF 25 million related to restructuring. Excluding these exceptional items, the EBITDA margin was at 15.1%. Compared to 2018, results from continuing operations were lower by 36.4% at CHF 110 million (2018: CHF 173 million). Net result for 2019 decreased by 126.9% to CHF -66 million (2018: CHF 245 million), due to the reclassification of CHF 284 million related to the sale of the drive systems business. Consequently, earnings per share were CHF -0.21. With an equity ratio of 48%, the Group's financial position remained strong in 2019. The Group's return on capital employed (ROCE) was 7.0%. Our net cash position at the end of the year amounted to CHF 333 million.

Continued Strong Strategy Execution

In 2019, we completed the divestiture of our drive systems business to Dana Inc. Additions to our portfolio included the acquisition of TeroLab Surface GmbH in Germany, AMT AG in Switzerland and D-Coat GmbH in Germany, all three to strengthen our surface solution offerings. TeroLab expands our portfolio of thermal spray coating services for industries such as agriculture, steel, automotive and machine OEMs. AMT extends our product and service offerings for thermal spray applications and turnkey solutions, while D-Coat widens our thin-film coating portfolio, particularly for cutting tools used in the aerospace and automotive industries.

Serving Customers Locally

Serving our customers in close proximity to their operations is an integral component of our surface solutions business. Oerlikon now has 182 sites in 37 countries. In 2019, we established a number of new centers in various regions to assist customers in finding the desired technological solutions. In Europe, we opened a center in Sweden to shorten delivery times and help our customers reduce their carbon footprint. In the USA, two new customer centers were opened – one in St. Louis, Missouri, where we provide services for cutting and forming tools to customers in the aerospace, automotive and general industries, and a production and development facility in Huntersville, North Carolina, near Charlotte, for our additive manufacturing business. In Mexico, we opened a center to serve OEMs and tier-one suppliers from the automotive industry and mold makers in the metal forming and plastics processing industries. In Asia, a technology center in Shanghai was inaugurated to provide additive manufacturing services.

It Takes Collaboration to Succeed

Success in advancing technology requires partnerships. We actively pursue them in R&D because we believe that combining our strengths will bring results that would otherwise be unobtainable. In 2019, we entered into a partnership with Safran, the French National Centre for Scientific Research, and the University of Limoges, to create a joint research laboratory, PROTHEIS, and a technology platform, SAFIR, in Limoges. The focus is on developing enhanced surface treatment solutions for aerospace applications – in particular, to make lighter and longer-lasting REACH-compliant products that are capable of reducing noise and nitrogen oxide emissions.

We are also cooperating with the Fraunhofer Institute in Munich to significantly shorten the development time for designs of automotive sensors. Together with the University of California in San Diego, USA, we are working on R&D projects to use big data, machine learning and artificial intelligence for advanced material development.

Partnerships are critical to the success of additive manufacturing. Together with the Technical University of Munich, GE Additive and Linde, we have created an additive manufacturing cluster in Bavaria, Germany. The initiative aims to accelerate the broader use of additive manufacturing in industries through R&D initiatives. With MT Aerospace, we are working on accelerating the use of additive parts in the aerospace and defense industries. We are also working with United Launch Alliance to manufacture a number of flight components and with Siemens to use their digital enterprise solutions to help accelerate the industrialization of additive manufacturing.

Innovating to Maintain Our Technology Leadership

In the highly competitive global environment in which we operate, we are constantly developing new and better technologies and services to meet customers' needs. Some of these are jointly developed with customers.

In 2019, we invested 4.9% of our revenue (CHF 127 million) in R&D and filed 100 new patents. We launched a new BALIMED portfolio of coatings for medical and surgical tools and equipment to provide low-friction, wear resistance, anti-glare and biocompatibility. BALIQ AUROS was developed to provide extreme wear resistance for threading tools. BALIQ CARBOS was added to the portfolio for high-performance vehicles, where coatings need to withstand extreme contact pressures and fast sliding velocities. We also further developed our RotaPlasma system for SUMEBore, enabling it to handle the large-scale serial production of cylinder bores used in auto engines, which led to us securing a deal with a major German automobile manufacturer.

Our Manmade Fibers Segment introduced four innovative industrial designs in 2019, some combined with digital solutions. For instance, the eAFK Evo texturing system offers significantly higher production speeds, greater productivity and consistently high product quality, along with lower energy consumption and simpler operation. Also making its debut was our BCF S8 Tricolor system that allows the production of more than 200 000 different color shades, superior spinning speed, 99% system efficiency and potential energy savings of up to 5%.

As part of our investments in our structural growth, we are establishing competence centers to concentrate knowledge and expertise in certain industries or processes. We have established a CVD (chemical vapor deposition) center in Schopfheim, Germany, and are currently building a new competence center in Bisingen, Germany, for our ePD technology: an environmentally sustainable coating applied to high-end plastics to give them a chrome-like appearance and special functions. Similarly, we are establishing an oil & gas industry competence center in Houston, Texas, USA, which takes advantage of capabilities obtained in earlier acquisitions. We expect these centers to allow us to pursue advances in technologies while providing superior services to our customers.

Growth in our additive manufacturing business has been slower than expected as the adoption of new technologies requires time. At this point in time, the business is developing less dynamically than expected and we have underutilized capacity, which is impacting the top line and EBITDA margin of our surface solutions business. We are making structural adjustments in the business to adapt to this reality. This technology is the third pillar of our business growth – the other two being our core surface solutions and manmade fibers business. We believe additive manufacturing will play a key role in the next generation of industrial applications. Additive manufacturing has the potential to change manufacturing as we know it, and we are uniquely positioned to provide additive capabilities to industries due to our extensive knowledge of materials and our post-processing expertise.

Leveraging the Power of Digitalization

Digitalization is key to Oerlikon's success, and we continue to pursue and launch digitalization and artificial intelligence initiatives. In 2019, we opened the Oerlikon Digital Hub in Munich, Germany, to accelerate the company's digital transformation. This hub is the focal point of our digital projects and initiatives. A group of talented and creative employees are dedicated to evaluating, analyzing and providing project management and implementation expertise to our teams worldwide.

Our digital solutions serve not only to increase productivity and efficiency in our internal processes, but also to improve our service and technologies provided to customers. For instance, in 2019, we launched an online platform, myBalzers, to enable customers to easily track orders on a real-time basis. Our manmade fibers team, which has established itself as a leader in smart factory solutions, continued to intensively develop digital solutions, including in the area of IT infrastructure for large-scale plants, and successfully installed its first solutions, such as data center in a box, in the market.

Investing in Our People
Behind all of our products is a vast amount of expertise. As a company that prides itself on its technological leadership, we are acutely aware of the importance of the people behind that technology. We are proud of the balance we have achieved in our workforce. We have more than 1 500 people who have worked more than 20 years at Oerlikon, bringing with them vast troves of experience and expertise. We also have a large contingent of employees who are at the beginning of their careers and who relate to technology in a completely different way than the previous generation. We see value in a diverse workforce, not only because it reflects the world we live in, but because we believe that teams that are diverse in experience, age, gender, culture, race and religion perform at a higher level.

Technology and digitalization served as the foundation for several HR initiatives in 2019. We used technology to successfully recruit some 1 300 new employees, and we have encouraged our employees to use social media and other communication technologies to strengthen collaboration, build our brand and connect with each other.

In 2019, the first class in our global leadership program graduated. This 18-month program was designed to identify high-potential employees and offer them advanced leadership training and the opportunity to network, build skills and expand their knowledge of Oerlikon. This is a critical investment in the long-term future of our company.

We had two major changes in senior management at Oerlikon in 2019. In October, Philipp Müller joined our senior management team and assumed the role of Chief Financial Officer on January 1, 2020, upon the retirement of long-time CFO Jürg Fedier. We sincerely thank Jürg for his significant and valuable contributions over the past 11 years. Philipp brings more than 15 years of experience in our industry and is a strategic leader and valuable addition to the senior management team. Additionally, shareholders voted at the Annual General Meeting of Shareholders in April to expand the size of the Oerlikon Board of Directors by one to seven members, four of whom are not affiliated to the major shareholder. Dr. Suzanne Thoma and Paul Adams were elected as new independent Board members.

Share Buyback Initiated in 2019
To increase the efficiency of our capital, the Board has initiated a share buyback program. Over a period of up to 36 months, we expect to repurchase shares on the open market amounting to a maximum of 10% of our share capital. Based on the closing share price on November 4, 2019, we expect to spend CHF 350 million on the buyback program, which began on November 7, 2019. We intend to use the repurchased securities to finance potential inorganic growth and to fund our global, long-term employee incentive program.

We see a bright future for Oerlikon. Our strategy is strong, and we remain committed to investing and growing our surface solutions business, including our additive manufacturing solutions, while supporting the continued robust performance of our manmade fibers business. We have strong leadership, a highly experienced global team, high-performing products and technologies, a healthy balance sheet and an in-depth understanding of customer needs. It is precisely because of these strengths that we are able to weather the inevitable ups and downs of the markets.

The geopolitical and market challenges are expected to persist and it is too early to assess the potential impacts of the coronavirus outbreak on the global economy and markets. To further strengthen Oerlikon for the future, we initiated a first productivity program in 2019 and are working on a second phase of the productivity program. The goals are to expand market reach, improve capital, operational and administrative efficiency and boost profitability in the medium term. Assuming no further adverse market or currency developments, we expect order intake and sales in 2020 to be between CHF 2.5 billion and CHF 2.6 billion and EBITDA margin before exceptional items to improve to 15.0% to 15.5%. We are expecting to invest additional CHF 25 million to CHF 35 million in the productivity program over the next 18 months. Our 2020 EBITDA margin including these expenses is expected to be between 14.0% and 14.5%. The program is expected to significantly improve the operating profitability of the surface solutions business and drive the Group's EBITDA margin toward 16% to 18% in the medium term.

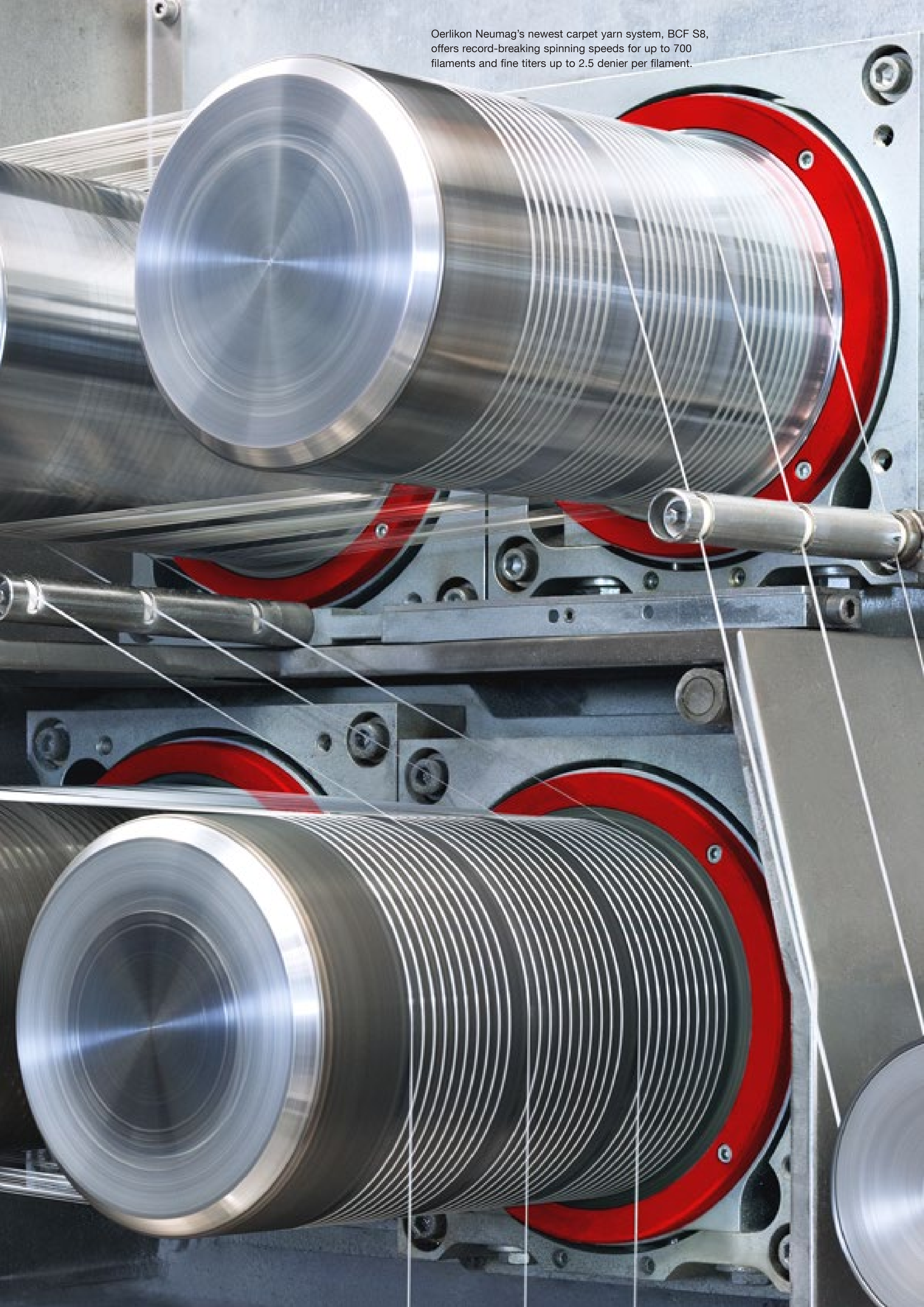
We want to personally thank our employees, our management team and our colleagues on the Board of Directors for their hard work and commitment. We are grateful to our partners and our customers for the trust they place in us. And we are thankful for the unwavering support and continued confidence of our shareholders. We cannot absolutely know what the new decade will bring, but we know what our business offers, and we look forward to continuing to deliver the best value to all our stakeholders.

March 3, 2020

Best regards

Prof. Dr. Michael Süss
Chairman of the Board of Directors

Dr. Roland Fischer
Chief Executive Officer



Oerlikon Neumag's newest carpet yarn system, BCF S8, offers record-breaking spinning speeds for up to 700 filaments and fine titers up to 2.5 denier per filament.

Oerlikon
Value
Proposition

Mid-term Growth Strategy

Oerlikon draws on its broad and versatile portfolio of advanced materials, surface technologies, processing equipment and services, as well as its global footprint to further develop its business and sustain mid-term growth. To propel its profitable growth, the Group focuses on three key growth drivers: addressing growth markets and industries, securing structural growth and expanding through targeted acquisitions.

Three Key Drivers of Profitable Growth

1

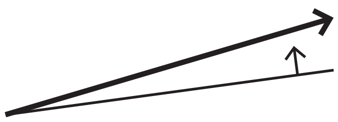
Exposure to growing markets

Mid-term market growth

Addressing growth markets and industries

2

Oerlikon has the ability to outgrow end market trends

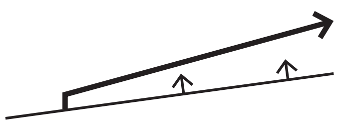


A structural growth company

Securing steady growth as a structural growth company

3

Supporting structural growth with acquisitions



M&A Opportunities

Expanding through targeted M&A

Securing structural growth

Align solutions to customer & market needs

- Building a stronger client-facing structure in industries
- More integrated sales and management structure
- Increase key account management
- Top-selling

Expand technology leadership

- Innovation pipeline for coating solutions, materials and equipment
- Invest around 4% of revenue in R&D annually

Strengthen foothold in regions

- Global footprint of 182 sites in 37 countries to serve customers in close proximity
- Continue strengthening business development in 8 target countries
- Opening at least 3 to 4 new coating centers per annum

Value chain expansion

- Add pre- and post-treatment activities
- Polycondensation for manmade fibers business (same equipment, process and system used for textile fibers was repurposed for producing pellets used to manufacture PET bottles)

Improve operational excellence

- Automation, robotization and other smart manufacturing and industry 4.0 initiatives at production sites to increase efficiency and productivity
- Digitalization initiatives such as digital hub, smart sensors
- Improve supply chain management

Investments in Organic Growth

Oerlikon has successfully transformed from an industrial conglomerate to a focused company holding leading positions in key growth markets. To secure structural growth over the medium and long term, the company is investing to strengthen its footprint, competencies and solution offerings for customers.

Surface Solutions Segment

Establishing competence centers that focus on developing promising techno-logies and markets such as ePD, CVD and oil & gas.

Strengthening its footprint with the opening and expansion of customer and coating service centers in key countries.

Running cross-business R&D programs to develop next-generation and future coating solutions by combining expertise across the company.

Enlarging material offerings through investments in titanium and carbon production and developing highly specialized AM materials.

Investing further in additive manufacturing technologies, aligned with the pace of industrialization and adoption.

Implementing digitalization initiatives throughout the organization to improve productivity and efficiency.

Manmade Fibers Segment

Investment in Factory 4.0 and digitalization solutions.

Next-generation equipment with automated solutions.

Further investments in nonwoven and new technologies in this field.

New staple fiber R&D lines.

Oerlikon Business Model

Oerlikon is a market leader in advanced materials, surface solutions and materials processing. The solutions from Oerlikon encompass materials, equipment and services. They range from engineering the materials or coating solution that customers need to project managing the installation of entire plants or providing ongoing after-sales support. Oerlikon builds its business on technology competencies, a global footprint and trusted customer relations in highly demanding industries.

2019 Revenue in CHF billion
1.32

2019 Revenue in CHF billion
0.29

Equipment and Components

Standardized and Customized Solutions

Highly productive and reliable systems and products for coatings, surface treatments, fiber production, spinning and texturing.

STRATEGIC PRIORITIES

- Launch new and next-generation coating systems.
- Increase offering of tailored and integrated solutions consisting of materials and equipment.
- Maintain lead in introducing Industry 4.0 smart factory solutions for textile spinning and texturing.
- Launch new staple fibers and nonwovens technologies.

Materials

Advanced Materials

Standardized and customizable metal-, ceramic- and carbidebased materials (such as powders and wires) for surface coatings, surface treatments, additive manufacturing and other industrial processes.

- Expand materials portfolio for surface treatments and additive manufacturing, and their applications in existing markets and regions.
- Reduce development time and time-to-market for customized and new materials with Oerlikon's rapid alloy development data simulation and analysis software.
- Increase offering of tailored and integrated solutions consisting of materials and equipment.

Oerlikon Metco's plasma spray guns are configured exactly according to customer needs for thermal spray coatings.

2019 Revenue in CHF billion

0.99

Oerlikon has a robust business model, thanks to its unique value propositions. It has one of the world's broadest portfolios of advanced materials and surface technologies. Its intellectual property lies in its in-depth know-how and capabilities in the field of surface solutions integrated with materials development. In addition, Oerlikon offers highly skilled engineering expertise to develop, apply and maintain coating and large manmade fiber systems. Its client relationships often have an R&D character and customers can depend on a global production and service network for a fast response on services, deliveries, repairs and maintenance.

Services

Engineering

A team of over 1 000 engineers working closely with customers to develop new and innovative equipment, solutions and materials.

Services

182 sales and service centers spread across 37 countries to provide a fast response time and on-time delivery to customers.

After-sales services

Service sites worldwide ensure ready and on-hand support, combined with digital remote monitoring and consultation services.

- Strengthen leading positions by expanding and optimizing networks, applications and product ranges.
- Expand global network and leverage proximity to customers to enhance customer relations and extend engineering, solutions and service offerings.
- Accelerate growth of services by leveraging current momentum in improving and extending service offering.

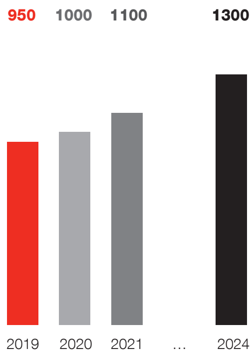
Oerlikon Balzers' primeGear is an all-round service package consisting of detailed analysis, consultation and tailored solutions for treating tools and establishing optimal machining/ environmental conditions to the basic materials and designs.

Oerlikon Key Markets

Making aerospace safer, more powerful and more efficient

Aerospace

The commercial aerospace market slowed in 2019, achieving 2.5% growth compared to 4.5% in 2018 according to the Accenture Commercial Aerospace Insight Report. The grounding of the Boeing 737 MAX aircraft factored significantly in the slowdown, especially in North America. Latin America had the highest growth rate globally, at 9.9%, with the Middle East following at 6.8% and Europe at 6.1%. Global growth in the commercial aerospace market is expected to be stronger in 2020. According to the Deloitte 2019 Global Aerospace and Defense Industry Outlook Report, the commercial aircraft backlog is currently at 14 000 units, and 38 000 aircraft are expected to be produced globally in the next two decades. With 200 million people entering the middle class in the next decade, passenger travel is expected to continue increasing.



Targeted market size[1]
in CHF million

16% of FY2019 surface solutions revenue

Industry-expected CAGR 2019–2024[2] **5%**

USP

Oerlikon covers all coating needs in the industry – from powder development and application engineering to equipment, services and process know-how.

Industry Challenges

- Counter potential tariff increases and increases in material costs.
- Improve engine performance and efficiency to reduce fuel consumption and meet CO_2 and NO_x emission standards.
- Enable hot-section engine components to operate at higher temperatures to improve efficiency.
- Meet demanding landing gear requirements for new-generation aircraft, while replacing noxious hard chromium process.
- Reduce weight and production cost of complex engine parts, structural components and replacement parts.
- Develop lighter-weight materials that can withstand erosion, corrosion and extreme temperatures (>1 500 °C).
- Expand production capacity and improve factory automation to achieve desired production rates.

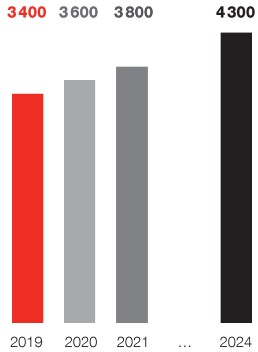
Solutions

- Oerlikon's abradable coatings are used in engines to seal the gas path, improving performance, decreasing fuel consumption and thereby reducing CO_2 generation and NO_x emission.
- Thermal barrier coatings used in combustor and turbine sections of engines protect underlying materials from temperatures that these substrates could otherwise not tolerate.
- The noxious hard chromium process for plating landing gears can be replaced by Oerlikon's high-velocity oxygen fuel thermal spray coatings, which deliver superior performance and safety.
- Oerlikon Balzers' BALINIT TURBINE PRO coating, designed for aerospace, gas and steam turbine blades and vanes, can provide 40 times more erosion resistant than steel and 5 times more than other PVD coatings.
- Additive manufacturing is ideal to reduce weight and simplify part production to lower cost and improve functionality. It also frees engineers from the limitations of conventional manufacturing, allowing for highly optimized designs.

[1] Oerlikon estimates.
[2] These are projected industry growth rates from sources including company reports, Bloomberg, Thomson Reuters, McKinsey and others.

Enabling sharper, stronger and more durable tools

General Industries and Tooling



Targeted market size[1]
in CHF million

Following several years of growth, the global manufacturing sectors slowed in the latter half of 2019 according to the Gardner Business Index. Positive trends in new orders, supplier deliveries, employment and production were countered by decreases in exports and rapidly contracting backlog activity. Demand for customization in the manufacture of industrial and consumer products, ranging from automotive engines, fuel tanks, turbines and propellers to food, watches, medical devices and precision components, plus growth in renewable energy systems require new, well-designed tooling. The global tooling market is expected to reach USD 368.5 billion in 2026, up from USD 200.8 billion in 2018 according to Allied Market Research.

54% of FY2019 Surface Solutions revenue

Industry-expected CAGR 2019–2024[2] **1.2–3.0%**

USP

Technological and market leadership with global availability of solutions enable unique full-service performance in terms of quality, process stability, delivery time and consistency.

Industry Challenges

- High-performing tooling is a critical aspect of a reliable production process, which is needed to ensure quality, performance and optimal productivity.
- All manufacturing, especially the manufacture of large, durable equipment and machines, requires high-quality components treated to minimize friction, reduce wear, resist abrasion and enhance reliability.
- The increasing demand for customization across many industries requires flexibility and speed in tooling.
- Biocompatibility is a critical success factor in the medical device and dental implant markets, where products must also resist wear and friction.

Solutions

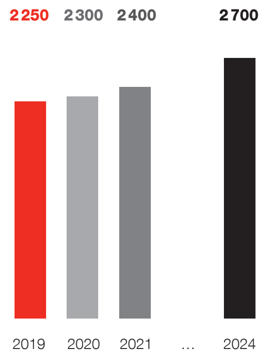
- Oerlikon's standardized and customized coatings increase the hardness and strength of the underlying material, while providing wear, friction and corrosion protection.
- Coatings are highly effective for preserving and extending the useful life of tools and components, and for improving the performance, reliability and throughput of machine tools, even in high temperature and pressure environments.
- High-performance coatings improve the machining performance of cutting tools by several times compared to uncoated tools.
- Coatings enable mechanically engineered components to operate under extreme conditions such as high loads, rapid sliding speeds and poor lubrication.
- Coatings can reduce glare and help improve performance of surgical tools and durability of in-body implants.
- Oerlikon offers end-to end medical contract manufacturing using conventional or additive manufacturing, focusing on joints, spine and trauma implants.

[1] Oerlikon estimates.
[2] These are projected industry growth rates from sources including company reports, Bloomberg, Thomson Reuters, McKinsey and others.

Advancing productivity, sustainability and profitability in the industry

Automotive Industry

Global automotive sales in 2019 were around 77 million units – a decrease of approximately 2% – according to Statista. The slowdown was largely attributed to the US trade sanction policy and the economic slowdown in China, where Asia remains the top global market for passenger vehicle sales. Moody's Investor Service forecasts that the 2019 decline will continue through 2020 but slow to less than 1% due to an expected slight recovery in demand and improvement in consumer confidence in emerging markets like India and Russia. Manufacturers continue to work toward reducing the environmental impact of their vehicles in the face of increasingly strong regulatory pressures and changing consumer preferences favoring alternative fuel powertrains, connectivity and digital solutions.



Targeted market size[1]
in CHF million

25% of FY 2019 Surface Solutions revenue

Industry-expected CAGR 2019–2024[2] **2.4%**

USP

Innovative standard and custom-designed solutions combined with global presence enable reliable operational performance to address Oerlikon's automotive customers' needs.

Industry Challenges

- Reduce fuel consumption, emissions and vehicle weight, for example by using smaller, lighter engines.
- Smaller engines improve fuel efficiency but their fewer cylinders are under higher pressure and cause more stress on smaller parts, while exhaust gas recycling, start-stop systems and turbochargers create engine corrosion issues.
- Modern, higher-torque transmission systems offer increased performance but have more gears, presenting synchronization and friction challenges.
- Concern about the environmental impact from the high level of fine dust caused by brake discs.
- Preference for chrome look on interior and exterior trims, but chromium plating is noxious and expected to be banned in the mid-to-long term.
- Transition from combustion engines toward hybrid or fully electric cars.

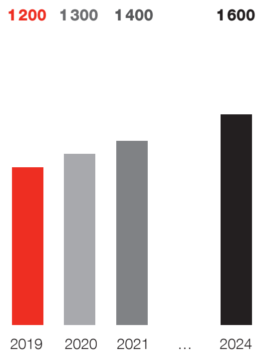
Solutions

- Oerlikon coatings improve the performance and durability of engine components by reducing friction and wear, thereby improving fuel and oil efficiency and lowering emissions.
- For smoother-shifting transmissions, Oerlikon offers synchronizer and friction reduction technologies that increase performance, lower weight, improve wear resistance and lower costs.
- Oerlikon coating technologies can help reduce air pollution while increasing the durability of brake discs.
- Oerlikon's ePD technology provides environmentally friendly chrome-look plastic metallization with special functions.
- Oerlikon can offer coating solutions for new parts and components (e.g. molds, batteries and fuel cell production) required for e-mobility.
- Oerlikon offers advanced AM solutions for prototyping and series production, such as optimized piston heads, which reduce fuel consumption and harmful emissions.

[1] Oerlikon estimates.
[2] These are projected industry growth rates from sources including company reports, Bloomberg, Thomson Reuters, McKinsey and others.

Empowering the way to effectively generate energy

Power Generation



Targeted market size[1]
in CHF million

The global demand for energy is expected to continue increasing by about 1.3% annually through 2040 according to the International Energy Agency. Demand is being fueled primarily by standard of living improvements in developing nations and jet fuel and petrochemical needs in developed nations. According to Shell's Liquid Natural Gas Outlook Report for 2019, natural gas – a key energy market for Oerlikon – is expected to make up 40% of the additional global energy demand between now and 2035. The growth in popularity of renewable energy sources reflects the drive toward eco-friendly energy. However, these sources currently fill the additional demand and are not yet seen to be displacing coal, oil or gas as major energy sources. The growing inclination toward electric vehicles is expected to also drive the increasing demand for energy in the next decades.

5% of FY 2019 Surface Solutions revenue

Industry-expected CAGR 2019–2024[2] **3.3%**

USP

Oerlikon offers reliable high-end materials, equipment and surface coatings for power generation and holds a unique, strong market position for gas turbine components.

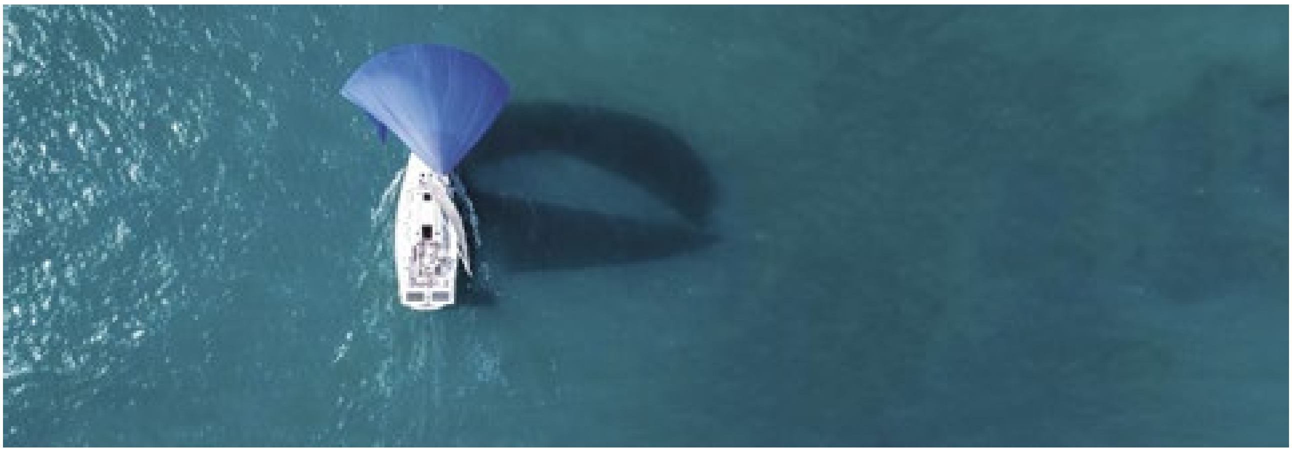
Industry Challenges

- Increase turbine efficiency and reduce maintenance intervals in gas turbines, hydropower and oil & gas plants.
- Protect critical oil & gas exploration components that operate in harsh environments, alongside the need for maintenance-free solutions.
- Extend the life and efficiency of gas and steam turbine components.
- Reduce corrosion and erosion caused by silt, sand and gravel in turbine components in hydropower plants.
- Prevent wind turbine standstills caused by wear, corrosion and fatigue resulting from extreme weather conditions and offshore challenges such as salt buildup.
- Improve the efficiency of technologies for nonrenewable energy sources.

Solutions

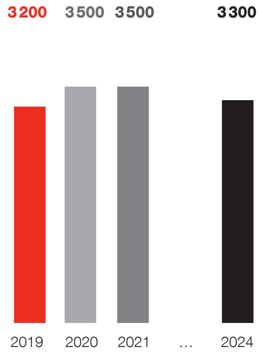
- Oerlikon's customized solutions of coatings, materials and equipment are tailored for gas, steam, hydro and wind turbines, as well as for oil & gas applications.
- Turbines last longer and perform more efficiently and reliably with Oerlikon coatings that reduce distortion and wear.
- Thin film and thick layer solutions protect against abrasion, erosion, corrosion, fatigue, high fluid pressure, vibrations, jarring impact loads and extreme torque.

[1] Oerlikon estimates.
[2] These are projected industry growth rates from sources including company reports, Bloomberg, Thomson Reuters, McKinsey and others.



Energy-efficient and sustainable technologies for the entire production process

Apparel & Industrial Textiles



Targeted market size[1]
in CHF million

Global fiber production growth slowed to about 1% in 2019 according to The Fiber Year 2019 report. Although demand continues to grow as populations and economies expand, the industry was challenged by the economic climate. Natural fibers production growth softened nearly 2% as a result of lower cotton cultivation, while the manmade fibers business continued to expand. Filament yarns recorded the highest growth rate in three years at 3.5%. Nonwovens and unspun applications continued to experience faster growth (4%) for the fifth consecutive year. According to the Global Synthetic Fibers Industry report, the global synthetic fibers industry is poised to reach more than USD 96.9 billion by 2025.

100% of FY2019 Manmade Fibers revenue

Industry-expected CAGR 2019–2024[2] **4.1%**

USP

Oerlikon offers innovative and market-leading technologies for the entire production process – from melt to yarn, fibers and nonwovens – from a single source.

Industry Challenges

- Fulfill the growing need for apparel and home textiles that comes with population growth.
- Meet the increasing demand for functional and industrial textiles as well as geotextiles in a broad range of industries, such as electronics, food packaging, functional wear, infrastructure and transportation. The use of manmade fibers is increasingly recognized as a more environmentally friendly fiber alternative that can also provide better features such as elasticity and heat retention, as well as new functionalities such as water resistance.
- Improve quality and increase efficiency in production while reducing labor costs and maintenance downtimes.
- Reduce space and use of energy in production.

Solutions

- Oerlikon is the only company with the know-how to offer a complete manmade fiber spinning system from a single source – from melt to yarn, fibers and nonwovens.
- Oerlikon's optimally designed equipment supports the balance between cost reduction, production efficiency and consistent quality while enabling the reduction of energy consumption and a smaller equipment footprint.
- Oerlikon systems provide energy savings of up to 30% compared to competing systems.
- Oerlikon's engineers offer decades of experience with technologies used in filament and fiber production worldwide.
- In support of sustainability, Oerlikon offers an in-house spinning plant recycling solution that allows customers to reprocess material waste so that it can be manufactured back into high-quality yarns.

[1] Oerlikon estimates.
[2] These are projected industry growth rates from sources including company reports, Bloomberg, Thomson Reuters, McKinsey and others.

Geographical Regions

In the IMF's World Economic Outlook report, it stated that the pace of global activity, particularly in manufacturing, has weakened. Escalating trade and geopolitical tensions have created uncertainty about global trade and international cooperation, resulting in a lack of business confidence. Global GDP growth in 2019 is at 3.2%, down from 3.6% in 2018. In recognition of this downturn, Oerlikon initiated sales push and cost-saving programs in 2019, which helped the company sustain its 2019 performance at around the prior year's level. The measures were implemented across the business and countries. They are intended to improve efficiency and reduce cost base, while ensuring that the company's business is safeguarded for the medium to long term. Today, Oerlikon operates in 37 countries and places a stronger focus on business in China, Japan, South Korea, India, France, Germany, Russia and the United States, which together represent 71% of Group revenue.

China

While China's economy slowed in 2019, it remains the fastest-growing economy in the world, with a GDP growth rate of 6.3%. Home to 1.4 billion people and with the world's highest demand for passenger vehicles, China is a key automotive market. In 2019, Oerlikon Metco obtained a patent for its coating application for heating devices of electric cars and its SUMEBore technology won a project with a major German car manufacturer in China. The first Oerlikon Balzers' INUBIA I6 enhanced inline equipment was installed for an auto customer in China in 2019. This is a fully automated system that applies the eco-friendly ePD technology for plastic auto parts. Oerlikon Friction Systems achieved a breakthrough in the Chinese truck market with its woven carbon fiber product.

Alongside China's ambition to develop its aviation industry, Oerlikon saw higher demand in the engine MRO market. Increasing demand was also registered for thermal spray coating technologies for gas and steam turbines in China's power generation sector as the country's energy needs continue to expand. Following China's ambition to supply 75% of its own semiconductor devices, this industry presents highly attractive opportunities. In 2019, Oerlikon opened a technology center in Shanghai for powder and additive manufacturing to serve local demand from multiple industries.

China is the most important market for the Manmade Fibers Segment and accounted for 60% of its 2019 sales, primarily driven by filament spinning and texturing equipment. In 2019, the segment expanded its service offerings including the launch of a new ACW WINGS upgrade that has registered success with a customer in China. The segment also inaugurated an R&D center in Suzhou in 2019.

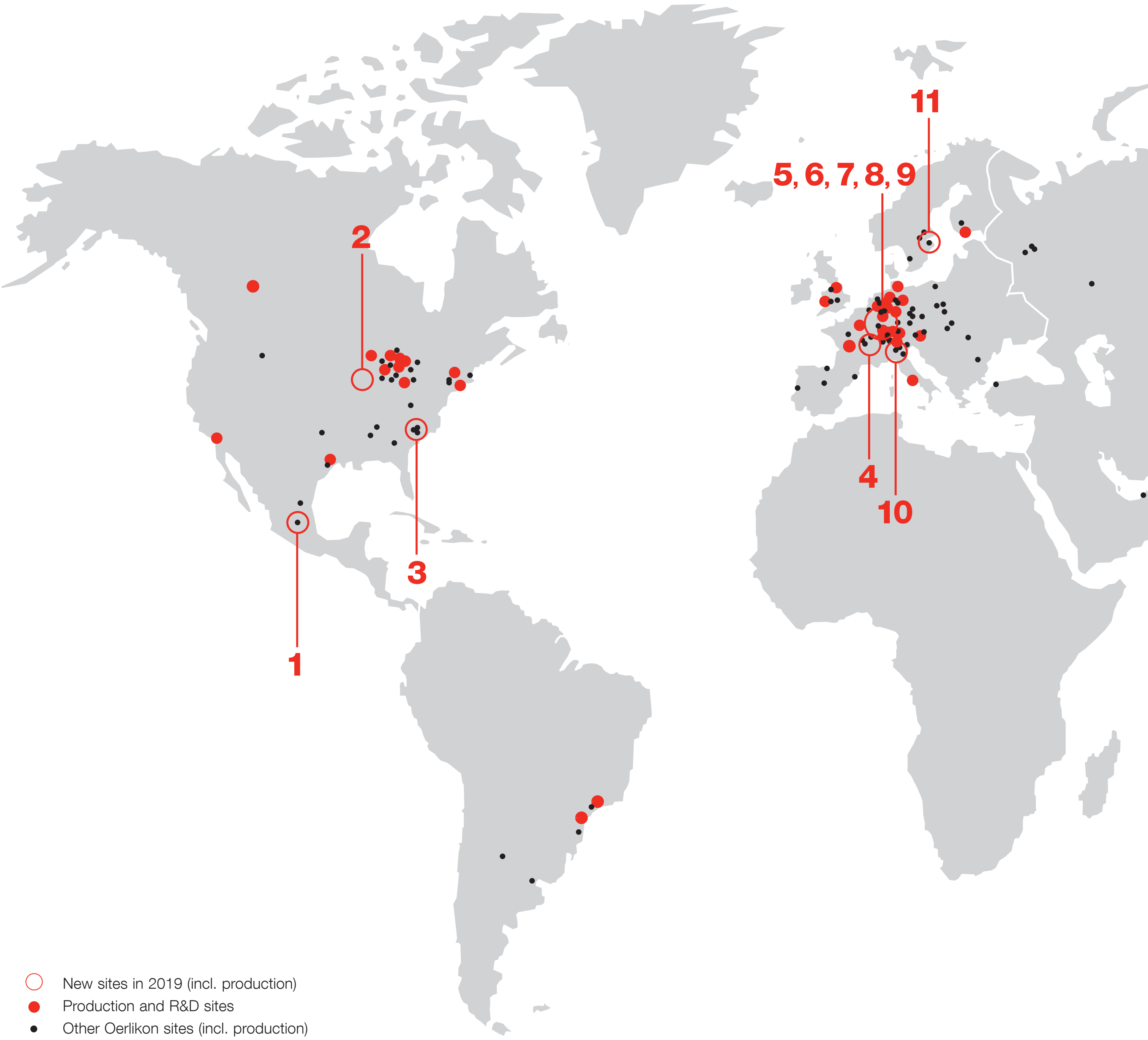
32%

of Oerlikon's 2019 Group revenue was generated in China

Oerlikon Barmag is leading the way with smart 4.0 plant solutions in manmade fibers production.

Serving our customers locally

Oerlikon has a global footprint with 182 sites in 37 countries. The Group is strongly committed to research and development, which is reflected by its 49 production and R&D sites world-wide. Together with its sales and services network of 167 sites, Oerlikon operates in close proximity to its customers, improving customer interaction, response times and satisfaction.



New sites in 2019 (incl. production)
Production and R&D sites
Other Oerlikon sites (incl. production)

1 Surface Solutions Segment
Coating Center
Querétaro, Mexico

2 Surface Solutions Segment
Additive Manufacturing
Charlotte, North Carolina, USA

3 Surface Solutions Segment
Coating Center
St. Louis, Missouri, USA

4 Surface Solutions Segment
Thermal Spray Coating Services
Kleindottingen, Switzerland

5 Manmade Fibers Segment
Plant Automation
Augsburg, Germany

6 Manmade Fibers Segment
Plant Automation
Bernkastel-Kues, Germany

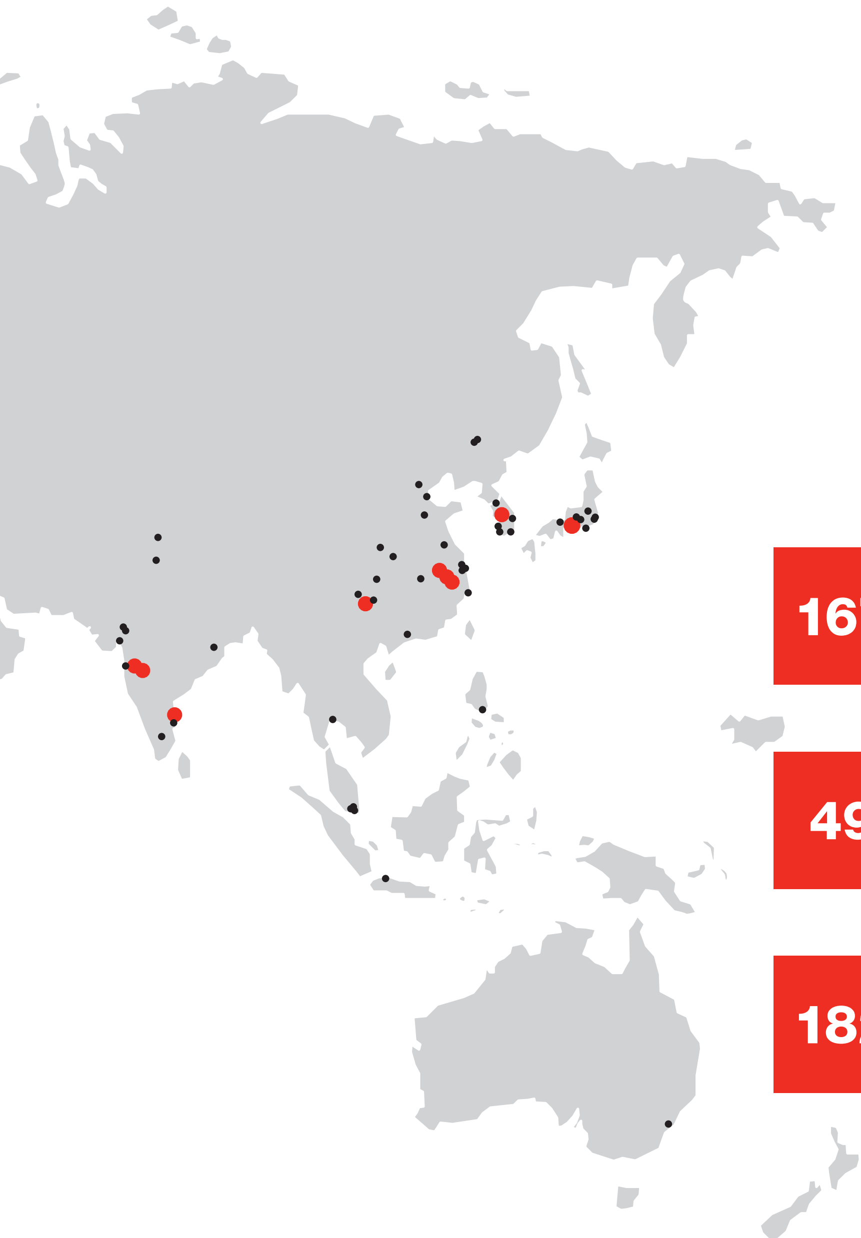
7 Manmade Fibers Segment
Nonwoven Production & Services
Neumünster, Germany

8 Surface Solutions Segment
Thermal Spray Coating Services
Langenfeld, Germany

9 Surface Solutions Segment
Diamond Coating Services
Erkelenz, Germany

10 Surface Solutions Segment
Coating Center (Inhouse)
Missaglia, Italy

11 Surface Solutions Segment
Coating Center
Norsborg, Sweden



167

Sales and Services Sites

157 Surface Solutions Segment
10 Manmade Fibers Segment

49

Production and R&D sites

42 Surface Solutions Segment
7 Manmade Fibers Segment

182

Sites globally

45 in the Americas
54 in Asia
83 in Europe, Middle East & Africa

India

India's GDP grew 4.8% in 2019 according to the IMF, lower than the 6.8% in 2018. Manufacturing shrank 1% in the third quarter after significant growth in prior quarters, while the automotive industry contracted more than 30%. Oerlikon Balzers opened a new service center in Pune in 2019 for forming tools customers. To extend its reach in India, it is also working with expert agencies such as Amdys Profi for India Mint projects. India is pushing for the indigenization of its aerospace supply value chain, opening up new opportunities for coating solutions. To meet this demand and the interest for its SUMEBore automotive technology, Oerlikon Metco is investing in a new coating center in India. For power generation, Oerlikon Metco secured a large on-site coating service project in India in 2019.

India's population of 1.36 billion drives domestic demand for Oerlikon's manmade fibers business. India currently makes up 3% of this segment's business, primarily driven by customers' cautious investments in large scale plants for the production of polyester filament and staple fibers.

South Korea

South Korea's GDP grew around 2% in 2019, slower than the 2.7% in the previous year. The country is heavily reliant on exports and has been impacted by the global trade conflict between the USA and China, its two largest export destinations. Among South Korea's primary exports are electronic products, machinery, motor vehicles (particularly automobiles), textiles and clothing. Despite market challenges, Oerlikon Metco noted business growth in 2019 in the aerospace, general industrial and power generation sectors. There was a healthy demand for thermal spray and plasma systems, handheld devices, laser cladding and thermal spray materials, particularly for industrial gas turbines. In 2019, key customer Doosan completed its first gas turbine rotor assembly with Oerlikon Metco's materials, coating system and technical assistance from the R&D and application team. For the electronics market, Oerlikon Metco saw an increase in demand for coatings for Multilayer Ceramic Capacitors (MLCCs), which are important components in electrical and electronic devices such as mobile devices, automobiles and household appliances.

Japan

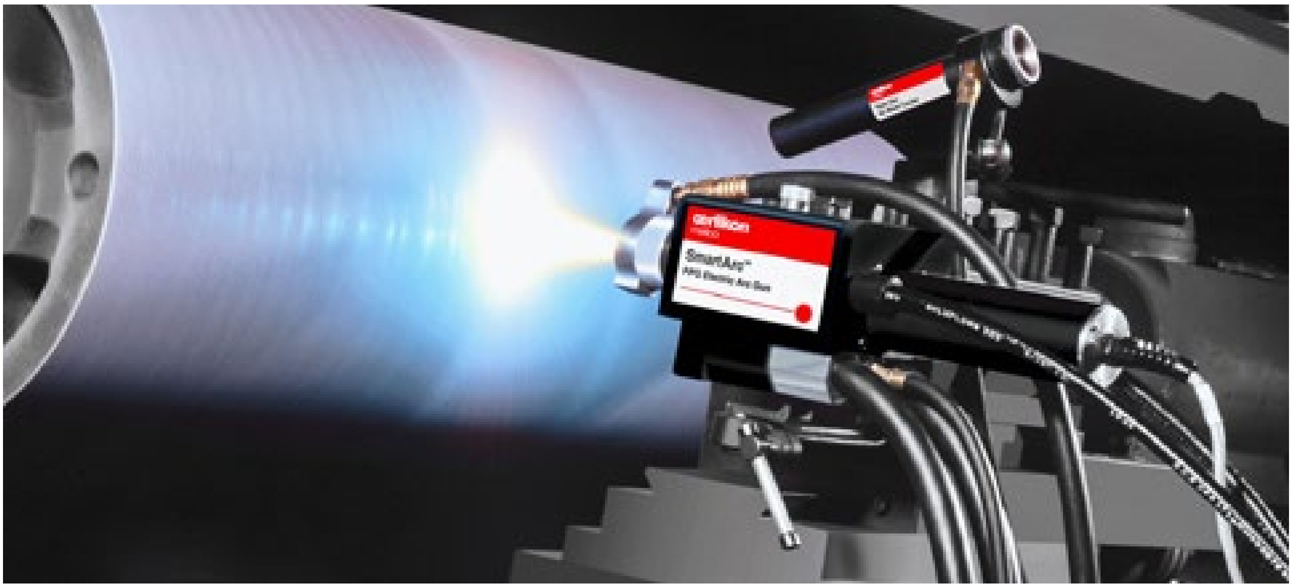
Japan has maintained modest growth for years and registered a GDP growth rate of 1.0% in 2019, slightly higher than the 0.8% in 2018. As Japan's economic growth is closely linked to demand from its main trading partners like U.S. and China, the slowdown in China's economic growth and the trade disputes are impacting its economy.

Japan has one of the world's largest automotive industries. In 2019, Oerlikon Metco noted a healthy demand for thermal spray sensors and coating systems such as Surface One, UniCoatPro and MultiCoatPro for automotive customers and their tier 1 OEM suppliers in Japan. The business also secured a major Japanese automotive manufacturer as a customer for its SUMEBore technology. In the Japanese industrial gas turbine market, Oerlikon Metco saw positive development in thermal spray material sales following Mitsubishi Hitachi Power Systems' business improvement. The production plant that Oerlikon Balzers opened in Nagoya in 2018 provides the latest coating technologies, services and infrastructure for surface coatings of cutting and large forming tools used in automotive manufacturing. Another attractive market segment in Japan is thin-film coatings for medical devices – a growth market driven by increasing demand from an aging population.

46%

of Oerlikon's 2019 Group revenue was generated in Asia Pacific

Oerlikon Balzers' coating solutions protect and extend the lifespan of diverse auto parts and components.



Oerlikon Metco's push pull gun (PPG) electric arc wire spray guns offer a high degree of flexibility and reliability to deposit hard and soft functional coatings.

Germany

The German economy grew 0.5% in 2019, a slowdown from 2018's rate of 1.5%. The German economy is heavily reliant on exports, a large portion of which are automobiles to China, so the German auto manufacturing market constricted in 2019. Nevertheless, the market will recover, and Oerlikon continued to invest in offering customers better coatings and sustainable technologies.

Oerlikon Balzers is building a new ePD competence center in Bisingen to advance this alternative to e-plating. Oerlikon Metco acquired TeroLab Surface GmbH in Langenfeld, expanding its thermal spray coating services. In November, it obtained the Nadcap Merit status for its coating center in Salzgitter – an achievement only exceptional aerospace suppliers can obtain.

Munich is also home to Oerlikon's Digital Hub, where an internal entrepreneurial team is tasked with spearheading digitalization opportunities worldwide. With the support of the Bavarian government and collaboration with TUM, GE Additive and Linde, Oerlikon created an additive manufacturing cluster in Munich this year, with the expectation that it will draw other players to the region to tap into additive manufacturing expertise. Oerlikon hosted its 3rd Munich Technology conference (MTC3) for additive manufacturing in Munich in 2019.

In 2019, the Manmade Fibers Segment successfully integrated the acquisition of AC-Automation in Germany, now called Oerlikon Barmag Automation, which provides large-scale plant automation solutions for textile and packaging customers.

France

France's economy experienced a slight slowdown in 2019, with 1.3% growth compared to 1.7% in 2018. Its economy was affected by developments in Europe and China, where it has significant exports. Domestic product consumption in the country is strong.

Oerlikon primarily serves the aerospace industry in France. Oerlikon has qualified-supplier status for Airbus for copper alloy substrate coatings applied to aerospace components to reduce surface fatigue; these are able to withstand wear and high loads, while being lightweight and exhibiting low friction. In 2019, Oerlikon signed a partnership with Safran, the French National Centre for Scientific Research and the University of Limoges to create a joint research laboratory, PROTHEIS, and a technology platform, SAFIR, in Limoges. The focus is on developing enhanced surface treatment solutions for aerospace applications – particularly, to make lighter and longer-lasting REACH-compliant products capable of reducing noise and nitrogen oxide emissions.

Oerlikon Metco's advanced materials business noted good demand in 2019 in France, including sales of titanium powders to the Medical Group, a French company specializing in implantable medical devices, and sales of brazing materials to Liebherr-Aerospace Toulouse SAS, a leading manufacturer of aircraft system equipment.

35%

of Oerlikon's 2019 Group revenue was generated in Europe

USA

U.S. GDP growth slowed from 2.9% in 2018 to about 2.3% in 2019, impacted by its trade policies and tariffs on steel, imports from China and European automobiles.

Oerlikon Metco's powder production facility in Plymouth Township, Michigan, produces high-quality metal powders for surface treatment and additive manufacturing. In 2019, it signed a global agreement to provide series powder for nozzle coatings to Chromalloy, an integrated solutions provider for OEMs, commercial airlines and oil & gas companies. For oil & gas customers, Oerlikon Metco installed new computer numerical control (CNC) machining capabilities in Barboursville, West Virginia, which saw significant interest from pump customers. Additional pipeline capacity is expected to come online in the USA in first half of 2020. To meet the increasing demand, Oerlikon is establishing an oil & gas competence center in Houston, Texas.

In 2019, Oerlikon AM opened a state-of-the-art production center in Huntersville, North Carolina, to provide additive manufacturing solutions. A key achievement of the business in 2019 was the collaboration with United Launch Alliance to design and develop components for the first Vulcan Centaur rocket launch in 2021.

The US is a key market for Oerlikon's carpet yarn systems. In 2019, UNIFI Manufacturing, Inc. extended its collaboration with Oerlikon Barmag to develop and design an eAFK Evo pilot machine that manufactures recycled polyester yarns at considerably higher texturing speeds, while consistently delivering high-quality yarns.

15%

of Oerlikon's 2019 Group revenue was generated in the USA

Russia

Russia's GDP grew 1.1% in 2019, where the increase in global oil demand provided a slight boost to the Russian economy. Oerlikon has several industrial sites and research centers in the country. In 2019, Oerlikon opened an additive manufacturing laboratory in partnership with Skoltech Institute of Science and Technology and is financing three research projects under this program. The first program involves the development of novel materials for ceramic-based additive manufacturing applications, the second research focuses on the sintering process by combining metals with ceramics and carbon materials to improve the materials performance, while the third project revolves around using predictive multiscale modeling to simulate entire the selective laser melting process. In addition, Oerlikon participated at the St. Petersburg International Economic Forum and sponsored the opening of the new Swiss Embassy in Moscow in June to promote business relations in the country.

1%

of Oerlikon's 2019 Group revenue was generated in the Middle East, Africa and Russia

Oerlikon's newly inaugurated center in Huntersville, North Carolina, USA, provides additive manufacturing services to US customers.

Business Report

Oerlikon Balzers' BALIQ AUROS, based on Oerlikon's proprietary S3p technology, provides extreme wear resistance for threading tools.

Group Business Review

2019 Key Group Figures at a Glance

Order intake totaled CHF 2 590 million versus CHF 2 731 million in 2018, a decrease of 5.2% due to weak markets.

Order backlog decreased 2.2% to CHF 583 million versus CHF 596 million in 2018.

Sales, impacted by adverse currency movements, decreased 0.6% to CHF 2 593 million from CHF 2 609 million in 2018.

EBITDA, including exceptional items, was 9.9% lower to CHF 366 million, or 14.1% of sales, versus CHF 406 million, or 15.6% of sales, in 2018.

EBITDA, excluding exceptional items related to restructuring, was 15.1%.

The result from continuing operations decreased 36.4% to CHF 110 million from CHF 173 million in 2018.

Net result, impacted by the reclassification of CHF 284 million related to the sale of the drive systems business, totaled CHF - 66 million, or earnings per share of CHF - 0.21. In 2018, net income was CHF 245 million, or earnings per share of CHF 0.71.

Headcount (FTEs) totaled 11 134, compared with 10 727 employees worldwide in 2018.

ROCE stood at 7.0%. In 2018, it was 12.1%.

The Board of Directors will recommend a dividend payout of CHF 1.00 per share at the 2020 AGM. This comprises an ordinary dividend of CHF 0.35 and an extraordinary dividend of CHF 0.65 per share.

Oerlikon Group

Corporate Structure

Oerlikon is a leading global technology and engineering Group providing market-leading solutions and services for surfaces and manmade fiber production in diverse industries. Following the divestment of the Drive Systems Segment, the Group is structured in two segments: Surface Solutions and Manmade Fibers. Each segment offers technologies and solutions under well-established industry competence brands and adopts strategies specific to customers' needs and requirements in the respective market.

oerlikon

Surface Solutions Segment	Manmade Fibers Segment
oerlikon balzers	oerlikon barmag
oerlikon metco	oerlikon neumag
oerlikon am	oerlikon nonwoven

Group 2019 Performance

Oerlikon delivered 2019 results around the same level as in 2018 despite the challenging market environment. These results underscore the strength of Oerlikon's portfolio and business model. In a year beset by political uncertainties and ongoing disputes in global trade agreements, industries proceeded with caution. This understandable reticence did not change Oerlikon's strategy or slow its technological advancements. Oerlikon continued to invest in its businesses and structural growth.

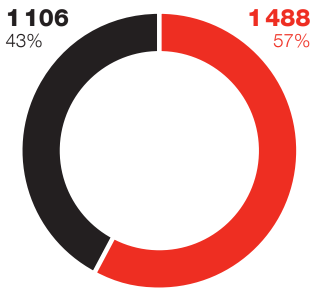
In 2019, Group order intake decreased by 5.2% to CHF 2 590 million (including a negative currency impact of 2.2%), compared with CHF 2 731 million in 2018, while order backlog decreased by 2.2% to CHF 583 million at year-end 2019 versus CHF 596 million at year-end 2018. Group sales, impacted by adverse currency movements, were 0.6% lower in 2019 at CHF 2 593 million compared to CHF 2 609 million in 2018, At constant exchange rates, sales were at CHF 2 650 million. The ratio of Group service sales to total Group sales remained the same at 38% in 2019 as in 2018.

Group EBITDA decreased 9.9% to CHF 366 million, yielding a margin of 14.1%. This compares to Group EBITDA of CHF 406 million and a margin of 15.6% in 2018. Group EBITDA in 2019 was impacted by exceptional items related to restructuring. Excluding these expenses, Group EBITDA was at 15.1%. Group EBIT stood at CHF 164 million, or 6.3% of sales in 2019 while in 2018 EBIT was CHF 243 million, or 9.3% of sales.

The Oerlikon Group income from continuing operations in 2019 was CHF 110 million, compared with CHF 173 million in 2018, a decrease of 36.4%. After including net results of discontinued operations of CHF -176 million in 2019, net result amounted to CHF -66 million in 2019, or earnings per share of CHF -0.21, versus CHF 245 million or earnings per share of CHF 0.71 in 2018. The tax expense for 2019 was CHF 39 million, while in 2018, it was CHF 68 million.

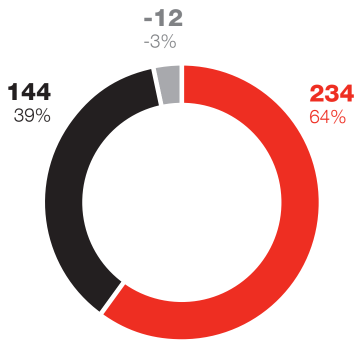
A globally balanced business

Maintaining a portfolio of innovative technologies, a global presence and industry-leading scope of comprehensive services continue to be key components of Oerlikon's growth strategy. The Surface Solutions Segment contributed 57% to total Group sales in 2019, while the Manmade Fibers Segment accounted for approximately 43% of Group sales.



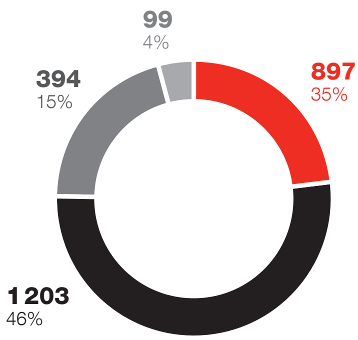
Sales 2019 by Segment
in CHF million

- Surface Solutions Segment
- Manmade Fibers Segment



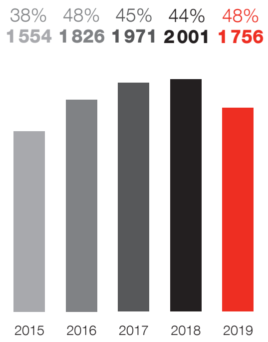
EBITDA 2019 by Segment
in CHF million

- Surface Solutions Segment
- Manmade Fibers Segment
- Others



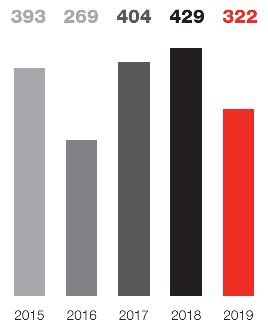
Sales 2019 by Region
in CHF million

- Europe
- Asia Pacific
- North America
- Other regions



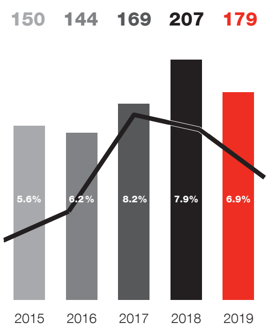
Equity[1]
in CHF million (as % of assets)

[1] Attributable to shareholders of the parent



Operating Cash Flow[1]
in CHF million

[1] Before changes in net current assets



Capital expenditure
in CHF million

— In % of sales

With a strong global footprint, Oerlikon operates 182 sites in 37 countries, with 83 sites in Europe, 54 sites in Asia-Pacific and 45 sites in the Americas. Asia-Pacific continued to account for the largest proportion of Group sales in 2019. Sales in Asia-Pacific remained stable, amounting to CHF 1 203 million, or 46% of Group sales, versus CHF 1210 million, or 46% of Group sales, in 2018. Europe was the second largest regional contributor to Group sales in 2019, with sales totaling CHF 897 million, or 35% of sales, compared with CHF 852 million, or 33% of sales, in 2018.

Group sales in North America totaled CHF 394 million, or 15% of Group sales, in 2019, versus CHF 409 million, or 16% of Group sales, in 2018. Sales in other regions decreased slightly to 4% of Group sales in 2019 with sales of CHF 99 million, compared to CHF 139 million in 2018.

Solid balance sheet strength with equity ratio of 48%

As of December 31, 2019, Oerlikon's balance sheet totaled CHF 3 647 million, compared to CHF 4 545 million at year-end 2018. The Oerlikon Group had equity (attributable to shareholders of the parent) of CHF 1 756 million, representing an equity ratio of 48%, compared to CHF 2 001 million, or an equity ratio of 44% as at December 31, 2018. The decrease in total balance sheet is attributed to lower cash and cash equivalent positions and reduced current financial investments and derivatives as a result of the payout of dividends and the redemption of a matured bond in 2019. Total liabilities in 2019 decreased mainly due to the liabilities classified as held for sale in 2018 was no longer valid. As a result, net liquidity at the end of 2019 was slightly lower at CHF 333 million compared to CHF 398 million at 31 December 2018.

Healthy operating cash flow

Cash flow from operating activities before changes in net current assets decreased 24.9% in 2019 to CHF 322 million, compared with CHF 429 million in 2018. Net working capital, defined as trade and trade note receivables plus inventories minus trade payables and current customer advances, totaled CHF -70 million in 2019 versus CHF -79 million in 2018.

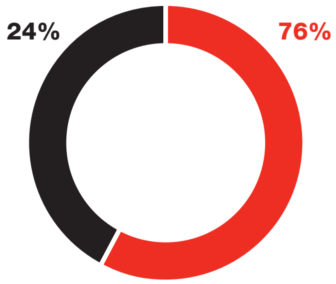
Capital expenditure (CAPEX) amounted to CHF 179 million, compared to CHF 207 million in 2018. Excluding amortization of acquired intangible assets, the CAPEX-to-depreciation ratio was 1.42 times, which is higher than the Group's target of between 1.0 to 1.2 times due to significant investments in additive manufacturing and in building up surface solutions businesses such as ePD and CVD.

The tensile strength of Oerlikon Metco materials undergo intensive quality testing in labs.

Cash flow from investing activities was CHF 416 million in 2019, compared with CHF -342 million in 2018, attributable primarily to the sale of the Drive Systems Segment. Cash flow from financing activities amounted to CHF -760 million in 2019, mainly for dividend payments of CHF 343 million, purchase of treasury shares of CHF 64 million, repayment of financial debt of CHF 336 million and interest paid of CHF 17 million, compared with CHF -149 million in 2018, which included dividend payments of CHF 118 million, purchase of treasury shares of CHF 14 million, repayment of financial debt of CHF 5 million and interest paid of CHF 16 million. Oerlikon reported a cash and cash-equivalent position at the end of 2019 of CHF 658 million compared with CHF 858 million at the end of 2018.

Commitment to R&D

Oerlikon continued to invest more than 4% of its revenues in research and development (R&D). In 2019, R&D expenses for the year was CHF 127 million, or 4.9% of Group sales, compared with CHF 120 million, or 4.6% of Group sales, in 2018.



R&D Expenses by Segment

- Surface Solutions Segment
- Manmade Fibers Segment

Acquisitions and Divestitures

To further strengthen its expertise and product offerings to its customers, the Surface Solutions Segment completed three acquisitions in 2019. At the end of the first quarter, the acquisition of TeroLab Surface GmbH in Langenfeld, Germany was closed to expand the Surface Solutions Segment's portfolio of thermal spray coating services for industries like agriculture, steel and automotive as well as to machine OEMs. In the third quarter, Oerlikon acquired AMT AG in Switzerland to extend its product and service offerings for thermal spray applications and turnkey solutions. Toward the end of 2019, Oerlikon acquired D-Coat GmbH in Germany to widen Oerlikon Balzers' thin-film coating portfolio, particularly for cutting tools used in the aerospace and automotive industries. At the end of February 2019, the divestiture of the Drive Systems Segment to Dana Inc. was completed.

Dividend Payout

Oerlikon believes that a dividend payout is an important means of returning value to shareholders. As an efficient use of our current cash position and capital, the Board of Directors will recommend a dividend payout of CHF 1.00 per share at the 47th Annual General Meeting of Shareholders on April 7, 2020. The proposed dividend comprises an ordinary dividend consistent with the previous two years of CHF 0.35 and an extraordinary dividend of CHF 0.65 per share.

Surface Solutions Segment

The Surface Solutions Segment, the larger of the two Oerlikon segments, contributed 57% to Oerlikon's sales and 64% to Group EBITDA in 2019. The segment, comprised of the brands Oerlikon Balzers, Oerlikon Metco and Oerlikon AM, delivered a performance in 2019 broadly in line with challenging markets.

Orders for the segment were CHF 1 468 million, down 6.7% from the prior year's CHF 1 574 million. Segment sales came in 1.5% lower to CHF 1 488 million from CHF 1 511 million in 2018. At constant exchange rates, segment sales were CHF 1 509 million, showing a stable year-over-year performance despite challenging markets. EBITDA was CHF 234 million, or 15.6% of sales, compared to CHF 283 million, or 18.6% of sales in 2018. The lower year-over-year EBITDA margin was attributed to high operating expenses related to investments and to CHF 13 million of exceptional expenses, primarily for the restructuring program. Excluding exceptional expenses, EBITDA margin was 16.6%. The restructuring program is expected to yield significant improvements to the segment's operating profitability and returns in the medium term. EBIT was CHF 65 million in 2019, or 4.4% of sales (2018: CHF 144 million, or 9.5% of sales).

Order intake
-6.7%
CHF 1 468 million

Sales
-1.5%
CHF 1 488 million

EBITDA margin
15.6%

Sites
166

Employees (FTE)
7 840

R&D expenses
97
CHF million

Development in Markets

The overall market served by the Surface Solutions Segment is about CHF 5.7 billion. Over the next five years, the segment's market is expected to grow to about CHF 7.4 billion. Aerospace, automotive, tooling, general industries and energy are the segment's primary markets.

Automotive

The automotive industry contracted in 2019 due to the uncertainties in global trade policies, political turbulence and increased tariffs. Despite market weakness, Oerlikon made progress in launching new technologies and securing deals with leading automotive customers.

In 2019, Oerlikon Balzers closed a deal with ZKW China, a strategic partner to the automotive industry, to switch to BALITHERM PRIMEFORM for the coating of automotive headlamp molds. For high-performance motor vehicles, they introduced BALIQ CARBOS and BALIQ CARBOS STAR coatings that offer a combination of high hardness, low friction and low roughness for applications with extreme contact pressures and sliding velocities.

Oerlikon Metco launched the DiscCover Jet brake disc solution, which merges the competencies of thin-film and thermal spray. The first solution launched uses mechanical activation with nitriding surface treatment combined with HVOF spray technology and followed by atmospheric plasma spray for the top coat. An audit for the coating of turbochargers was completed, resulting in Oerlikon Metco being appointed the official supplier of this technology for Volvo Trucks. In addition, Oerlikon Metco secured a deal with a major German auto manufacturer in China for its SUMEBore technology with the enhanced RotaPlasma system.

Oerlikon's sustainable alternative technology to e-plating for coating plastic auto parts, ePD, is gaining inroads with automotive customers. In 2019, the first INUBIA I6 enhanced inline equipment was installed in China.

The move toward electric vehicles is providing new opportunities for Oerlikon for coatings during production such as for molds, batteries and for auto components such as hybrid gear boxes, brakes and gears, as well as for sustainable ePD metallic coatings. In 2019, Oerlikon Metco obtained the patent in China for the coating application and tooling for heating devices in electric cars.

General Industries and Tooling

Global economic uncertainties and lower investments in equipment also impacted the general industries and tooling markets. Sales in the semiconductor business was sluggish in 2019, but recovery is expected in late 2020, driven by demand for 5G, mobile devices, consumer electronics and the increasing popularity of wearable devices and connectivity.

For tooling customers, Oerlikon Balzers launched a number of technology solutions. For instance: BALIQ AUROS is a coating solution that boosts the performance and improves process stability of tapping tools; INNOVENTA kila, the successor to INNOVA, is a coating equipment that offers the flexibility to coat large or small quantities of tools and components. Among deals secured in the tooling market by Oerlikon Balzers was an agreement with China Dongguan TUSA Precision Cutting Tools for thin-film equipment.

Oerlikon Balzers also provides coatings for consumer goods and medical devices such as household appliances, watch components, surgical robots and tools. In 2019, an INUBIA B12 for chrome-like PVD coatings was installed at Jaquar, a company selling bathroom fixtures and lighting worldwide. For the medical sector, Oerlikon Balzers launched the BALIMED portfolio of coatings to enable low-friction, wear resistance, antiglare and biocompatibility for medical and surgical tools and equipment.

Aerospace

The aerospace industry faced a slowdown in 2019, although there was still a healthy demand for MRO services from OEMs and their tier 1 suppliers. Oerlikon Metco also noted demand for materials in this market. A deal with Chromalloy for nozzle coatings was signed, and the certification for an additional Oerlikon Metco material for Pratt & Whitney, which will drive future programs and green technology initiatives, was obtained. At the Salzgitter site in Germany, Oerlikon Metco obtained the Nadcap Merit status for coatings – an accreditation for exceptional aerospace suppliers.

To develop enhanced surface treatment solutions for aerospace applications, Oerlikon has entered into a partnership with Safran, the French National Centre for Scientific Research and the University of Limoges to create a joint research laboratory, PROTHEIS, and a technology platform, SAFIR. The focus is to make lighter and longer-lasting REACH-compliant products capable of reducing noise and nitrogen oxide emissions in aircraft.

Energy

Asia noted an increase in maintenance, repairs and operations (MRO) activity and higher demand for materials in the power generation sector. Oerlikon Metco improved sales of new thermal spray coating technologies for MRO of gas and steam turbines, including a deal with Shanghai Electric. In Japan, higher material sales were realized, thanks to an agreement with Mitsubishi Hitachi Power Systems.

Oerlikon Balzer’s INNOVENTA kila coating system, the successor to INNOVA, offers the flexibility to coat large or small quantities of tools and components.

Additively manufactured test artifacts demonstrate performance of the AM equipment.

A decrease in global oil demand in the second half of 2019 slowed maintenance service activity in oil & gas, particularly in North America. The rig count contracted and orders are being pushed into 2020. Additional pipeline capacity in the U.S. and planned increases in refining capacity in 2020 and beyond are expected to provide future opportunities in mid- and downstream segments. Oerlikon Metco has been accepted as a Member Company of the Petroleum Equipment & Services Association.

Additive Manufacturing (AM)

Growth in the additive manufacturing business has been slower than expected, complicated by delays in capital investments. To increase collaboration and the pace of industrialization, Oerlikon established an additive manufacturing cluster in Munich, Germany, with the Technical University of Munich, GE Additive and Linde, and hosted its third Munich Technology conference, MTC3, which was attended by 1 500 industry representatives.

Oerlikon AM entered into several partnerships in 2019, including with MT Aerospace to accelerate the use of additive parts in the aerospace and defense industries; with United Launch Alliance to provide qualified additively manufactured metal flight components for the next-generation Vulcan Centaur rocket; with Hirtenberger Engineered Services to further industrialize series production and prototype parts; and with Siemens for the usage of their digital enterprise solutions to accelerate the industrialization of additive manufacturing.

2019 marked Oerlikon AM's successful completion of the integration of DiSanto and the first full-year of offering customers additive manufacturing services for the medical device and implant industry. The expansion of production capabilities using new laser 3D printers is driving significant growth for additive manufacturing applications.

Development in Regions

The Surface Solutions Segment experienced decreased sales across all regions in 2019 as markets remain challenging. Europe was responsible for the largest portion of sales in this segment, at 45%. China accounted for 11% of segment sales, while India's portion of sales was at 4%. North America saw higher sales, which accounted for 20% of segment sales, mainly attributed to the growth in sales in the USA.

To strengthen its footprint and serve customers in close proximity, Oerlikon continued to invest in new and expanded surface solutions centers. To meet demand for coatings on cutting and forming tools, Oerlikon Balzers expanded a customer coating center in Dongguan, China, and in Pune, India. In Europe, customer service centers were opened or expanded in Hungary, Germany and Sweden, including an ePD competence center in Bisingen, Germany. In the Americas, new customer service centers were added in St. Louis, Missouri, and in Queretaro, Mexico. For the AM business, a new additive manufacturing production facility was inaugurated in Huntersville, North Carolina, U.S. and a new technology center opened in Shanghai, China.

With the acquisitions of TeroLab Surface GmbH in Langenfeld, Germany, and AMT AG in Switzerland, Oerlikon Metco extended its footprint and product and service offerings for thermal spray applications and turnkey services. Oerlikon Balzers strengthened its footprint in Erkelenz, Germany, with the acquisition of D-Coat GmbH, thereby also gaining thin-film coating expertise particularly for cutting tools.

Manmade Fibers Segment

A world market leader for solutions and systems used to manufacture manmade fibers, the Manmade Fibers Segment is represented by the brands Oerlikon Barmag, Oerlikon Neumag and Oerlikon Nonwoven. The segment's solutions enable customers to produce high-quality synthetic fibers that are processed into clothing, carpets, airbags, safety belts, hygiene products, geotextiles and industrial textiles. The segment also offers consulting, engineering and lifecycle management services and is at the forefront in providing Industry 4.0-based smart plant solutions.

The segment, which comprises 43% of Oerlikon Group's business, delivered an overall good performance in 2019 despite the contraction in global manufacturing. Looking at the quarterly development, a high level of order intake (> CHF 200 million) has been sustained for nine consecutive quarters. Year-over-year, order intake decreased by 3.0% to CHF 1 122 million compared to CHF 1 157 million in 2018 due to the record level of orders in 2018. Segment sales increased by 0.7% to CHF 1 106 million, compared to CHF 1 098 million in 2018. The increase in sales was mainly attributed to the higher demand in filament equipment and systems, particularly in China, which compensated for the decline in carpet yarn and staple fibers equipment. The nonwoven business, under the newly launched Oerlikon Nonwoven brand, noted healthy interest with initial successes in sales in 2019.

The segment managed to sustain its double-digit profitability. EBITDA was CHF 144 million, or 13.0% of sales. Due to a number of higher-margin projects, coupled with disciplined cost management, the segment saw higher profit margins in the first half of the year. During the second half of the year, a number of systems that came from the prior downcycle period were delivered and recognized, impacting the 2019 EBITDA margin. EBIT for 2019 was CHF 117 million (2018: CHF 106 million) or 10.6% of sales (2018: 9.6%).

Development in Markets

In 2019, the world fiber market experienced slower growth at 1% to about 106 million tons of fiber production due to weaker economic climate. The manmade fibers market continued its 10-year expansion, while the natural fibers market softened. The manmade fibers market today comprises 63% of the global market and is a steadily growing market driven by increase in population and higher demand for clothing and industrial applications, which presents ongoing opportunities for Oerlikon's manmade fibers technologies and services.

Textile Applications (Filament Spinning and Texturing)

In 2019, the filament equipment business maintained strong top-line sales, driven mainly by healthy demand in China. As customers act to secure leadership in the tightening Chinese filament market, a high level of order intake was realized, resulting in a strong project pipeline with delivery reaching into 2022.

For filament spinning customers, Oerlikon Barmag presented the latest member of its WINGS family FDY PA6 (fully drawn yarn polyamide). These winders are based on a new 24-end winding concept, making an efficient production of FDY in the challenging polyamide 6 process a reality. A large technical textile manufacturer in China was convinced of this innovative solution and the installation was completed in 2019. The segment also successfully launched another innovation – ACW WINGS, opening up a new market segment for upgrades of installed machine. In the first expansion phase, 96 positions were installed, which produced AA-quality yarn at a full package rate of 98% and a breakage rate of only 0.5 per ton. Further 88 positions were delivered at the end of 2019.

Order intake
-3.0%
CHF 1122 million

Sales
+0.7%
CHF 1106 million

EBITDA margin
13.0%

Sites
13

Employees (FTE)
2 986

R&D expenses
30
CHF million

The texturing equipment business also developed well in 2019, supported by product launches and increased service business. At ITMA, Oerlikon Barmag unveiled the new eAFK Evo texturing machine with its active cooling technology. Satisfied by the benefits of the system, UNIFI Manufacturing, Inc. collaborated with Oerlikon Barmag to develop a specially designed eAFK Evo pilot machine that can manufacture various Unifiber virgin and REPREVE®-branded recycled polyester yarns at considerably higher texturing speeds, while delivering consistently high-quality yarn and can enable innovative performance yarns.

Special Filament (Carpet and Industrial Yarn; Extruders)

Following a high level of orders and sales for carpet yarn systems over the past few years, the market was calmer in 2019, particularly in the U.S. and Turkey, which are the two key markets for carpet yarn production.

In 2019, Oerlikon Neumag launched BCF S8 Mono- and Tricolor in 2019. The Tricolor solution allows the production of more than 200 000 different color shades, superior spinning speed, 99% system efficiency and potential energy savings of up to 5%.

Plant Engineering (Continuous Polymerization, Staple Fibers and Nonwovens)

The Oerlikon Nonwoven brand was introduced at the beginning of 2019 and initial successes have already been recorded. Among others, a deal with a renowned European meltblown specialist was closed for a system that will be deployed to manufacture nonwovens for applications in the filtration and wipes sector. The commercial production launch is scheduled in the first half of 2020. High interest was also registered for plant engineering and continuous polymer projects, while staple fibers saw a decline in demand in 2019 due to challenging market conditions.

Digital and Sustainable Technologies

In Germany, Oerlikon completed the integration of former AC-Automation (now called Oerlikon Barmag Automation). This integration marks a milestone in Oerlikon's ongoing quest to offer innovative, fully automated and digitally networked Industry 4.0 solutions for textile and packaging customers in the manmade fiber industry. To drive this goal forward, Oerlikon has intensively developed its digitization solutions, including in the area of IT infrastructure for large-scale plants and has successfully installed its first smart factory solutions, including data center in a box, on the market.

Working with its joint venture partner, BBEngineering, Oerlikon Barmag presented an in-house spinning plant recycling solution called VacuFil, which enables customers to reuse process material waste to manufacture high quality yarns. The segment is currently evaluating possibilities for the mechanical or chemical processing of textiles for reuse of textile raw materials.

Development in Regions

The segment benefited from increased sales in China (+10%) and China continues to be the Manmade Fibers Segment's largest market, accounting for 60% of revenues. Sales also grew in the rest of Asia (+130%) and Turkey (+99%), albeit from a low level. Sales however decreased in Europe (-28%), in North America (-30%) and in India (-77%) compared to 2018.

Oerlikon Neumag launched its latest BCF S8 Tricolor systems at ITMA in 2019, which offers 99% system efficiency and potential energy savings of up to 5%.

Oerlikon employees are constantly developing coating solutions to meet customers needs.

Sustainability and Key Developments

Oerlikon is committed to adhering to the principles of good corporate governance; in particular, the guidelines defined in the Swiss Code of Best Practice for Corporate Governance by economiesuisse. Apart from the Articles of Association, in which the purpose of the company, the corporate bylaws and the statutes are officially filed, Oerlikon has a Code of Conduct clearly defining the ethical and legal framework for all its business activities.

Sustainability at Oerlikon cuts across all business areas, from customer service, R&D and innovation, operational excellence (manufacturing and supply chain), health and safety, environment and digitalization to HR policy, risk management and compliance with legal, regulatory, ethical and internally defined requirements.

Oerlikon continued to implement a number of initiatives to improve business and operational excellence in 2019, and took steps to further streamline the organization in order to make it more efficient.

Customer Service

The Surface Solutions Segment further enhanced its customer service in 2019. The Segment's sales force continued to strengthen relationships with existing customers, focusing on strategic selling through key account management, while expanding services to customer with total solutions offering, digital services and other Oerlikon technologies.

In 2019, the Surface Solutions Segment opened and expanded seven new production and service sites in Sweden, Germany, Italy, Switzerland, the USA and Mexico. As of the end of December 2019, Oerlikon operated a global network of 166 surface solutions sites in 37 countries.

Closer cooperation with customers enhances both deeper relationships and new opportunities for Oerlikon. Among initiatives launched in 2019, Oerlikon Metco introduced new CNC machining capabilities in Barboursville, West Virginia, USA, which is gaining significant interest from pump customers. Its Total Solution Offering, launched in 2018, has been successfully piloted with a leading infrastructure and energy company in France.

Oerlikon Balzers is conducting joint research with Mitsubishi Hitachi Tool Engineering for coating equipment. For the oil & gas market, Oerlikon Balzers and Oerlikon Metco are working together to develop a joint high pressure/high-temperature coating solution to satisfy the requirement of a sub sea oil & gas OEM.

In 2019, Oerlikon held numerous technology and innovation days with customers. For instance, Oerlikon Balzers organized a Medical Day in Switzerland, an Oerlikon Balzers event for precision components in Balzers, Liechtenstein, a technology day at Plastic Ominium and customer seminars on aluminum processing in Jakarta, Indonesia. Oerlikon Metco conducted Techdays with AVL Racing, Renault Formula 1, Ducati, Ferrari and Pankl Turbo System, among others. Together, Oerlikon Balzers and Oerlikon Metco successfully organized an auto conference for the Dongfeng Motor Group in China.

R&D and Innovation

Oerlikon invested 4.9% of total annual sales in R&D in 2019, corresponding to a sum of CHF 127 million, and filed 100 patents worldwide. Oerlikon's innovative pipeline is fueled by cutting-edge research and engineering processes to develop solutions that address customers' and markets' current and future needs, as well as to satisfy social and environmental considerations, such as energy efficiency and environmental sustainability.

In 2019, Oerlikon expanded collaboration with recognized universities in Switzerland, Germany and the US to explore new technologies and to develop advanced techniques in materials development, such as machine learning. An agreement with Safran, CNRS and the University of Limoges was signed to establish a joint research laboratory that will focus on R&D for aerospace applications.

Leveraging the knowledge and skills across the Group, cross-business R&D projects in 2019 included:

- Thermal spray and physical vapor deposition (PVD) coatings of the inner and other surfaces of a 3D-printed rocket nozzle for erosion protection.
- A comprehensive program was launched for the development of novel materials. The program combined the expertise from Oerlikon's competence areas such as PVD, thermal spray, metal and alloy powder and additive manufacturing.
- Evaluating opportunities in the battery market based on Oerlikon's materials competencies.
- Begun to develop predictive maintenance and predictive quality solutions for Oerlikon technologies based on machine learning, starting with thermal spray.

Oerlikon introduced a large number of new technologies and solutions to the market in 2019 – ranging from new and enhanced equipment and systems to materials, coatings and services. Some examples are listed below:

Materials

- Fifteen new materials and (super)alloys were launched in 2019.
- Silicon aluminum powders were developed specifically to ensure a high degree of abradability and excellent resistance to high temperatures (345 °C) and thermal shock for aircraft engine components.
- Next-generation high velocity oxygen fuel materials for brake discs that are free of nickel and tungsten carbide were brought to market.
- High-entropy alloys for aerospace, developed using Rapid Alloy Development technology, have been validated and 15 additional projects are underway.
- A new high-performance carbon friction material (EF 7000) was developed for limited slip differentials (LSD) clutches.

Equipment and Systems

- DiscCover Jet is a brake disc dual solution merging thin-film and thermal spray. The first solution launched uses mechanical activation with nitriding surface treatment combined with HVOF spray technology and followed by atmospheric plasma spray for the top coat.
- The RotaPlasma system for SUMEBore was further developed to handle large-scale coating of cylinder bores in auto engines.
- A double turntable for Surface One K2 was launched and the first sales to a US-based commercial airline were realized in 2019.
- INUBIA B15 was added to the ePD portfolio to allow for more flexibility in coatings.
- An enhanced version of INUBIA I6 with improved PVD equipment and paint lines for ePD applications was launched.
- A new hybrid synchronizer system, eSync, for hybrid dual-clutch transmission was launched.

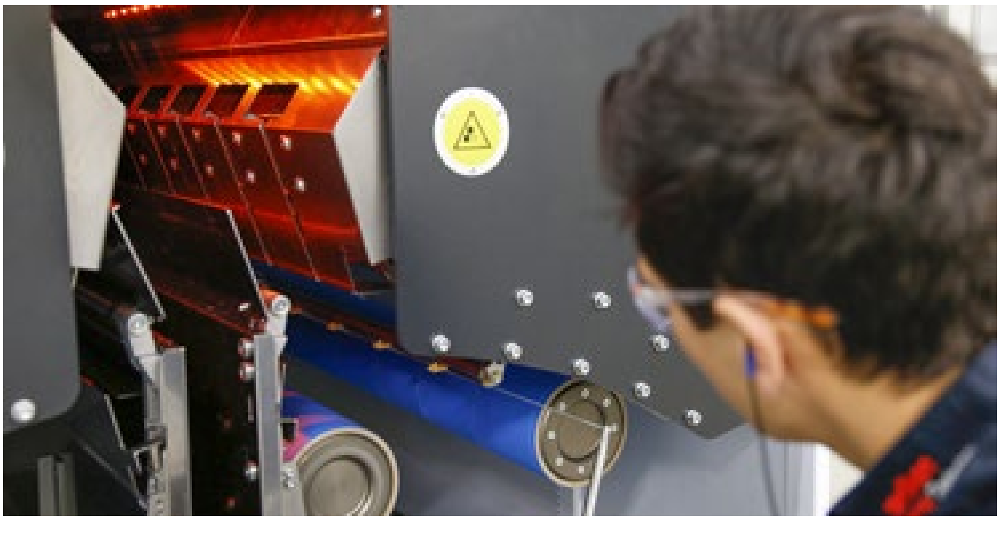
Coatings and Services

- BALIQ AUROS, based on Oerlikon's S3p technology, was developed specifically for threading tools to provide extreme wear resistance. Threading is the process of creating a screw thread and is often one of the last steps in manufacturing tools.
- BALINIT TISAFLEX is a coating that provides outstanding oxidation and wear resistance and high thermal stability for machining performed with demanding materials such as titanium, stainless steel and hardened steel based on nickel alloys.
- BALITHERM PRIMEFORM is the ideal treatment to improve de-molding, optimize process reliability and enhance component quality of large-sized plastic injection molds applied for bumpers, front grills, head lamps, etc. Up to a 60% increase in productivity can be realized with this treatment.
- BALIQ CARBOS is an amorphous hydrogen-free carbon (a-C) coating that provides an exceptional combination of high hardness, low friction and low roughness, optimal for applications with extreme contact pressures and sliding velocities such as shafts and piston pins in cars or textile weavers.
- BALINIT MILUBIA is a hydrogen-free hard carbon coating designed for components that are exposed to extreme operating forces over time such as ceramic seal discs in taps, pneumatic valves, ceramic shafts and pump bearings.
- BALINIT TURBINE PRO uses a titanium aluminum nitride structure to give outstanding protection against abrasive wear, solid particle erosion and liquid droplet erosion, making it ideal for highly stressed precision components even under high thermal conditions.

Manmade Fibers Segment

- In 2019, the Manmade Fibers Segment launched a number of new and innovative industrial systems and designs, partly combined with digital solutions.
- The eAFK Evo texturing system offers significantly higher production speed, greater productivity and consistently high product quality, along with lower energy consumption and simpler operation.
- The latest members of the WINGS family, FDY PA6, are winders that can smoothly handle fully drawn yarn (FDY) in the challenging polyamide 6 process.
- Oerlikon Neumag's BCF S8 Tricolor is a carpet yarn system that allows the production of more than 200 000 different color shades, superior spinning speed, 99% system efficiency and potential energy savings of up to 5%.
- In cooperation with its joint venture partner, BBEngineering, Oerlikon Barmag presented a clean technology solution called VacuFil – a vacuum filter that removes volatile contamination in spinning post-production.
- Oerlikon Barmag cooperated with Oerlikon AM to launch two new products using additively manufactured components, namely heating plates and heating sleeves for gear metering pumps.

Oerlikon Barmag WINGS FDY is a leading winder for polyester manufacturers thanks to significant energy savings and its ergonomic design.



Operational Excellence

Oerlikon recognizes that achieving operational excellence does more than optimize performance: it creates a safer, more productive workplace, contributes to bottom-line value creation and helps shape company transformation. Oerlikon's Operational Excellence (OOE) program focuses on optimizing operational performance in manufacturing, procurement, health & safety, environment and post-merger integration. The goal is to achieve world-class status in each area. In recent years, the program has improved efficiency across Oerlikon's supply chain, increased productivity in manufacturing processes, raised safety awareness throughout the organization, lowered accident frequency rates and reduced energy consumption and CO_2 emissions.

Operational Excellence
Gross savings in CHF

Procurement
Gross savings in CHF

World-Class Manufacturing

A highly efficient and economically sound manufacturing operation is key to Oerlikon's goal to produce high quality products for its customers. To achieve this, the company initiated and realized a number of activities in 2019:

- Measures to improve lead time, cost of non-quality (CoNQ) and overall costs, which were initiated from employees trained in Lean Philosophy and Lean Tools, continue to be cascaded through the business units and to yield benefits.
- Coordinators in the Operational Excellence team created a set of harmonized tools that were used at Oerlikon sites around the world to boost collaboration.
- The Operational Excellence Team was trained in best-practice sharing, performance reviews and continuous improvement. Cross-functional reviews and site assessments were performed to exchange knowledge and learn from each other on production process optimization and cost-saving opportunities.
- Workshops, training and events were held throughout the company to increase awareness of operational excellent and the intiatives taken to improve productivity and increase savings.
- The BU Automotive Solutions and OOE teams codesigned a best-practice production environment for the new ePD Competence and Customer Center being built in Bisingen, Germany. This project simulated and optimized material flow and offers scope for future expansion.
- The BU Metco Aero & Energy and BU Automotive Solutions teams conducted training sessions on the shop floors in Germany to empower employees to improve processes, increase reliability and improve cost efficiency. The program is expected to continue for several years.

World-Class Supply Chain Management

Supply chain management is fundamental to the success of the company, especially in an environment in which global trade agreements are ever-changing. The goal is to minimize risk and exposure, while ensuring that Oerlikon operations run smoothly and efficiently. When the supply chain is managed efficiently, the rest of the company benefits. Numerous initiatives supported this goal in 2019:

- E-procurement initiatives were strengthened to drive the holistic digitalization mission that will further impact regional and local synergies across the business.
- A focus on direct material sourcing activities across the businesses increased bottom-line impact.
- A centralized strategy to align indirect spend and harmonize procurement solutions that took advantage of regional synergies was launched.
- The Supply Chain Academy continued to strengthen the capabilities of the workforce by providing training on supply chain management and raising awareness of its critical role in the businesses.
- Supplier risks were further evaluated to mitigate any additional risks that could occur at a time of volatility and uncertainty due to geopolitical turmoil.

- Progress was made on a project to create a shared service procurement initiative that would benefit the supply chain organization.
- The Surface Solutions Segment supply chain successfully integrated and harmonized the process of the newly acquired companies.

Health, Safety and Environment

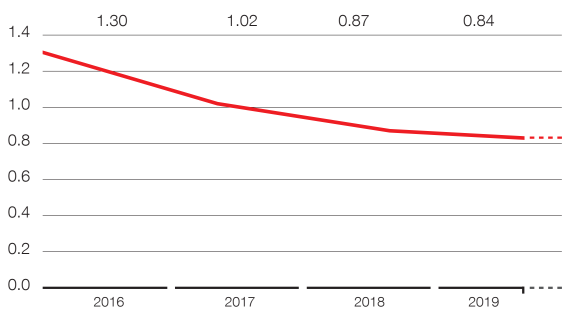
Protecting the health and safety of employees, contractors, visitors and the communities in which it operates is a top priority for Oerlikon. The goal is zero safety-related incidents and a continuous reduction of accident rates and occupational illness claims.

In addition to working at minimizing the environmental impact of Oerlikon's operations and products, Oerlikon's technologies help other manufacturers reduce energy consumption and emissions, while preserving resources.

Oerlikon's Health, Safety and Environment (HSE) Committee establishes health, safety and environment guidelines and processes for the company, drives the implementation of related programs and monitors their performance. The team works across all sites and businesses.

Health and Safety

Since 2017, Oerlikon has used the total accident frequency rate (TAFR) as the leading safety KPI. It has a broader scope than the previously adopted lost time accident (LTA) frequency rate because it includes all injuries beyond those requiring only first aid. The TAFR takes into account LTA (i.e. accidents causing an absence of one or more days or shifts) and medical treatment accidents (i.e. injuries requiring treatment by a medically qualified person such as a physician, but not causing an absence) per 200 000 hours worked. In 2019, Oerlikon reduced its TAFR by a further 3% to 0.84, which is a reduction of 35% in comparison to its 2016 year-end baseline.



TAFR
(12 months rolling)

The Group also tracks the severity rate due to lost time accidents. This measures the number of calendar days lost due to each LTA per 200 000 hours worked. The severity rate of 6.46 in 2019 was a decrease of 6% over the previous year and a historically low level for Oerlikon.

2019 achievements include:

- The Group HSE guideline "Safe use of mobile phones", which was piloted in 2018, has been rolled out across the company. Scientific studies show that the human brain can adequately focus on one task at a time. Scientists call the phenomenon "inattentive blindness." When someone is trying to multitask (e.g. drive or walk and use a mobile phone) that person cannot adequately focus on equal and other potentially dangerous tasks. The Oerlikon guideline creates awareness about the consequences of inattentive blindness and provides safe practices for driving, walking and working. Employees have been encouraged to apply the guideline in their personal lives as well.
- Some work at Oerlikon involves working at heights, which can be dangerous. A Group guideline on work at height (WAH) has been defined and rolled out across the whole company. Its main principle is the hierarchy of control in dealing with WAH situations. The first priority is to eliminate or substitute the need for work at height. If that is not feasible, the second priority is to put into place engineering controls and equipment to prevent falls. The third priority is equipment and measures to minimize the consequences of a fall. As a minimum requirement, if previous prevention levels are not possible, organizational or other measures must be implemented to manage the risk of falls.
- The standardization of HSE practices across the Group includes an online tool to track and assign tasks to sites and to follow-up on their implementation. This is done by using an HSE balanced scorecard. For each site, Oerlikon tracks initiatives about training, safety leadership and risk management. HSE compliance checks are also conducted.
- A HSE guideline involving the lockout – tagout (LOTO) process has been defined. LOTO involves placing a lockout device on an energy-isolating device under an established procedure to ensure the energy-isolating device and the equipment/machinery it controls cannot be operated until the lockout device is removed. The rollout of this policy will start in early 2020.
- Nudge techniques have been used to promote safety in the workplace for several years. Oerlikon is working with a group representing employees in

Oerlikon Balzers' INUBIA system enables customers to give plastic parts the desired chrome-look finish without using harmful substances.

Germany on a pilot project to use nudging techniques in a systematic way to influence behavior and decision making to enhance safety in the workplace. The company received very positive feedback at three pilot workshops conducted in 2019. The program will be rolled out globally in 2020.

- To prevent head injuries while performing daily duties (typically inspection, maintenance, repair, cleaning and installation tasks), the BU Balzers Industrial Solutions implemented safety guidelines requiring the use of specified bump caps when working in enclosed areas with limited space and where machinery and equipment have sharp corners.
- BU Balzers Industrial Solutions developed and rolled out a smartphone app that makes data collection on safety observation tours more user-friendly. This app, part of Balzers' 4.0 initiative, has been made available to the Group.
- The BU Metco Aero & Energy launched an initiative encouraging employees to write down their 2019 Personal HSE Plan and post it at their workplace. It should begin with: "I personally pledge to…". This best practice has been promoted within the Group.
- The BU Automotive Solutions achieved an outstanding TAFR performance at 0.38, a 46% reduction compared to the previous year.
- The BU Additive Manufacturing made significant progress in standardizing and rolling out HSE regulations, which led to a reduction of the TAFR by 67%.
- The Manmade Fibers Segment maintained the same level of safety performance as the previous year, despite an increase in manufacturing and increased complexity associated with an almost 30% increase in the serial production of winders. Additionally, the customer service agents at the largest sites in India, China and the U.S. were trained on specific health, environment and safety issues.

Environment

Oerlikon's ambition is to minimize the environmental impact, both internally within its own operations and externally with its products, solutions and services for customers. Over the years, Oerlikon has been designing and developing technologies and solutions that can support a reduction in energy consumption and emissions, while preserving resources. Examples of this ambition in action in 2019 include the following:

- To reduce emissions and optimize consumption of scarce resources in Oerlikon's operations, a large number of Oerlikon sites have environmental management systems in place, certified according to ISO 14001:2015. Almost all of Oerlikon Metco sites and one-third of the Oerlikon Balzers' thin-film sites have obtained this certification. Most of Oerlikon's sites in Germany have ISO 50001-certified energy management systems in place.
- The motto of the Group-wide HSE day in 2019 was "Better life for the future". Oerlikon employees learned more about energy, the consequences of the use of fossil fuels, the greenhouse effect and how Oerlikon contributes to reducing energy consumption and CO_2 emissions. Practical tips and hints on how everyone can contribute were given.
- The replacement of fluorescence lights with modern energy-saving LED lighting continued at a number of Oerlikon sites. In 2019, installation took place in Barleben and Langenfeld in Germany and Chon Buri in Thailand, among other sites.
- Oerlikon's site in Wohlen, Switzerland, is successfully operating heat pumps for heat recovery from compressors, which is replacing the heating of service water by the gas heating system. Following the successful realization of phase one of the project,

the site has started the next step to fully replace the gas heating system for the entire building by using process heat recovery with heat pumps, particularly to cover needs during very cold periods. A heat recovery system has also been installed at the Oerlikon Balzers coating center in Changchun, China.
- A second unit of a combined heat and power plant in Remscheid, Germany, has been installed to support the first unit implemented in 2018.
- A BU Balzers Industrial Solutions site in Jinan, China, has installed a wastewater recycling line, resulting in the reduction of clean water consumption by over 70% (>70 tons/year).
- At the Oerlikon Balzers ePD site in Suzhou, an ethanol cleaning and regeneration unit has been installed, reducing the consumption of fresh ethanol by more than 70%.
- Oerlikon's thermal spray solutions are gaining adoption in more industries. Today, design engineers are taking advantage of coatings as an actual capability. Aircraft engines and power generation are the areas where the impact and results are the most significant, measurable and tangible, with a double-digit increase in efficiency and a notable reduction in CO_2.

Post Merger Integration

In 2019, the Post Merger Integration (PMI) team focused on improving the existing directives and guidelines to ensure that business needs are met and that there is effective project governance during and following an acquisition. This year saw several accomplishments such as:

- The handover and level of involvements were more clearly defined for the project phases after due diligence and the closing of acquisitions.
- SmartSheet, a digital project management software to digitize project workflow and improve project tracking, was introduced to facilitate value creation and help the acquiring business focus on the critical issues.
- The standards defined for each Oerlikon integration were further enforced, taking into consideration value creation, costs and available resources to optimize the fit into the acquiring entity.
- The businesses were trained on the PMI standards (directives, checklist, templates) to ensure adaptation to the new requirements and simplify future alignment with acquired entities.
- Two acquisitions: TeroLab Surfaces GmbH, Langenfeld, Germany, and AMT AG, Kleindöttingen, Switzerland, were successfully integrated.

Oerlikon opened its digital hub in Munich, Germany to focus on digitalization initiatives for customers and operational excellence.

Digitalization

Oerlikon is investing in digitalization to increase the efficiency and productivity of internal processes and to offer digital solutions to customers. Oerlikon's AM business serves as a physical arm of digitalization that much of the manufacturing industry is undergoing today. In 2019, Oerlikon improved existing business and IT processes using digital tools, increased protection against cyber threats and opened a digital hub in Munich, Germany, to accelerate the company's digital transformation.

The digital hub designs, advises on and implements digital, innovative solutions for Oerlikon and its customers. It is a place where new ways of thinking, next-generation digital skills and a strong ecosystem of partners and experts come together.

The digital hub works on digitalization projects across all business units, focusing on the Internet of Things (IoT), e-commerce and analytics. These initiatives bring new, innovative ways of collecting, harmonizing and storing the data to create new value. By providing insights, quality control and quality prediction capabilities, the digitalization projects lead to fewer errors, reduced downtime, faster time-to-market and delivery of high quality products.

The digital hub is also involved in community building activities and organized its first Oerlikon Digital Hub Hackathon in November. Over 24 hours, 70 participants took on six challenges, focused on IoT, computer vision, data science and waste reduction. Teams worked on finding innovative prototypes to address real-life issues stemming from their own production environments. The event enabled Oerlikon to attract talent and fostered a closer Oerlikon community with the shared objective of finding better ways to develop products together. The winning idea – a data science concept that predicts machine failures ahead of time – is now being taken to the next level.

Several digital projects were implemented across the Oerlikon Group in 2019, such as:

- To simplify, harmonize and increase the efficiency of its business processes, Oerlikon continued implementing a new enterprise resource planning (ERP) system in the GO! (Global Oerlikon Surface Solutions) program. The entire GO! program involves the implementation of this system at more than 150 surface solutions locations globally by 2022. In 2019, the system went live at two sites: one in Balzers, Liechtenstein, and the other in Bergisch Gladbach, Germany.
- The availability, performance and scalability of IT services were improved by transferring of the entire data center infrastructure to a new cloud platform provider. The new infrastructure services and platforms enables cutting-edge, secure IT technologies and solutions to support daily business and operations.
- Cloud and platform technologies are being explored to enable the fast development of digital services for customers.
- To increase protection against cybersecurity threats, Oerlikon is executing a security program to improve the overall information security stance. In 2019, the focus was on reducing the attack surface and strengthening capabilities for detecting criminal cyber activities.
- In February 2019, a Balzers 4.0 Digital Competition took place to bring digitalization closer to employees. It was to enable employees to better understand the strategic importance of digitalization, to take away possible fears and to give employees a voice to contribute through new innovative ideas. A total of 612 creative digital ideas were submitted. The top thee were awarded digital prizes and these ideas are being turned into reality.
- Oerlikon Balzers rolled out vConnect globally. vConnect is part of the Balzers 4.0 initiative aimed at achieving customer service excellence using 4.0 technologies. vConnect acts like a "digital plug" for Oerlikon Balzers equipment, which is used to exchange data between various IT systems such as Enterprise Resource Planning (ERP) and pro- duction planning tools.
- Oerlikon Balzers launched an online platform, myBalzers, to enable Oerlikon Balzers' customers to easily track orders on a real-time basis.
- Oerlikon Balzers also introduced a vSHARE app that allows customers to quickly and easily contact the on-call support or service team.
- The Manmade Fibers Segment implemented a uniform CRM system for sales, service and marketing across the entire segment, enabling a higher degree of cooperation and customer management globally.
- The Manmade Fibers Segment has become a member of ADAMOS, which was established as a strategic alliance for future issues of Industry 4.0 and Industrial Internet of Things for market leaders in the machine and systems construction sector.

Employees

The creation of an attractive and engaging workplace remains a cornerstone of Oerlikon's long-term vision. In 2019, the company worked to promote an environment that facilitates personal growth, supports the needs of the business and prepares employees for future success.

Employee Engagement

Throughout the year, the company continued addressing issues raised in the first employee engagement survey from 2017. To improve employees' sense of belonging in a complex global organization, workshops were held to help employees understand different cultures, the purpose of the company's products, Oerlikon's brand and employees' roles in the larger organization. Physical changes were made to some workplaces as well. The company's second global Employee Engagement Survey was completed at the end of 2019. In addition to measuring progress made since the first survey, the results will inform Oerlikon's future efforts to continue to enhance and strengthen employee engagement worldwide.

Employee Experience, Talent Acquisition and HR Digitalization

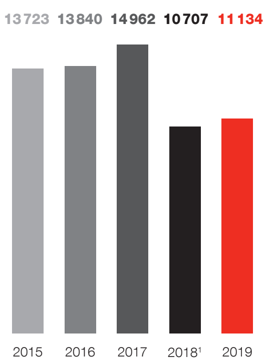
The proliferation of new technologies in human resource management allowed the launch of several promising pilot projects aimed at delivering greater efficiency in transactional operations and providing new, exciting and motivational experiences for employees.

For example, to address the ever-challenging onboarding process, the company successfully piloted a pre-arrival automated onboarding process for new employees in the U.S. Using texts, emails and videos, logistical information (where to park, work hours, what to wear), as well as customized information on the person's new work team, was shared with employees prior to their first day of work. The pilot was overwhelmingly well received by new employees and their managers, achieving the goal of making employees feel welcome and engaged even before their first day. The program is now being tested in several other countries.

The company piloted the internal chat software Yammer, which allowed more than 2 500 employees globally to exchange ideas and opinions in a transparent and unfiltered manner. This type of exchange increased networking and co-creation opportunities, while providing leaders with insights into the organization.

Social media continued to be used as a platform for employee recruitment and brand support. In 2019, Oerlikon extended or initiated agreements with online sharing platforms such as Glassdoor, LinkedIn, Career Arc and more. Active participation in these media allows the company to communicate its brand and technological strengths to potential new employees and helps keep Oerlikon at the fore of target candidates' minds. More than 25 000 people from these sites were directed to Oerlikon's career page on its website.

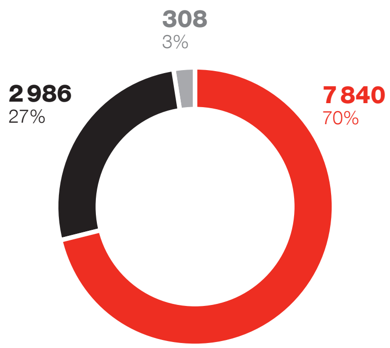
Oerlikon's business segments embraced the use of social media in their communications and launched other initiatives to strengthen employee engagement. Manmade Fibers took advantage of a German government initiative and hosted voluntary workshops that brought employees together with representatives from the works council and the company to address issues



Employees (FTE)[2] 2019

[1] Following divestment of Drive Systems Segment.

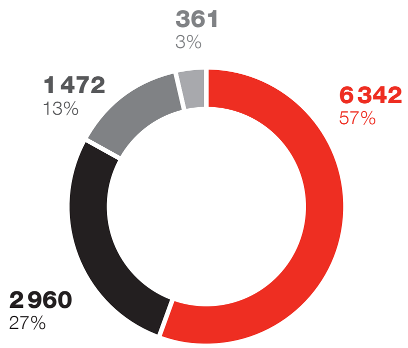
[2] FTE = Full-time equivalents.



Employees (FTE) 2019 by Segment[1]

- Surface Solutions Segment
- Manmade Fibers Segment
- Others

[1] Continuing operations.



Employees (FTE) 2019 by region[1]

- Europe (EMEA)
- Asia Pacific
- North America
- Other regions

[1] Continuing operations.

"

With 55 years at Oerlikon manmade fibers, I have so many stories that I can share of how we worked together to deliver spinning machines or polycondensation plants. Strong commitment and respectful cooperation are factors that made us successful. We can be on top only if we have the better concepts, answers and passion for our customers.

Klaus Kuerten
Sales Director
Manmade Fibers Segment

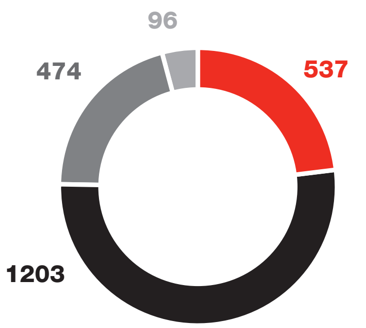
around working remotely, employee development and the physical workplace. Successful completion of these talks will result in Oerlikon receiving certification from the government as a desirable workplace.

Employee Growth and Diversity

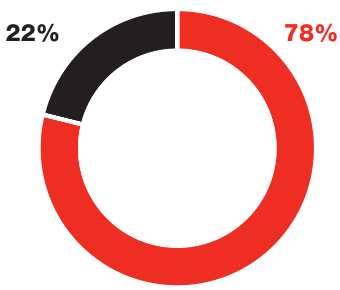
Oerlikon believes diversity strengthens its workforce in a global economy and is proud that its employees in Europe, the Americas and Asia represent 86 nationalities. Oerlikon's global workforce grew by more than 400 full-time equivalents (FTEs) in 2019, a 3.8% increase.

New hires were made in all of the company's main markets. 27% of them were hired in Germany, 17% in the US and 11% in China. About 80 of the new employees in Germany came through the acquisition of TeroLab Surfaces in Langenfeld, while the rest were hires to support organic growth.

Oerlikon is proud to have a large contingent of employees who have worked for Oerlikon for more than 20 years. More than 1 500 employees bring nearly 45 000 years of experience, which complements well to the many new hires. On average, employees stay with Oerlikon nine years, a long time for a technology company. This is experience that Oerlikon brings to its customers, technology, products and services in all the markets it serves.



Origin of Employee Recruitment



Employee Split by Gender

Overall, the workforce is well balanced in terms of age and experience. More than 50% of the workforce is under the age of 40 and nearly 60% of new hires in 2019 were under 35. More than 300, or one-quarter of new hires, were female. The company is committed to ensuring operational continuity while attracting culturally diverse and young talent.

Learning and Development

Oerlikon provides a number of employee training and development programs, including online training, to support employee learning and career development. In 2019, new leadership and functional programs were added to an interactive platform allowing employees to self-register and learn at their convenience. Because of the importance of R&D in a technology company, the company worked with R&D experts to create a prototype career path for individuals in R&D and is piloting the program at Oerlikon Balzers. Results from this pilot will be used to adapt the career path program, which is expected to be rolled out across Oerlikon in 2020.

These efforts will continue to help Oerlikon improve the knowledge, mindset and core skills of all employees, offer more self-directed learning opportunities and strengthen the framework for a learning organization.

High Potential Programs

The first 37 graduates of Oerlikon's global high-potential talent program, Horizons, completed the program in December 2019. The 18-month program aims to develop leadership and business skills, create visibility at senior levels, build networks and offer career path assistance. Over half of the employees participating in the program have been promoted or received additional job responsibilities, and all have benefited from personal career planning.

Participants in Horizons work on deep-dive strategic business projects and gain input from highly experienced external speakers on topics such as entrepreneurship, design thinking, project management, leadership, decision making, finance and more. The purpose of Horizons is to ensure that Oerlikon recognizes, retains and develops its best internal talents, which enables the company to provide a more sustainable leadership pipeline, while expanding career opportunities for its high-performing employees.

The Manmade Fibers Segment offers its own program for individuals with high potential, which began its third wave in 2019. More than 70 employees with high potential have been identified, developed and prepared for

"We had to work together as a virtual group across three continents and five different time zones. Yet everyone was committed to working on the challenging business cases as part of the Horizons program, Oerlikon's global high-potential talent program. This is what I call team spirit.

Marc Hervé
Market Segment Manager, Motorsports
Oerlikon Balzers France
Surface Solutions Segment

leadership positions. About one-third of the 23 candidates in the current cohort have received promotions or expanded roles. This program also serves as a pipeline for the global Horizons program. A second cohort of the global program will convene in the second quarter of 2020.

Apprenticeships

Oerlikon is a trusted partner for young employees with new perspectives and opportunities. In cooperation with over 30 schools, colleges and universities around the world, Oerlikon provides numerous high-quality apprenticeships, internships and other skills-building programs. The company offered more than 200 apprenticeships in Germany, Switzerland and the US in 2019, as well as shop floor training for college students. It conducted in-class presentations at universities, sponsored students, and built relationships with key technical universities such as the Technical University of Munich (TUM). Oerlikon has many sources to tap into emerging young talent.

Leadership and Succession

In 2019, Oerlikon continued to manage the risk it faces when global leaders leave. Over 80% of individuals in global leadership positions have at least two identified successors, all of whom are consistently monitored and supported in their careers. The company has also achieved a 50/50 ratio between internal promotions and external leadership hires at the global leader level, underlining Oerlikon's commitment to promoting from within, while still bringing in fresh external perspectives where needed.

Each Executive Committee member also has a pipeline of at least two successors or candidates who could serve on an interim basis. This helps ensure that there is no vacuum in decision making at a critical level in the leadership of the firm, even in the case of unexpected events.

”

The colleagues at Oerlikon are very friendly, the teamwork is amazing and learning is actually really fun. I have recommended the apprenticeship at Oerlikon to my friends and would like to work in IT and continue my professional development, hopefully at Oerlikon.

Beatriz Rodrigues
Apprentice Information Technology
Oerlikon Balzers

Compliance

Business practices worldwide are conducted in line with Oerlikon's Code of Conduct, internal regulations as well as legal and regulatory requirements. Compliance is monitored at Group level, where standards are set, preventive measures are recommended, and information, training and consultation are provided. Listed on the SIX Swiss Exchange (SIX), Oerlikon complies with the legal and regulatory requirements specified by SIX and Swiss laws.

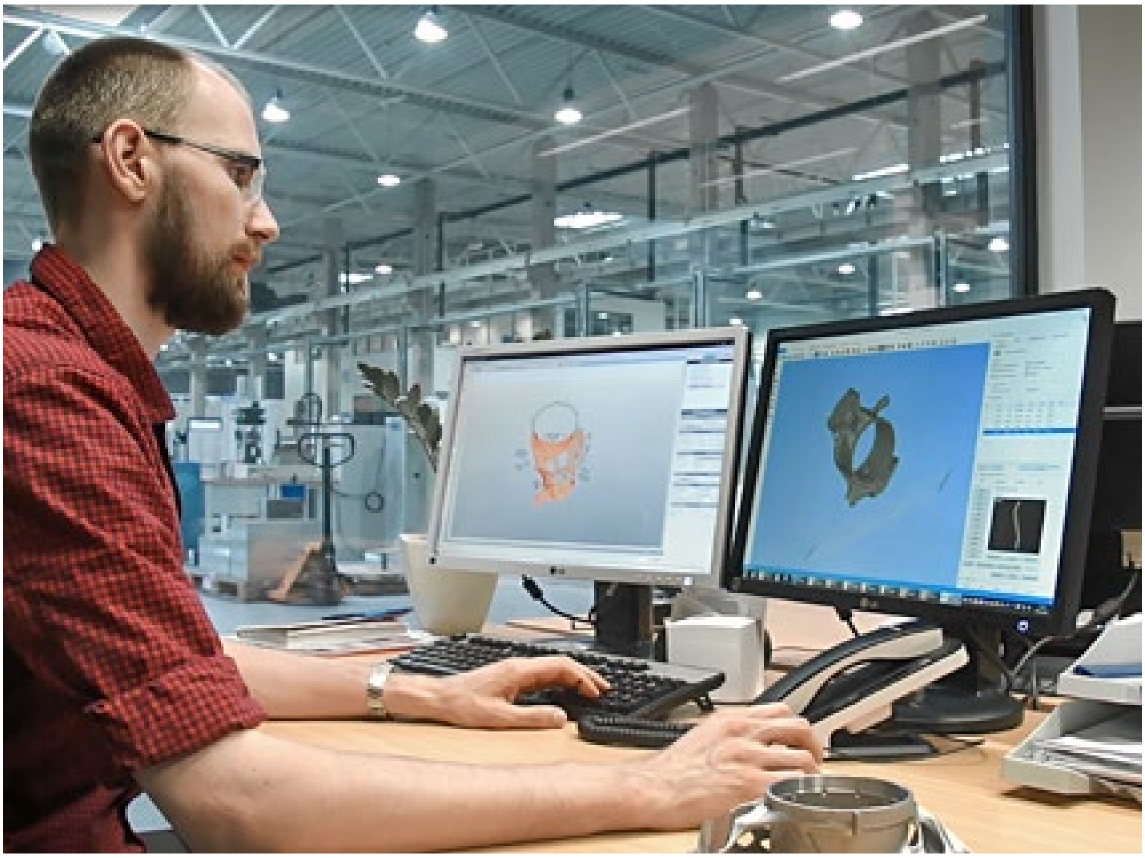
In accordance with Schedule 19 of the UK Finance Act 2016, the tax strategy of the group of companies of OC Oerlikon Corporation AG, Pfäffikon, Switzerland, can be found on and downloaded from its website (www.oerlikon.com/en/company/about-us/compliance).

Further details on compliance can be found on page 85.

Risk Management

Oerlikon takes a comprehensive approach to risk management that identifies, assesses and monitors all corporate risks relevant throughout the Group, including market, credit and operational risks. The risk management system is integrated throughout the company from an operational and management perspective. Further information on risk management can be found on pages 83–84.

Additive manufacturing opens up design opportunities to create product solutions that were difficult or impossible to realize conventionally.



Corporate Governance Report

Nonwovens produced using Oerlikon systems are widely used in the construction industry to provide complete barrier protection in the form of housewrap, roof liners and flashing products (thin sheets to prevent water penetration).

Corporate Governance

Oerlikon is committed to the principles of good corporate governance as they are defined, in particular, in the Swiss Code of Best Practice for Corporate Governance, issued by economiesuisse. Through this commitment, Oerlikon aims to sustainably reinforce the trust placed in it by the company's present and future shareholders, lenders, employees, business partners and the general public.

Responsible corporate governance requires transparency with regard to the organization of management and control mechanisms at the uppermost level of the enterprise. Therefore, SIX Swiss Exchange's Directive on Information relating to Corporate Governance (DCG) requires issuers to make available to investors certain key information, in an appropriate form, pertaining to corporate governance.

The framework of the DCG has been adopted; however, the section Compensation, Shareholdings and Loans has been moved to a separate chapter (Remuneration Report). All statements in this section (Corporate Governance) are as of the balance sheet date, except where – in the case of material changes between the balance sheet date and the time this Annual Report went to print – otherwise indicated.

Further information regarding corporate governance can be found on the company website at www.oerlikon.com/en/investors/corporate-governance

Group Structure and Shareholders

Operational Group Structure

The Oerlikon Group is divided into the following two Segments: Surface Solutions and Manmade Fibers. The operational responsibility lies with the Segments, each of which is overseen by its own Segment CEO, whereby Dr. Roland Fischer took on the added role of CEO of Surface Solutions. Business performance is reported according to this operational Group structure. For further information regarding the operational Group structure, see page 33 et seqq. (Group Business Review), in particular page 33 (Oerlikon Group Corporate Structure) and page 97 (Financial Report: Key Figures by Segment).

Listed Group Company

OC Oerlikon Corporation AG, Pfäffikon is listed on SIX Swiss Exchange (symbol: OERL; securities number: 81682; ISIN: CH0000816824). On December 31, 2019, the company's market capitalization came to a total of CHF 3 860 million. Its registered office is in Freienbach (Canton of Schwyz, Switzerland). For further information on OC Oerlikon Corporation AG, Pfäffikon see page 163 et seqq.

Non-Listed Group Companies

As parent company of the Group, OC Oerlikon Corporation AG, Pfäffikon owns all of the Group companies either directly or indirectly, mostly with a 100% interest. The local companies included in the scope of consolidation are shown on page 175 et seq. in their legal ownership structure, and on page 152 et seq., they are listed by country together with each company's place of registered office, share capital, percentage of shares owned and number of employees.

The disclosure notifications pursuant to Art. 120 et seqq. of the Financial Market Infrastructure Act (FMIA) that were submitted during the year under review are published on the electronic publication platform of SIX Swiss Exchange Ltd, Disclosure Office (www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

Cross-Shareholdings

There are no cross-shareholdings.

Significant Shareholders

	Number of Shares	Shareholdings[1] in Percent[2]
Liwet Holding AG, Zurich, Switzerland[3]	140 484 860[4]	41.34
Black Creek Investment Management Inc., Toronto, Canada	419 809[5]	0.12

[1] As of December 31, 2019. Source: disclosure notifications pursuant to Art. 120 et seqq. of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA) (www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

[2] Basis: shares issued (339 758 576).

[3] The shares of Liwet Holding AG, Zurich, are ultimately held as follows:
(a) 44.46% by Columbus Trust, a trust established under the laws of the Cayman Islands, whose ultimate beneficiary is Mr. Viktor F. Vekselberg, Moscow, Russia and Zug, Switzerland.
(b) 19.455% by Amapola Development Inc, Panama, and Polaris Trust, a trust established under the laws of Cyprus, whose ultimate beneficiary is Mr. Evgeny Olkhovik, Moscow, Russia.
(c) 19.455% by Ali International Ltd., Bahamas, and Olympia Trust, a trust established under the laws of Cyprus, whose ultimate beneficiary is Mr. Andrey Lobanov, London, United Kingdom.
(d) 16.63% by Next Generation Trust, a trust established under the laws of Cyprus, whose ultimate beneficiaries are Alexey Valerievich Moskov, Irina Arkadievna Matveeva, Mikhail Sergeevich Sivoldaev, Rinat Shavkiatovich Khalikov, Igor Vladimirovich Cheremikin and Andrey Alekseevich Shtorkh.

[4] Source: disclosure notification published by SIX Exchange Regulation on May 25, 2018.

[5] According to the disclosure notification by Black Creek Investment Management Inc., Toronto (published by SIX Exchange Regulation on August 21, 2018), the company holds a purchase position of 3.03% (0.12 % shares and 2.91% voting rights, which were delegated by a third party and can be exercised by Black Creek Investment Management Inc. at its own discretion).

Capital Structure

Capital

The share capital of OC Oerlikon Corporation AG, Pfäffikon amounts to CHF 339 758 576, composed of 339 758 576 registered shares, each with a par value of CHF 1.00. The company also has conditional capital amounting to CHF 40 million for convertible and warrant bonds, etc., and CHF 7.2 million for employee stock option plans.

Authorized Capital and Conditional Capital in Particular

Authorized Capital

The company has no authorized capital.

Conditional Capital for Warrant and Convertible Bonds

Pursuant to Art. 11a of the Articles of Association, the company's share capital will be increased by a maximum aggregate amount of CHF 40 million (corresponding to 11.77% of the current share capital) through the issuance of a maximum of 40 million registered shares with a par value of CHF 1.00 each, by exercising the option and conversion rights granted in connection with bonds of the company or one of its Group companies. The subscription rights of shareholders are excluded in this regard. Current holders of option certificates and/or convertible bonds are entitled to acquire the new shares. When issuing warrant or convertible bonds, the Board of Directors can limit or exclude the preemptive subscription rights of shareholders (1) to finance and refinance the acquisition of enterprises, divisions thereof, or of participations, or of newly planned investments of the company, and (2) to issue warrant and convertible bonds on international capital markets. Insofar as preemptive subscription rights are excluded, (1) the bonds are to be placed publicly on market terms, (2) the exercise period for the option and conversion rights may not exceed seven years from the date the bond was issued, and (3) the exercise price for the new shares must at least correspond to the market conditions at the time the bond was issued.

Conditional Capital for Employee Stock Option Plans

Pursuant to Art. 11b of the Articles of Association, the company's share capital will be increased by a maximum aggregate amount of CHF 7.2 million (corresponding to 2.12% of the current share capital), excluding the preemptive subscription rights of current shareholders, through the issuance of a maximum of 7.2 million fully paid-in registered shares with a par value of CHF 1.00 each, by the exercise of option rights granted to the employees of the company or one of its Group companies under a stock option plan yet to be approved by the Board of Directors. The issuance of shares at less than

Oerlikon Metco Surface One is the first ever system to combine spray gun, part handling and powder feed in one compact machine to provide improved reliability and higher production capabilities to customers.

the stock exchange price is permissible; further details will be determined by the Board of Directors.

Changes in Capital

Since 2016, the share capital has remained unchanged. Detailed information on changes in the total equity of OC Oerlikon Corporation AG, Pfäffikon can be found in the holding company's equity capital statement on page 169 of the Annual Report.

Shares and Participation Certificates

The equity securities of OC Oerlikon Corporation AG, Pfäffikon consist exclusively of 339 758 576 fully paid-in registered shares with a par value of CHF 1.00 each, all of which are equal with respect to their attendant voting rights, dividend entitlement and other rights. The registered shares of OC Oerlikon Corporation AG, Pfäffikon are in principle not certificated but instead issued as uncertificated securities within the meaning of the Swiss Code of Obligations and as intermediated securities in terms of the Intermediated Securities Act, respectively. Shareholders may at any time request that the company print and deliver their shares in certificate form free of charge, and the company may, at any time and without the shareholders' approval, convert the uncertificated securities into share certificates, global certificates or collectively deposited securities. If registered shares are to be printed, OC Oerlikon Corporation AG, Pfäffikon may issue certificates covering multiples of registered shares. The share certificates must bear the facsimile signatures of two members of the Board of Directors.

Profit-Sharing Certificates

OC Oerlikon Corporation AG, Pfäffikon has not issued any profit-sharing certificates.

Limitations on Transferability and Nominee Registrations

There are no restrictions on the transfer of OC Oerlikon Corporation AG, Pfäffikon shares. The company recognizes only those parties entered in the share register as shareholders or usufructuaries. Fiduciary shareholders and nominees will also be entered in the share register.

Convertible Bonds and Options

As at December 31, 2019, there were neither convertible bonds nor options outstanding.

The Oerlikon Board of Directors

Prof. Dr. Michael Süss

1963, German citizen
Chairman of the Board of Directors
Chairman of the Human Resources Committee
Chairman of the Strategy Committee

Professional Background and Education
Prof. Dr. Michael Süss was elected Chairman of the Board of Directors at the 2015 Annual General Meeting of Shareholders, the same year he joined the Board. From 2015 to 2016, he was also CEO of Georgsmarienhütte Holding, a German steel company. Prior to that, he was a member of the Managing Board of Siemens AG and CEO of Siemens Energy Sector. From 2008 to 2011, he was CEO of the Fossil Power Generation Division of the Energy Sector and a member of the Group Executive Management of Siemens AG Power Generation Group from October 2006 to December 2007. After holding various positions at BMW, IDRA Press S.p.A. and Porsche AG, Prof. Dr. Süss was appointed to the Managing Board of Mössner AG in 1999. Following Georg-Fischer Group's takeover, he was named Chairman of the Managing Board of GF Mössner GmbH. From 2001 to 2006, he was COO at MTU Aero Engines and significantly involved in the IPO of the company. From May 2009 to July 2018, he was a member of the Supervisory Board of Herrenknecht AG. Prof. Dr. Süss graduated with a degree in Mechanical Engineering from TU Munich, Germany, and completed his doctorate in 1994 at the Institute for Industrial Science/Ergonomics at the University of Kassel (Dr. rer. pol.), Germany. On October 29, 2015, he was awarded an honorary professorship of TU Munich.

Other Activities and Vested Interests
Prof. Dr. Michael Süss is Executive Vice President for Asset Management of Witel Ltd, Zurich (former Renova Management Ltd, Zurich) and a member of the Advisory Board of Kinexon Beteiligungsgesellschaft mbH.

Gerhard Pegam

1962, Austrian citizen
Vice Chairman of the Board of Directors
Member of the Human Resources Committee
Member of the Strategy Committee
Member of the Audit & Finance Committee

Professional Background and Education
Gerhard Pegam was elected to the Board of Directors at the 2010 Annual General Meeting of Shareholders. In 2012, he founded his own consulting firm. From June 2011 until June 2012, he was a Corporate Officer of TDK Corporation, Japan. From 2001 until 2012, he was CEO of EPCOS AG, Germany, and from 2009 until 2012, he additionally served as a Board member of TDK-EPC Corp., the parent company of EPCOS AG. From 1982 to 2001, he held several management positions with EPCOS AG, the Siemens Group and Philips. Gerhard Pegam graduated from the Technical College Klagenfurt, Austria, with a diploma in Electrical Engineering.

Other Activities and Vested interests
Gerhard Pegam is a Board member of Süss MicroTec AG and Schaffner Holding AG.

Paul Adams

1961, US citizen
Member of the Board of Directors (since April 9, 2019)
Member of the Strategy Committee (since April 9, 2019)

Professional Background and Education
Paul Adams served from 2016 to 2018 as Chief Operating Officer of Precision Castparts Corp., Portland, Oregon, USA, a worldwide manufacturer of complex metal components and products for critical aerospace and power generation applications. He brings with him over 30 years of leadership experience in the aviation industry. From 2014 to 2016, he was President of Pratt & Whitney, Hartford, Connecticut, USA, a world leader in the design, manufacture and service of aircraft engines and auxiliary power units. From 1999 to 2014, he served in a number of senior management positions, including as Chief Operating Officer and SVP Operations and Engineering. Prior to joining Pratt & Whitney, he held various engineering, operations and program management roles for more than 15 years at Williams International, Walled Lake, Michigan, USA. He holds a Bachelor of Science degree in Aerospace Engineering from the University of Michigan, Michigan, USA, and completed the Stanford Executive Program at the Stanford Graduate Business School, California, USA. In 2013, Paul Adams was inducted to the National Academy of Engineering, Washington, DC, USA.

Other Activities and Vested interests
Paul Adams is a member of the Board of Aerion Supersonic.

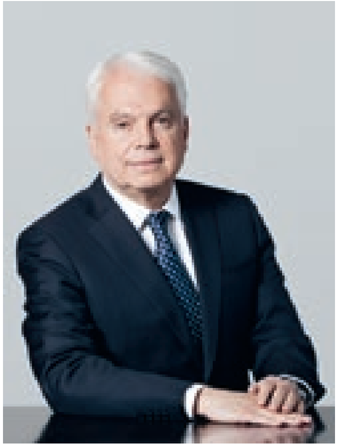
Geoffery Merszei

1951, Canadian and Swiss citizen
Member of the Board of Directors
Chairman of the Audit & Finance Committee
Member of the Human Resources Committee

Professional background and education
Geoffery Merszei was elected to the Board of Directors at the 2017 Annual General Meeting of Shareholders. He is Chairman and Chief Executive of Zolenza AG, an investment and advisory firm based in Zug, Switzerland. He brings with him over 40 years of experience in corporate governance and finance. For over 30 years, Geoffery Merszei served in a number of senior management positions at The Dow Chemical Company, the last being Executive Vice President (EVP) of The Dow Chemical Company, President of Dow EMEA and Chairman of Dow Europe before retiring in 2013. From 2001 to 2005, Geoffery Merszei left Dow to be the EVP and CFO of Alcan Inc., and returned to Dow in 2005 as EVP, CFO and a member of the Board of Directors of The Dow Chemical Company. Geoffery Merszei previously served as a Board member of the Chemical Financial Corporation and Chemical Bank and the Swiss American Chamber of Commerce. Geoffery Merszei holds a Bachelor of Arts degree in Economics from Albion College, Michigan, USA.

Other Activities and Vested interests
Geoffery Merszei is a Board member of Clariant International Ltd. and of EuroChem Group AG.




From top left to right:
Prof. Dr. Michael Süss
Gerhard Pegam
Paul Adams
Geoffery Merszei
David Metzger
Alexey V. Moskov
Dr. Suzanne Thoma

David Metzger

1969, Swiss and French citizen
Member of the Board of Directors
Member of the Audit & Finance Committee

Professional Background and Education
David Metzger was elected to the Board of Directors at the 2016 Annual General Meeting of Shareholders. He serves as Managing Director Investments of Witel Ltd, Zurich, Switzerland (former Renova Management Ltd). Prior to Witel Ltd, David Metzger worked for Good Energies, a highly renowned renewable-energy fund, where he was an investment executive, and also served as CFO and Board member of several portfolio companies. Before Good Energies, he was a Senior Manager at Bain & Company, focusing on strategy and private equity. David Metzger holds a Master's degree in Business Economics from the University of Zurich, Switzerland, and an MBA from INSEAD, Fontainebleau, France.

Other Activities and Vested interests
David Metzger is a Board member of Octo Telematics S.p.A.

Alexey V. Moskov

1971, Cypriot and Russian citizen
Member of the Board of Directors
Member of the Human Resources Committee

Professional Background and Education
Alexey V. Moskov was elected to the Board of Directors at the 2016 Annual General Meeting of Shareholders. In 2004, he was appointed Chief Operating Officer of Witel Ltd, Zurich, Switzerland (former Renova Management Ltd) and since 2018, he has been the Executive Chairman of Witel Ltd. Prior to Witel Ltd, he served on the Board of Directors of OAO NGK Slavneft and worked in diverse managerial positions at Tyumen Oil Company TNK-BP. Alexey V. Moskov holds a Master's degree in Engineering and Development from the Moscow State Railway University (Technical Cybernetics Department), Moscow, Russia.

Other Activities and Vested interests
Alexey V. Moskov is a Board member of Russian PAO T-plus, the Executive Chairman of Witel Ltd, Zurich and a Board member of SCHMOLZ+BICKENBACH Ltd.

Dr. Suzanne Thoma

1962, Swiss citizen
Member of the Board of Directors (since April 9, 2019)
Member of the Human Resources Committee (since April 9, 2019)

Professional Background and Education
Dr. Suzanne Thoma is Chief Executive Officer of BKW AG, Bern, Switzerland. Prior to being appointed CEO of BKW in 2013, she was a member of the Group Executive Committee of BKW and was responsible for the Networks division. Before that, she was head of the Automotive division of the WICOR Group, Rapperswil-Jona, Switzerland, and the CEO of Rolic Technologies Ltd, Allschwil, Switzerland. Suzanne Thoma also served in various management roles and countries at Ciba Specialty Chemicals Ltd. (now BASF). She holds a Master of Science degree in Chemical Engineering and a Ph.D. in Technical Sciences, both from the ETH Zurich, Switzerland. In addition, she holds a Bachelor of Business Administration degree from the Graduate School of Business Administration (GSBA), Zurich, Switzerland.

Other Activities and Vested interests
Dr. Suzanne Thoma is Vice President of the Avenir Suisse foundation.

Board of Directors

The rules and regulations governing the organization and duties of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon are to be found in the Swiss Code of Obligations, the Articles of Association of OC Oerlikon Corporation AG, Pfäffikon and the Organizational and Governance Rules of OC Oerlikon Corporation AG, Pfäffikon.

Members of the Board of Directors

In the year under review, the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon was composed of Prof. Dr. Michael Süss (Chairman), Gerhard Pegam (Vice Chairman), Paul Adams (since April 9, 2019), Dr. Jean Botti (until April 9, 2019), Geoffery Merszei, David Metzger, Alexey V. Moskov and Dr. Suzanne Thoma (since April 9, 2019). The five previous Board members who remained on the Board of Directors and the two new Board members were all reelected and elected, respectively, by the Annual General Meeting of Shareholders on April 9, 2019 for a term of office of one year.

In the three financial years preceding the reporting period, the members of the Board of Directors were not involved in the executive management of OC Oerlikon Corporation AG, Pfäffikon or any other Group company. They also do not have any significant business connections with companies of the Oerlikon Group.

Other Activities and Vested Interests

Regarding the activities of the members of the Board of Directors in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, permanent management and consultancy functions for important Swiss and foreign interest groups, and official functions and political posts, see page 60 et seq.

Number of Permitted Mandates

Pursuant to Art. 32 of the Articles of Association, no member of the Board of Directors may hold more than four additional mandates in the supreme governing body of listed companies, and more than ten additional mandates in the supreme governing body of legal entities that are required to be registered in the commercial register or a comparable foreign register. Not subject to these limitations are (1) mandates in inactive companies and in companies that are controlled by OC Oerlikon Corporation AG, Pfäffikon or which control OC Oerlikon Corporation AG, Pfäffikon and (2) mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations, whereby no member of the Board of Directors may hold more than ten such mandates. Mandates in different legal entities that are under joint control are deemed one mandate.

Elections and Terms of Office

Board members are elected annually by the General Meeting of Shareholders for a term of one year and are eligible for reelection; a "year" means the period from one ordinary General Meeting of Shareholders to the completion of the next. In the event of elections for replacement or elections of additional members during the year, the period until the completion of the next ordinary General Meeting of Shareholders will be deemed to constitute a year. Each member of the Board of Directors must be elected individually. Only persons who have not completed their 70th year of age on the election date are eligible. The General Meeting of Shareholders may, under special circumstances, grant an exception to this rule and may elect a member of the Board of Directors for one or several terms of office provided that the total number of these additional terms of office does not exceed three.

Composition of the Board of Directors

Name (Nationality)	Domicile	Position	Age	Joined	Term Expires	
Prof. Dr. Michael Süss (DE)	DE	Chairman	56	2015	2020	Non-executive
Gerhard Pegam (AT)	DE	Vice Chairman	57	2010	2020	Non-executive
Paul Adams (US)	US	Member since April 9, 2019	58	2019	2020	Non-executive
Dr. Jean Botti (FR)	US	Member until April 9, 2019	62	2016	2019	Non-executive
Geoffery Merszei (CAN/CH)	CH	Member	68	2017	2020	Non-executive
David Metzger (CH/FR)	CH	Member	50	2016	2020	Non-executive
Alexey V. Moskov (CY/RU)	CH	Member	48	2016	2020	Non-executive
Dr. Suzanne Thoma	CH	Member since April 9, 2019	57	2019	2020	Non-executive

Internal Organizational Structure

The Board of Directors is the ultimate supervisory body of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group. It is responsible for the overall management, oversight and control of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group, determines the Group strategy and oversees the CEO. It sets forth guidelines on the general and strategic direction of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group and periodically reviews their implementation.

The Board of Directors shall consist of at least three but not more than seven Board members, the majority of whom should be independent. In general, a Board member will be deemed to be independent if, during the three years immediately prior to taking up office, he was neither a member of the executive management of OC Oerlikon Corporation AG, Pfäffikon, the Oerlikon Group, an Oerlikon Group company or an audit firm of any of them, nor close to any of the latter, and had no significant business relations, whether directly or indirectly, with the Oerlikon Group. Should the Board of Directors exceptionally assign certain executive tasks for a limited period of time to one of its Board members, such assignment alone will, as a rule, not by itself qualify such Board member as a dependent member of the Board of Directors.

The Chairman of the Board of Directors shall ensure that the Board of Directors may and does effectively carry out its superintendence and oversight role on an informed basis. He shall endeavor, in close contact with the CEO, to provide the Board of Directors with optimal information regarding the operating activities of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group. Together with the CEO, the Chairman shall perform a leadership role in the implementation of the strategic orientation of the Group, as set out by the Board of Directors on a collegial basis, and shall represent OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group in relations with important shareholders, clients, further stakeholders and the general public.

The Chairman shall convene, prepare and chair Board meetings and may convene meetings of the Board of Directors' committees. He shall coordinate the work of the Board of Directors and the Board of Directors' committees, and shall ensure that Board members receive in a timely manner all information necessary to perform their duties. In cases of uncertainty, he shall delineate authorities between the Board of Directors, its committees and the CEO, unless the entire Board of Directors intends to address the matter.

The Board of Directors may at any time create committees from among its members to assist it in the performance of its duties. These committees are permanent advisory groups supporting the Board of Directors with their particular expertise. Unless expressly stated in the Organizational and Governance Rules, the Chart of Competencies or the relevant committee's rules and regulations, they do not have any authority to decide matters in lieu of the Board of Directors. All cases in which the currently existing committees do in fact have authority to decide matters in lieu of the Board of Directors will be specified hereinafter. They may prepare, review and investigate matters of relevance within their field of expertise and submit proposals to the Board of Directors for deliberation, but must not themselves take resolutions beyond recommendations, proposals or motions to be submitted to the Board of Directors for deliberation.

There are currently three permanent committees of the Board of Directors, namely the Audit & Finance Committee (AFC), the Human Resources Committee (HRC) and the Strategy Committee (SC).

Membership of these committees in the year under review was as follows:

Composition of Committees of the Board of Directors

Name (Nationality)	Audit & Finance Committee (AFC)	Human Resources Committee (HRC)	Strategy Committee (SC)
Prof. Dr. Michael Süss (DE)		Chairman	Chairman
Gerhard Pegam (AT)	Member	Member	Member
Paul Adams (US)			Member since April 9, 2019
Dr. Jean Botti (FR)			Member until April 9, 2019
Geoffery Merszei (CAN/CH)	Chairman	Member	
David Metzger (CH/FR)	Member		
Alexey V. Moskov (CY/RU)		Member	
Dr. Suzanne Thoma (CH)		Member since April 9, 2019	

Audit & Finance Committee (AFC)

The AFC is a permanent committee of the Board of Directors within the meaning of Art. 716a para. 2 of the Swiss Code of Obligations. As a rule, the AFC is composed of at least three members of the Board of Directors. Members of the AFC are not eligible if they perform any executive management duties within the Oerlikon Group while in office, or have significant business relations with OC Oerlikon Corporation AG, Pfäffikon or the Oerlikon Group, or have been members of the Executive Committee in the preceding three years. They must by all means have the degree of independence required by the Swiss Code of Best Practice for Corporate Governance, as amended from time to time. The majority of AFC members, including its Chairman, must have experience in finance and accounting and be familiar with internal and external auditing. As a separate advisory group, independent from the Executive Committee and the CEO, the AFC shall advise the Board of Directors and exclusively follow the Board of Directors' instructions.

The AFC's purpose is to facilitate the Board's ability to fulfill its duties regarding OC Oerlikon Corporation AG, Pfäffikon and all its subsidiaries. Its responsibilities include assisting the Board in monitoring the adequacy of processes and the integrity of:

- OC Oerlikon Corporation AG, Pfäffikon's financial statements.
- OC Oerlikon Corporation AG, Pfäffikon's internal controls.
- OC Oerlikon Corporation AG, Pfäffikon's compliance with legal and regulatory requirements.
- OC Oerlikon Corporation AG, Pfäffikon's external auditor's performance, qualification and independence (incl. review of the audit work plan and the compensation).
- OC Oerlikon Corporation AG, Pfäffikon's internal audit department's performance.
- OC Oerlikon Corporation AG, Pfäffikon's risk management policies, capital structure and funding requirements.

The AFC may prepare, review or investigate matters of relevance within its responsibilities and submit relevant proposals to the Board of Directors for deliberation, but must not itself take resolutions beyond recommendations, proposals or motions to be submitted to the Board of Directors for deliberation. The AFC has no authority to decide matters in lieu of the Board of Directors.

The organization, detailed responsibilities, functioning and reporting of the AFC are stipulated in the Rules and Regulations of the AFC published on Oerlikon's website www.oerlikon.com/en/investors/corporate-governance

Human Resources Committee (HRC)

As a rule, the HRC is composed of at least three members of the Board of Directors. Members of the HRC are not eligible if they perform any executive management duties within the Oerlikon Group while in office, or have significant business relations with OC Oerlikon Corporation AG, Pfäffikon or the Oerlikon Group, or have been members of the Executive Committee in the preceding three years. In all cases, they must have the degree of independence required by the Swiss Code of Best Practice for Corporate Governance, as amended from time to time.

The HRC supports the Board of Directors with regard to matters related to human resources, including compensation policies, performance assessment, appointments and succession planning and other general topics related to human resources.

The HRC shall in particular support the Board of Directors in establishing and reviewing the Group's compensation strategy and in preparing the proposals to the General Meeting of Shareholders regarding compensation of the members of the Board of Directors and of the Executive Committee, and may submit proposals to the Board of Directors in other compensation-related issues. Furthermore, the HRC approves the annual pay plan for the Group (incl. general salary increases), the Group-wide compensation policies for nonmanagerial staff, the objectives and performance contracts of all members of the Executive Committee other than the CEO, the eligibility in equity programs and the allocation of equity instruments. Other than that, the HRC has no authority to decide matters in lieu of the Board of Directors.

The organization, detailed responsibilities, functioning and reporting of the HRC are stipulated in the Rules and Regulations of the HRC published on Oerlikon's website www.oerlikon.com/en/investors/corporate-governance

Strategy Committee (SC)

As a rule, the SC is composed of at least three members of the Board of Directors. All but one must be independent from the Oerlikon Group and not performing any executive management duties within the Oerlikon Group while in office, not have significant business relations with OC Oerlikon Corporation AG, Pfäffikon or the Oerlikon Group and not have been a member of the Executive Committee in the preceding three years.

The SC checks that Oerlikon's strategy is properly implemented and complied with by the Executive Committee and all other management levels of the Oerlikon Group. Furthermore, it ensures that the Board of Directors becomes aware on a timely basis of changing trends, technologies, markets, habits and terms of trade that could jeopardize Oerlikon's strategy.

The SC may prepare, review or investigate matters of relevance within its responsibilities and submit relevant proposals to the Board of Directors for deliberation, but must not itself take resolutions beyond recommendations, proposals or motions to be submitted to the Board of Directors for deliberation. The SC has no authority to decide matters in lieu of the Board of Directors.

The organization, detailed responsibilities, functioning and reporting of the SC are stipulated in the Rules and Regulations of the SC published on Oerlikon's website www.oerlikon.com/en/investors/corporate-governance

Work Methods of the Board of Directors and its Committees

The Board of Directors meets at the invitation of its Chairman at least four times a year (usually once in February/March, once in June/July, once in September/October and once in November/December) or more often if necessary. The members of the Executive Committee attend the meetings of the Board of Directors by invitation. Each Board member and the CEO may request the Chairman to convene a Board meeting by stating the reasons for such a request.

In 2019, nine physical Board meetings were held, whereof five were ordinary Board meetings (average duration: eight hours) and four were Board workshops (average duration: approximately two days). The main topics of the workshops were strategy, human resources and business excellence/innovation. In addition, the Board held five telephone conferences (average duration: 40 minutes). The members of the Executive Committee were invited to all meetings, workshops and conference calls of the Board of Directors; an external advisor participated in one Board meeting.

The members of the HRC are elected by the General Meeting of Shareholders, whereas the Chairman of the HRC is appointed by the Board of Directors at the proposal of the Chairman of the Board. The members of the other committees, i.e. the AFC and the SC, as well as their respective Chairmen, are elected by the Board of Directors at the proposal of the Chairman of the Board. Their respective terms of office correspond to their terms of office as a Board member. Those Board members who are not members of a committee have the right to attend committee meetings with consultative vote. As a rule, the Company's CFO, external auditor, Head of Group Accounting & Reporting and Head of Internal Audit (who is also the secretary of the AFC) should attend the meetings of the AFC, the CEO and the CHRO the meetings of the HRC, and the CEO the meetings of the SC. Additional persons (e.g. other members of the Executive Committee or Heads of corporate functions) may be invited, if required. At every Board meeting, each committee Chairman provides the Board of Directors with an update on the current activities of his committee and important committee issues.

The AFC and the SC convene by invitation of their respective Chairman as often as business requires, but at least four times annually (meetings of the SC can be replaced by strategy meetings of the full Board, if appropriate). The HRC meets at the invitation of its Chairman at least three times a year, or more often if necessary.

In 2019, there were six meetings of the AFC, lasting on average four hours. The members of the AFC participated in the meetings along with the CFO, representatives of the corporate functions concerned (in particular Group Accounting & Reporting, Group Controlling and Group Internal Audit). The external auditors (PricewaterhouseCoopers AG) took part in all six AFC meetings. In 2019, the HRC held three meetings, lasting on average four hours, the SC two meetings, lasting on average four hours. In the meetings of the HRC, the members of the HRC participated along with the CEO and the CHRO; in the meetings of the SC, the members of the SC participated along with the members of the Executive Committee.

Definition of Areas of Responsibility

Pursuant to Art. 716b of the Swiss Code of Obligations and Art. 22 para. 3 of the Articles of Association, the Board of Directors has in principle delegated the operational management of the business of OC Oerlikon Corporation AG, Pfäffikon and of the Oerlikon Group to the CEO. The scope of tasks for which the Board of Directors bears responsibility essentially encompasses those inalienable and non-delegable duties defined by law. These include:

- The ultimate direction of the business of OC Oerlikon Corporation AG, Pfäffikon and issuing of the relevant directives.
- Laying down the organization of OC Oerlikon Corporation AG, Pfäffikon.
- Formulating accounting procedures, financial controls and financial planning.
- Nominating and removing persons entrusted with the management and representation of OC Oerlikon Corporation AG, Pfäffikon and regulating the power to sign for OC Oerlikon Corporation AG, Pfäffikon.
- The ultimate supervision of those persons entrusted with management of OC Oerlikon Corporation AG, Pfäffikon with particular regard to adherence to law,

to the Articles of Association and to the regulations and directives of OC Oerlikon Corporation AG, Pfäffikon.
- Issuing the Annual Report and the compensation report, preparing for the General Meeting of Shareholders and carrying out its resolutions.
- Informing the court in case of indebtedness.
- Determining the strategic direction and approving the strategy for the Oerlikon Group and its Segments.

According to the company's Organizational and Governance Rules, it is also incumbent upon the Board of Directors to decide on (1) overall budget planning and capital expenditures off budget of at least CHF 100 million; (2) acquisitions and divestments of strategic relevance or such transactions involving an enterprise value of at least CHF 25 million or a series of such transactions involving an enterprise value of at least CHF 100 million on an aggregated basis; (3) the establishment, liquidation or restructuring of strategy-relevant companies or businesses; (4) the purchase and sale of real estate with a financial value exceeding CHF 25 million; and (5) the initiation and settlement of civil law litigation with amounts in dispute of more than CHF 50 million.

The CEO is responsible for all issues relating to the operational management of the business of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group, to the extent that such decisions are not expressly reserved for the Board of Directors or delegated to individual Group companies. The Executive Committee is the supreme advisory body advising the CEO with respect to the management of the business of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group. The Executive Committee is chaired by the CEO. In the event of an Executive Committee member dissenting from a decision of the CEO, the member may immediately request the CEO to submit the matter to the Chairman of the Board of Directors for his recommendation. However, the CEO will take the final decision on all issues relating to the operational management.

More information regarding the areas of responsibility of the Board of Directors, the CEO and the Executive Committee can be found in the company's Organizational and Governance Rules published on Oerlikon's website www.oerlikon.com/en/investors/corporate-governance

Information and Control Instruments vis-à-vis the Executive Committee

The Board of Directors has a wide array of instruments that enable it to perform the tasks of monitoring strategic and operational progress as well as risk exposure. The instruments at its disposal include the following elements:

The Board of Directors' Right of Access to and the CEO's Duty of Information

Each member of the Board of Directors receives a copy of the monthly report, which includes i.a. an overview of the Group performance, the financials of the Group, the Segments and the Business Units, as well as an M&A project update. The CEO reports at Board of Directors' meetings on the day-to-day operations, operating results and important business matters. Extraordinary occurrences (if any) must be immediately communicated to the Chairman of the Board of Directors and to the Chairman of the relevant committee. With the approval of the Chairman, members of the Board of Directors may also access specific business records and/or obtain information from any employee of the Oerlikon Group. The Board of Directors and its committees regularly take advice from members of the Executive Committee in order to ensure that the most comprehensive and up-to-date information on the state of the company and all relevant elements are included in its decision-making. Additionally, Heads of Business Units and corporate functions or other experts may be consulted on a case-by-case basis in order to gain detailed and comprehensive information on complex matters.

Accounting & Reporting

The Group Accounting & Reporting function is responsible for the Group's Management Information System (MIS), which links all major Group companies and production sites directly with Group headquarters to provide the Executive Committee and the Board of Directors with an institutionalized Group reporting on a monthly basis. This is consolidated to show the performance of each Business Unit and the Group and explains the reasons for any deviations from the key performance indicators. The Board of Directors may demand access to the relevant details at any time. Furthermore, Group Accounting & Reporting ensures compliance with the International Financial Reporting Standards (IFRS).

Controlling

With regard to mid-term controlling, the key instruments are specific analyses prepared by the Segments, as well as annually updated five-year business plans on the Group and Segment level. In terms of short-term controlling, the Board of Directors receives the annual financial plan (budget) as well as periodic financial forecasts for the current fiscal year. In addition to the business updates provided by the CEO or CFO at the Board of Directors and AFC meetings, the Board of Directors and the Executive Committee receive a monthly actual/target analysis of the key financials to assist them in the assessment of the Segments' performance and potential corrective measures. Furthermore, the Executive Committee holds regular business review meetings on the Group and Segment level, examining current performance and outlook, market competitive dynamics, Segment product portfolios and scenarios explored to improve Segment value creation.

Risk Management

Oerlikon has a risk management system in place with which the enterprise-wide risk management is centrally managed and decentrally implemented. A key component of it is the generation and semiannual update of risk profiles for the Group as a whole, as well as for its individual Business Units. All types of risks, internal and external, such as market, credit and operational risks are considered, including compliance and reputational aspects, and actions are defined in order to mitigate the risk exposure. Internal risk reporting to the Executive Committee, the AFC and the Board of Directors is performed semiannually based on consolidated risk reports. On this basis, the Board of Directors monitors the risk profile of the Group and the risk mitigation actions. For further information regarding risk management, see page 83 et seqq. (Risk Management and Compliance) and page 137 et seqq. (Note 21 to the consolidated financial statements).

Compliance

There is a Group-wide compliance function that focuses on compliance within the legal, regulatory spectrum and internal regulations, including the Group's ethical standards, by actively invoking such preventive measures as training, communication and consulting. The foundation of this program was laid and enhanced between 2009 and 2012, with a focus on key elements of a state-of-the-art compliance program, including a written Code of Conduct, compliance risk assessment analysis and the development of an anticorruption training program. Since that time, and this remains a key focus, Oerlikon enhances and promotes behavioral aspects of leadership awareness while dealing with integrity issues. Oerlikon has done so by implementing and revising its business partner integrity screening process and by introducing and establishing an antitrust compliance program. In 2015 and 2016, the compliance program emphasized the establishment of data compliance to enhance all aspects of data privacy and information security. In 2017, in particular, Compliance prepared for the implementation of the EU's General Data Protection Regulation (GDPR), which came into effect on May 25, 2018. In 2019 and 2020, the Global Data Privacy and Compliance Officer continues to prioritize and focus on the implementation of GDPR requirements into Oerlikon's projects, processes, documentation and awareness programs. As of end of 2019, Oerlikon has started focusing on China and Russia. Moreover, the Group is aiming to improve its alignment with applicable data protection and cybersecurity laws in Asia and Latin America in 2020 and 2021. For further information regarding compliance, see page 85 (Compliance and Ethics).

Internal Audit

An internal audit is an independent and objective assurance activity that assists Oerlikon in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, controls and governance processes. The Head of Internal Audit reports functionally to the Chairman of the AFC and administratively to the CFO. The AFC approves the budget, the resources and the internal audit plan. Internal Audit closely coordinates its plans and activities with the external auditor. Internal Audit projects are selected on the basis of a Group-wide risk assessment in coordination with Group Risk Management. The annual audit plan strikes the appropriate balance between operational, financial, compliance and follow-up reviews. The results of internal audits are communicated to the responsible management team, the Executive Committee, the AFC, the Chairman of the Board and the external auditors through formal audit reports. In 2019, Internal Audit conducted 40 internal audits.

External Audit

The external auditor examines the books and accounts of OC Oerlikon Corporation AG, Pfäffikon and those of the Oerlikon Group, coordinating its audit plan with that of Group Internal Audit. On completion of the audit, the external auditor prepares a comprehensive auditor's report to inform the AFC and the Board of Directors about the detailed findings of the audit, and prepares a summary thereof for the Annual General Meeting of Shareholders. In 2019, the external auditors participated in all six AFC meetings. Since 2016, the external audit has been carried out by PricewaterhouseCoopers AG. For further information regarding the external auditors, see page 71.

The continuing independence of the external auditors is ensured by written representations provided by the auditors and also by the monitoring of audit fees in relation to total fees for all services paid by Oerlikon to the audit firm.

The Oerlikon Executive Committee[1]

Leadership and Accountability

Dr. Roland Fischer

Professional Background and Education

Dr. Roland Fischer was appointed Chief Executive Officer effective March 1, 2016. Prior to Oerlikon, Dr. Fischer held senior management positions at Siemens AG, the most recent as CEO of the Power and Gas Division, from 2013 to 2015. Between 2011 and 2012, Dr. Fischer served as CEO of the Fossil Power Generation Division, and from 2008 to 2011, he was CEO of the Fossil Power Generation Business Unit – Products, Siemens, Germany. Before joining Siemens, Dr. Fischer spent 18 years at MTU Aero Engines AG in diverse management positions in Germany and Malaysia, lastly serving as Senior Vice President, Defence Programs, in Germany. Dr. Fischer graduated from the University of Stuttgart, Germany, with a degree in Aeronautical Engineering, and holds a Ph.D. (Dr. Ing.) in Aeronautical Engineering from the University of Karlsruhe, Germany.

Other Activities and Vested Interests

None.

Jürg Fedier

Professional Background and Education

Jürg Fedier was appointed Chief Financial Officer effective January 1, 2009. From 2007 to 2008, he acted as CFO of Ciba, Switzerland. Between 2006 and 2007, he was Head of Finance of Dow Europe and a member of the Executive Board. From 2002 to 2006, Jürg Fedier served as Vice President Finance for Dow Chemical, Performance Chemicals, USA, and between 2000 and 2002 as Global Business Finance Director for Dow Chemical, Thermosets. From 1978 to 2000, he filled several management positions with Dow Chemical in the USA and in Asia. Jürg Fedier holds a Commercial Diploma from the College of Commerce in Zurich, Switzerland, and completed international executive management programs at IMD, Lausanne, Switzerland, and the University of Michigan, USA.

Other Activities and Vested Interests

Jürg Fedier is a member of the Boards of Directors of Dätwyler Holding Inc. and Ascom Holding Ltd.

Dr. Helmut Rudigier

Professional Background and Education

Dr. Helmut Rudigier was appointed Group Chief Technology Officer effective November 1, 2017. He joined Oerlikon Balzers in 1986 as R&D Project Manager after completing his post-doctoral research on low-temperature physics at ETH Zurich. Since then, he was promoted to diverse research and management roles, including Manager R&D Balzers Thin Films, Manager Production Site Balzers, Manager R&D Division Optics, Business Development Telecommunication (fiber optics), CTO of Oerlikon Balzers and as CTO of the Surface Solutions Segment. Dr. Rudigier represents Oerlikon on the Committee for Research and Technology of the Liechtenstein Chamber of Commerce and Industry. He holds a Ph.D. from the Institute of Solid State Physics at ETH Zurich, Switzerland, and has completed executive management programs at the University of California, Los Angeles, USA, and at IMD, Lausanne, Switzerland.

Other Activities and Vested Interests

Dr. Rudigier is a member of the Industrial Advisory Board of the Transregional Collaborative Research Center, a DFG (German Research Foundation) funded collaboration between RWTH Aachen, Ruhr University Bochum and the University of Paderborn and a Member of the Scientific Advisory Committee of the Leibnitz Institute of Surface Engineering. Dr. Rudigier also lectures at the NTB Interstate University of Applied Sciences of Technology in Buchs, St. Gallen, Switzerland.

Anna Ryzhova

Professional Background and Education

Anna Ryzhova was appointed Chief Human Resources Officer effective October 10, 2016. Ms. Ryzhova has over 15 years of experience in leading HR functions, 13 of which were at the Renova Group in senior HR executive roles. Most recently, Anna Ryzhova was Chief Human Resources Officer at Witel Ltd, Zurich, Switzerland (former Renova Management Ltd). From 2010 to 2015, she served as HR and Corporate Relations Director at the Renova Group Corporate Center in Moscow, Russia. Anna Ryzhova holds a Master’s degree in Economics from the National Research University Higher School of Economics in Moscow and an Executive MBA from IMD, Lausanne, Switzerland.

Other Activities and Vested Interests

None.

From left to right: Dr. Helmut Rudigier, Dr. Roland Fischer, Anna Ryzhova and Philipp Müller

Philipp Müller

Professional Background and Education
Philipp Müller has been appointed Chief Financial Officer, effective January 1, 2020. He has more than 15 years of financial and strategic experience across multiple industries. Most recently, he led the investor relations functions at Baker Hughes in Houston, Texas, US. Prior to that, he served as CFO of GE's oil & gas drilling business from 2014 to 2016. Previously, Mr. Müller held various financial leadership positions in GE's industrial businesses. Prior to that, he spent five years on GE's corporate audit staff, where he advanced to executive audit manager at GE Healthcare. Mr. Müller has extensive international experience, having worked in over ten countries during his career. He is a German citizen and holds a Master's degree in Business from the University of Mannheim, Germany.

Other Activities and Vested Interests
None.

[1] A description of the roles and authorities of the Members of the Executive Committee can be found in the company's Organizational and Governance Rules, published on www.oerlikon.com/en/investors/corporate-governance/

Executive Committee

Management Philosophy

The Oerlikon Group's strategy is to expand its leading position worldwide as a powerhouse in surface solutions and advanced materials. In line with the strategy, the Group has started its transformation process by streamlining and centralizing relevant and specific management and operational functions, particularly between Group headquarters and the Surface Solutions Segment. Group headquarters still determines strategic guidelines and sets operational targets, and monitors these with effective management processes and controlling while the segments and business units continue to be responsible for operations and for delivering on the agreed strategy and targets within given guidelines.

Members of the Executive Committee

On December 31, 2019, the Executive Committee consisted of Dr. Roland Fischer, CEO (since March 1, 2016) and CEO Surface Solutions Segment (since August 2, 2016), Jürg Fedier, CFO (since January 1, 2009, until December 31, 2019), Anna Ryzhova, CHRO (since October 10, 2016) and Dr. Helmut Rudigier, CTO (since November 1, 2017).

With the exception of Dr. Rudigier, the other members of Oerlikon's Executive Committee did not previously carry out tasks for OC Oerlikon Corporation AG, Pfäffikon or any other Group company. For further information, see page 68 et seq.

Other Activities and Vested Interests

Regarding the activities of the members of the Executive Committee in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, as well as permanent management and consultancy functions for important Swiss and foreign interest groups and official functions and political posts, see page 68 et seq.

Number of Permitted Mandates

Pursuant to Art. 32 of the Articles of Association, no member of the executive management may hold more than four additional mandates in the supreme governing body of listed companies, and more than ten additional mandates in the supreme governing body of legal entities that are required to be registered in the commercial register or a comparable foreign register. Not subject to these limitations are (1) mandates in inactive companies and in companies that are controlled by OC Oerlikon Corporation AG, Pfäffikon or that control OC Oerlikon Corporation AG, Pfäffikon and (2) mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations, whereby no member of the executive management may hold more than ten such mandates. Mandates in different legal entities that are under joint control are deemed one mandate. According to internal policies, Board memberships in third-party companies require for the CEO to obtain the approval of the Chairman of the Board, and for the other Executive Committee Members to obtain the approval of the CEO.

Management Contracts

There are no management contracts with third parties.

Shareholders' Participation

Voting Rights Restrictions and Representation

The right to vote and the other member rights may only be exercised by shareholders or beneficiaries who are registered in the share register. Any shareholder may appoint the independent proxy, another registered shareholder with written authorization or his legal representative to act as proxy to represent his shares at the General Meeting of Shareholders. The Chairman decides whether to recognize the power of attorney. Regarding the written or electronic issuing of the proxy and of instructions to the independent proxy, the Articles of Association do not contain any provisions that deviate from the legal provisions. Entitled to vote in the General Meeting of Shareholders are the shareholders whose names are inscribed into the share register as shareholders with voting rights at the cut-off date to be determined by the Board of Directors (as a rule, the cut-off date is six working days before the General Meeting of Shareholders). Otherwise, there are no restrictions on voting rights.

Composition of the Executive Committee

Name	Nationality	Age	Position	Joined	In Position Since
Dr. Roland Fischer	DE	57	CEO	2016	01.03.2016
Jürg Fedier	CH	64	CFO	2009	01.01.2009 (until 31.12.2019)
Philipp Müller	DE	41	CFO	2019	01.01.2020
Anna Ryzhova	RU	40	CHRO	2016	10.10.2016
Dr. Helmut Rudigier	AT	64	CTO	2017	01.11.2017

Statutory Quorums

The Articles of Association of OC Oerlikon Corporation AG, Pfäffikon provide for no specific quorums that go beyond the provisions of corporate law.

Convocation of the Annual General Meeting of Shareholders

Supplemental to the statutory legal provisions, the company's Articles of Association provide for the convocation of an Annual General Meeting of Shareholders by a one-off announcement in the Swiss Official Gazette of Commerce.

Inclusion of Items on the Agenda

The Articles of Association provide that shareholders with a holding of CHF 1 000 000 nominal value are entitled to request that an item be included on the agenda, provided that their requests are submitted in writing and include the actual agenda item and the actual motions; this request is to be made at the latest ten weeks prior to the date of the General Meeting of Shareholders.

Entry into the Share Register

The 47th General Meeting of Shareholders will be held on April 7, 2020, at the KKL Luzern (Culture and Convention Center, Lucerne). Entitled to vote in the General Meeting of Shareholders are those shareholders whose names are inscribed into the share register as shareholders with voting rights at the cut-off date to be determined by the Board of Directors.

Right to Inspect the Minutes of the Annual General Meeting of Shareholders

The minutes of the 46th General Meeting of Shareholders, held on April 9, 2019, can be viewed on the website at www.oerlikon.com/en/investors/annual-general-meeting-of-shareholders and shareholders may also read the minutes at Group headquarters upon prior notice. The minutes of the 2020 Annual General Meeting of Shareholders will be published on the Oerlikon website as soon as they have been compiled.

Changes of Control and Defense Measures

Duty to Make an Offer

In accordance with the Articles of Association of OC Oerlikon Corporation AG, Pfäffikon a person who acquires shares in the company is not required to make a public purchase bid pursuant to Art. 125 para. 3 of the Financial Market Infrastructure Act (opting-out).

Clauses on Changes of Control

There are no change-of-control clauses in agreements and schemes benefiting Members of the Board of Directors and/or of the Executive Committee, as well as other members of the Oerlikon management.

Auditors

Duration of the Mandate and Term of Office of the Lead Auditor

PricewaterhouseCoopers AG was elected by the 43rd Annual General Meeting of Shareholders of April 5, 2016, as auditor of OC Oerlikon Corporation AG, Pfäffikon and the Group for the first time. The auditor is elected by the Annual General Meeting of Shareholders for a one-year term of office. The lead auditor responsible for the mandate, Mr. René Rausenberger, has been serving in this function since the financial year that ended on December 31, 2019. In accordance with Art. 730a para. 2 of the Swiss Code of Obligations, the lead auditor's term of office is a maximum of seven years.

Auditing Fees

In the calendar year 2019, PricewaterhouseCoopers AG invoiced the company for CHF 2.5 million in global auditing fees.

Additional Fees

In the calendar year 2019, PricewaterhouseCoopers AG invoiced the company for CHF 0.9 million in additional services. The additional fees were mainly invoiced for worldwide general and project-specific tax consultancy services.

Informational Instruments Pertaining to an External Audit

In accordance with Art. 728b para. 1 of the Swiss Code of Obligations, the external auditors provide the Board of Directors, on an annual basis, with a comprehensive report with conclusions on the financial reporting and the internal controlling system as well as the conduct and the result of the audit. Furthermore, the external auditors conduct interim audits during the year, on which they report their findings to the Executive Committee and the AFC.

Once the auditing work has been completed, the AFC assesses the results and findings of the external audit, discusses its assessment with the lead auditor in charge and reports the relevant findings to the Board of Directors. Furthermore, the AFC submits proposals in response to the external auditors' recommendations, objections and other discovered deficiencies, if any, to the Board of Directors for consideration and monitors the implementation of any relevant action decided upon by the Board of Directors.

The Chairman of the AFC meets regularly with the lead auditor and other representatives of the auditing firm. The latter also participate in meetings of the AFC dealing with relevant agenda items. In the reporting year, PricewaterhouseCoopers AG participated in all six meetings of the AFC.

On behalf of the Board of Directors, the AFC evaluates the work done by the external auditors and the lead auditor, based on the documents, reports and presentations issued by them as well as on the materiality and objectivity of their statements. For this, the AFC consults with the CFO and the Head of Group Internal Audit. On an annual basis, the AFC recommends to the Board of Directors the external auditors to be proposed to the General Meeting of Shareholders for election or re-election based on their performance, qualifications and independence. Once per year, the external auditors provide a formal written confirmation that they fulfill the requirements with regard to registration and independence as required by Swiss law and Swiss auditing standards. The assignment of non-audit services to the external auditors that are potentially in conflict with their role and responsibility has to be approved by the Board of Directors based on a recommendation of the AFC.

The fees paid to the external auditors are reviewed on a regular basis and compared with the auditing fees paid by other comparable listed Swiss companies. Auditing fees are negotiated by the CFO, evaluated by the AFC and subject to the approval of the Board of Directors.

Material Changes Since Balance Sheet Date

Oerlikon announced on September 6, 2019, that Philipp Müller has been appointed CFO and a member of Oerlikon's Executive Committee, effective January 1, 2020. He succeeds Jürg Fedier, who retired at the end of December 2019.

Information Policy

General

Oerlikon provides its shareholders and the capital markets with transparent, comprehensive and timely information on relevant facts and developments, and in a manner that is in line with the principle of equal treatment of all stakeholders, including the public and all actual and potential market participants.

Apart from its detailed Annual Report and Half-Year Report, which are prepared in accordance with the International Financial Reporting Standards (IFRS), Oerlikon publishes its key financial figures and a related commentary for the first and third quarters of its financial year. In this way, Oerlikon increases its communication and transparency. Additionally, Oerlikon issues press releases on key company news during the year to ensure that shareholders and market participants are informed of significant changes and developments in the company. The company's website, www.oerlikon.com, offers a permanently accessible platform for all current information concerning the company.

As a company listed on SIX Swiss Exchange, OC Oerlikon Corporation AG, Pfäffikon is obligated to disclose price-sensitive information to the public, including all market participants (ad hoc publicity obligation).

The publication medium for notices is the Swiss Official Gazette of Commerce. The Board of Directors may select additional publishing media. Communications to registered shareholders must be sent in writing to the most recent address provided by the shareholders to the company.

Press Releases

Press releases published in 2019, along with previous releases dating back to January 2004, can be accessed on Oerlikon's website at www.oerlikon.com/pressreleases. Those interested in receiving the company's press releases regularly by e-mail can subscribe for the service at www.oerlikon.com/en/company/media/subscribe/registration-for-corporate-news

Financial Calendar

For the financial calendar with Oerlikon's 2020 key financial disclosure events, please refer to page 94 under the Financial Report section of this Annual Report. The financial calendar, including further details on dates of roadshows, conferences and events, can be found at www.oerlikon.com/en/investors/financial-calendar

Contact

Please refer to page 94 under the Financial Report section of this Annual Report for contact information for the Oerlikon Group, Investor Relations and Corporate Communications.

Shareholder letter

Remuneration Report

Dear Shareholders

It is my pleasure as Chairman of the Human Resources Committee (HRC) to present to you the 2019 remuneration report of OC Oerlikon Corporation AG, Pfäffikon.

In the past year, it was important to us to further improve the corporate governance at OC Oerlikon. For this reason, we proposed to the Annual General Meeting of Shareholders (AGM) in April 2019 that the Board of Directors be enlarged from six to seven members and the HRC be enlarged from three to five members. The overwhelming approval of the new Board members has created not only a majority of independent Directors on the Board but also in the HRC.

In the area of compensation, no adjustments were made in the remuneration for Board members in 2019. As announced in our 2018 remuneration report, we made changes to the incentive programs, which went into effect in 2019, and this change applies also to the Executive Committee. The Short-Term Incentive (STI) program has now a cap of 200% to better conform to corporate governance expectations. The Long-Term-Incentive (LTI) program has been rebalanced in terms of risks and potential by granting a portion of the annual LTI grant as Restricted Stock Units (RSU) while limiting the potential of the remaining performance-related components, measured as absolute and relative Total Shareholder Return (TSR), from 200% to 150%. The overall potential of the LTI has thus changed from 0–200% to 40–130%.

In addition, the HRC performed its regular activities throughout the year, such as performance goal setting and assessment of the Executive Committee, the determination of the compensation of the members of the Board of Directors and the Executive Committee, as well as the preparation of the Remuneration Report and the say-on-pay vote at the AGM.

At the 2019 AGM, we submitted for the first time the Remuneration Report to a consultative vote so that shareholders could express their opinion on our compensation policies and principles. The report was adopted with 95%. The binding votes on compensation amounts for the Board of Directors for the term of 2019/20 was accepted with 99%, the fixed compensation amounts for the Executive Committee for 2019/20 was accepted with 98% and for the variable compensation amount for 2018 with 95%. We are very grateful for the trust and support from our shareholders.

We continue to provide a high level of transparency. In this year's Remuneration Report, we show again the compensation of the Executive Committee from three perspectives, namely the effective compensation that was paid in 2019, the forward-looking target value that was granted in 2019 and its market value at year-end. These perspectives enable shareholders to better interpret the amounts on which they are voting, that is, the target value granted, and to monitor the relationship between the company's performance and management's remuneration.

The proposals of the Board of Directors for the binding votes on remuneration will be published with the invitation to the 2020 AGM.

Sincerely

Prof. Dr. Michael Süss
Chairman of the Human Resources Committee

With this remuneration report, Oerlikon meets the requirements of Art. 13 to 16 of the Compensation Ordinance and para. 5 of the Annex to the Corporate Governance Directive (DCG) of SIX Swiss Exchange, governing the disclosure of remuneration systems and compensation paid to members of the Board of Directors and the Executive Committee. Moreover, in regard to remuneration reporting, Oerlikon voluntarily complies with economiesuisse's Swiss Code of Best Practice for Corporate Governance.

The Articles of Association include rules on the principles applicable to performance-related pay and to the allocation of equity securities (Art. 30), additional amounts for payments to Executive Committee members appointed after the vote on pay at the AGM (Art. 29) and the vote on pay at the AGM (Art. 28). Details on these rules are available on our website, at the Oerlikon Investor Relations' webpage: www.oerlikon.com/investors/corporate-governance/organizational-structure

Compensation for the Board of Directors and the Executive Committee is made up of various components, which are described in detail in this report. This section discloses a summary of the following aspects for 2019:

- General principles of the compensation policy
- Setting and approving compensation
- Compensation systems and compensation paid or granted to the Board of Directors in 2019
- Compensation systems and compensation paid or granted to the Executive Committee in 2019

Compensation Policy

Attractive, motivating, fair and simple compensation for all staff is the foundation of Oerlikon's performance-based corporate culture. The compensation systems provide competitive base salaries and attractive incentive schemes. They give equal consideration to individual and company performance, reward excellence and promote an entrepreneurial attitude.

To determine competitive and equitable compensation, Oerlikon uses external and internal benchmarks. The company establishes its external equity by continuously surveying the markets in which it operates, and its internal equity is established by following a Performance Management process. Performance Management is a crucial element in assessing the achievement of expectations and targets in relation to individual and business results.

Determining Compensation

The Human Resources Committee (HRC) supports the Board of Directors in all matters relating to the compensation and Performance Management systems in place at Oerlikon, in particular:

- the compensation policies for members of the Board of Directors, the Executive Committee and Group-wide managerial and non-managerial staff.
- the preparation of the proposals to the AGM regarding the aggregate compensation amounts for the Board of Directors and the Executive Committee.
- the annual pay plan for the Group (including general salary increases).
- the objectives for the CEO and assessment of his performance.
- the performance assessment of Executive Committee members by the CEO.

The compensation policies for the Board of Directors and the Executive Committee require an ongoing review of whether or not the compensation offered is:

- competitive, transparent and fair, by analyzing comparable companies and salary trends in the market.
- commensurate with the company's results and individual performance.
- consistent with Oerlikon's values and long-term strategy.

This review is conducted by the HRC on an annual basis and takes into account data from benchmark providers but no other external consultants. HRC activities are reported to the Board of Directors following each meeting; HRC minutes are shared with all Board members and form the basis for the Board of Directors to approve in:

- December, adjustments to compensation policies, if any, for the Board of Directors, the CEO and the other members of the Executive Committee.
- February, the fixed compensation of the members of the Board of Directors and the Executive Committee for the following year as well as the performance and variable compensation of members of the Executive Committee for the past year.
- February and October, Long-Term Incentive (LTI) grants, i.e. participants in equity programs and share awards allocated to them.

Based on the Compensation Ordinance, the aggregate amounts for compensation of the Board of Directors and the Executive Committee are subject to approval by the AGM. Within these confines, the internal approval and decision processes are as follows:

Approval Process

Decision on	Prepared by	Set by	Approved by
Compensation of members of the Board of Directors, incl. Chairman	Chairman	Human Resources Committee	Board of Directors
Compensation of the CEO, incl. fixed and variable compensation	Chairman	Human Resources Committee	Board of Directors
Compensation of the other members of the Executive Committee, incl. fixed and variable compensation	CEO	Human Resources Committee	Board of Directors
Maximum aggregate amount of – total compensation of the Board of Directors – fixed compensation of the Executive Committee – variable compensation of the Executive Committee	Chairman	Human Resources Committee	Board of Directors

The Chairman of the Board of Directors is present at the meeting when decisions are approved by the Board of Directors, including his own remuneration. In his role as Chairman of the HRC, he is also involved in the determination of Board remuneration, but abstains on decisions regarding his own remuneration. Members of the Board of Directors, other than those of the HRC, do not participate in determining the remuneration of Directors.

The CEO is involved in determining the remuneration of members of the Executive Committee and is present when the Board of Directors approves it, except when concerning his own remuneration.

Board of Directors

Compensation System

The compensation system applicable to the members of the Board of Directors consists of a fixed cash component and a fixed value of restricted stock units (RSU). The cash component depends on the responsibility, complexity and requirements of the tasks assumed. Each task is remunerated differently and the compensation components are cumulated, depending on the number of tasks assumed by each member, as per the table Cash Compensation. The level of compensation for each of the components is set by the HRC, taking into account the expenditure of work required from Board and Committee members, and approved by the Board of Directors. The members of the Board of Directors are remunerated for their service from the date of their election and for the duration of their term of office.

Cash Compensation

in CHF 000	Compensation	Expense Allowance
Member of the Board of Directors	75	35
Chairman of the Board of Directors	275	
Vice Chair of the Board of Directors	125	
Chairman of a Committee	50	
Member of a Committee	30	

The compensation is reviewed by the HRC on an annual basis and, if necessary, adjusted by the Board of Directors based on a proposal by the HRC, prior to submitting the aggregate amount to a vote at the AGM.

No adjustment was made to the cash compensation of the Board of Directors in 2019.

The value of the RSU is fixed (CHF 125 000 per Board member and CHF 280 000 for the Chairman of the Board). The number of RSU is determined by the share price at grant date. RSU are blocked from the grant date on the day of the AGM until the following AGM, at which time they are converted into Oerlikon shares. For Directors resigning their mandate prior to the end of the term, the number of RSU converted into Oerlikon shares may be reduced at the sole discretion of the Board of Directors. The RSU program is financed with treasury shares.

No changes to the equity compensation for members of the Board of Directors have been made since 2008.

Compensation 2019

No member of the Board of Directors served in an executive role in 2019. The Board of Directors consists of seven non-executive members, whose total remuneration in 2019 was CHF 2.4 million. The increase compared to 2018 (CHF 2.2 million) stems from the enlargement of the Board of Directors from six to seven members. Since all components are fixed, no ratio between fixed and variable compensation is presented.

Compensation of Non-executive Members of the Board of Directors (Audited)

in CHF 000	Board of Directors	Strategy Committee	Audit & Finance Committee	Human Resources Committee	Cash	RSU [1]	Other [2]	Total Compensation 2019	Market Value per Dec 31, 2019 [3]	Total Compensation 2018
Prof. Dr. Michael Süss	C	C		C	375	280	35	**690**	647	690
Gerhard Pegam	V	M	M	M	215	125	35	**375**	356	376
David Metzger	M		M		105	125	35	**265**	246	278
Alexey Moskov	M			M	105	125	35	**265**	246	278
Geoffery Merszei	M		C	M [5]	148	125	35	**308**	288	297
Dr. Jean Botti	M [4]	M [4]			29	-	-	**29**	29	278
Paul Adams	M [5]	M [5]			76	125	35	**236**	217	-
Suzanne Thoma	M [5]			M [5]	76	125	35	**236**	217	-
Total					1 129	1030	245	**2404**	2246	2197
Mandatory Employer Contributions [6]								**127**	119	116

C(hairperson), V(ice Chairperson), M(ember)
[1] The fair value at grant date of RSU was CHF 13.43.
[2] Other compensation consists of an expense allowance.
[3] The value per year-end is based on a share price of CHF 11.36.
[4] Until April 9, 2019.
[5] As of April 9, 2019.
[6] The Compensation Ordinance requires the disclosure of employer contributions to social security.

Members of the Board of Directors did not receive any fees or other remuneration for additional services to OC Oerlikon or its subsidiaries in the 2019 business year. Neither OC Oerlikon nor its subsidiaries granted any guarantees, loans, advances or credit facilities to members of the Board of Directors or related parties in 2019 or 2018.

No compensation was paid to any former members of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon or a Group company or related parties in 2019 or 2018.

The AGM on April 10, 2018 approved a maximum aggregate amount of compensation of the Board of Directors for the term of April 10, 2018, until April 9, 2019, of CHF 2.2 million. The following table shows the reconciliation between the effective Board compensation and the amount approved for this period.

April 10, 2018– April 9, 2019

in CHF 000	Cash Compensation	RSU	Other	Total	Approved Amount 2018–2019
	1 031	905	210	2 146	2 200
Full Year 2018				2 197	
Full Year 2019				2 404	
Total 2018/2019				4 601	
Mandate 2017/18 – Jan 2018 – Apr 2018				311	
Mandate 2018/19 – Apr 2018 – Apr 2019				2 146	
Mandate 2018/19 – Apr 2019 – Dec 2019				2 144	
Total 2018/2019				4 601	

Management

Compensation System

The compensation system for the Executive Committee consists of fixed and variable components. The fixed component entails a base salary commensurate with the role and local market level and, depending on local practice, includes allowances and fringe benefits. The variable component entails a performance-related annual cash bonus (Short-Term Incentive, STI) and a three-year performance-related equity program (Long-Term Incentive, LTI). The mix between these components is defined by the profile, strategic impact and pay level of the role, as described hereinafter.

In 2019, the proportion of variable compensation of members of the Executive Committee continued to be between 50% and 100% of the base salary for the target STI and between 34% and 150% of the base salary for the target LTI.

Members of the Executive Committee were not present when decisions on their respective compensation were made.

Base Salary

The base salary is determined primarily by the executive's tasks, responsibilities, skills and managerial experience, as well as market conditions, and is paid in cash. It was benchmarked with data from Mercer, which uses a position evaluation methodology to size each role and applies it to compensation data from 103 companies in Switzerland of which 77% are publicly listed and 74% are headquartered in Switzerland. Comparisons are made across a broad spectrum of branches except Financial Services and Life Sciences. Mercer also provides other compensation services to the Oerlikon Group and its subsidiaries. Since all members of the Executive Committee are employed in Switzerland no other data or providers were considered in 2019.

Short-Term Incentive (STI) Program

The STI program is a simple and clear annual cash bonus aimed at motivating managers and specialists to focus their efforts on specific financial and individual objectives. It is intended to help them align their efforts, promote initiative and contribute to the performance of individuals and the company.

The STI program for the Executive Committee consists of financial and individual objectives. Financial objectives include sales growth, EBITDA, operating free cash flow and return on net assets (RONA) and account for 80% of the target bonus, while individual objectives for 20%.

Financial objectives are set for each organizational level (Group, Segment, Business Unit, etc.) and are aimed at increasing the growth, profitability and cash efficiency of the respective business. Measurements are made in equal parts on their own and the next level, whereas sales growth is weighed at 30%, EBITDA at 25% and operating free cash flow at 25%. The weighted result is multiplied with a modifier of 0.9, 1.0 or 1.1 depending on whether the RONA of the Oerlikon Group is within a competitive range.

STI Program

	Financial Objectives	Individual Objectives
Weight	80% of target amount	20% of target amount
Conditions	Sales Growth: 30% EBITDA: 25% Operating free cash flow: 25%	Targets set and weighed individually.
Multiplier	RONA: 0.9–1.1	Safety: 0.9–1.1
Potential	0–200%	
Purpose	Increase business growth, profitability and cash efficiency.	Focus on medium- and long-tern objectives such as business and people development.

Individual objectives focus on medium- and longer-term business objectives such as inorganic growth or people development. The weighted result is multiplied with a modifier of 0.9, 1.0 or 1.1 depending on whether the safety targets of the respective business is within a competitive range.

The Board of Directors approves the financial objectives of members of the Executive Committee for the following year at their year-end meeting. Individual objectives are approved at the meeting in February.

Financial targets are based on the annual budget and the payout on the actual financial results. A financial result at target corresponds to a payout of 100% of the target bonus, at the lower threshold 50%, and below the lower threshold 0%. Individual objectives are generally capped at 100% of the target bonus. In certain cases, a specific milestone or individual objective can be rewarded with more than 100%. As of 2019, a cap of 200% applies to STI payout to better conform to corporate governance expectations.

The HRC monitors the STI performance at each of its meetings during the year and endorses the required accruals, which form the basis of the disclosure below at the December meeting.

Finally, the HRC determines the overall STI payout, both for levels exceeding 100% and for levels between 50 – 90%, based on factual business circumstances and reasonable business judgment in order to achieve a fair result originating from true performance, and makes a recommendation to the Board of Directors for a final decision in February. At this meeting, the HRC also recommends to the Board of Directors the aggregate amount for variable pay components that are submitted to a vote to the AGM for approval.

In 2019, the average payout for the STI 2019 for the Executive Committee is 89%. The average payout of the STI 2018 reached 129%.

Long-Term Incentive (LTI) Program

Oerlikon is a global technology group with a strategy to expand its worldwide leading position as a powerhouse in surface solutions and advanced materials. To successfully implement this strategy, it is vital for the Oerlikon Group to attract, motivate and retain key executives. Therefore, the Board of Directors decided in 2019 to rebalance the LTI in terms of risks and potential as well as to define a new peer group that takes the divestment of the drive systems business into account.

The LTI program consists of four components:

TSR is measured with a starting value of the volume-weighted average share price (VWAP) over 60 trading days, i.e. 30 before and 30 after the start and 30 before and 30 after the end of the year. The absolute TSR result is derived from the cumulated TSR for each of the three years. The relative TSR result is derived from the average percentile among a comparator group for each of the three years. The peer group is reviewed every year by the HRC and includes the companies of the STOXX Europe 600 Industrial Goods & Services Index.

At the start of the program, the Board of Directors sets target and cap for absolute TSR (aTSR). A result at or above the cap corresponds to a payout factor of 150%, a result at target corresponds to 100% and a result of 0 corresponds to 0%.

For relative TSR (rTSR), a result at or above the 90th percentile corresponds to a payout factor of 150%, at the 50th percentile the payout is 100%, at the 20th percentile the payout factor is 50% and below it is 0%.

The grant of RSU is not tied to any performance but to service conditions. Due to the reduction of performance-based components, the potential of aTSR and rTSR was also reduced from previously 200% to 150%. Hence, the overall potential of an LTI grant was rebalanced from 0 – 200% to 40 – 130%.

The number of PSA and RSU granted, multiplied by the weighted payout factors of absolute and relative TSR results corresponds to the final payout. For each unit granted, the equivalent of dividends paid per share to shareholders during the vesting period is added to the final payout.

LTI Program

	Performance Share Awards (PSA)	PSA	Restricted Stock Units (RSU)	Dividend equivalents
Weight	40% of target amount	20% of target amount	40% of target amount	
Conditions	Absolute Total Shareholder Return (aTSR)	Relative Total Shareholder Return (rTSR)	Service	Service
Potential	0 – 150%	0 – 150%	100%	n/a
Purpose	Increase the value created for shareholders	Increase the performance of the Oerlikon share against a group of peer companies	Increase attraction and retention of executives	Participate in dividend payments

Total Shareholder Return (TSR) is a standard metric used for measuring stock performance. It is defined as the net change in share price plus any dividend distributions over a period of time. In this case, the performance period is three years.

Target, Performance and Payout per Dec 31, 2019 for the current programs are:

	Target	aTSR per Dec 31, 2019	**Payout**	rTSR per Dec 31, 2019	**Payout**	Divident Equivalent Payout	RSU Payout	**Total Payout per Dec 31, 2019**
LTI 2017–2020	22.0%	17.9%	**81.5%**	46.0%	**94.1%**	14.5%		**98.5%**
LTI 2018–2021	6.0%	-32.5%	**0.0%**	33.3%	**72.2%**	11.9%		**26.3%**
LTI 2019–2022	65.0%	-2.5%	**0.0%**	13.0%	**0.0%**	9.3%	100%	**49.3%**

E.g. LTI 2018–2021: 0.0% * 80% + 72.2% * 20% + 11.9% = 26.3%

Participants can elect at the beginning of the plan whether the effective number of units are fully converted into shares or whether 70% are received in shares and 30% are sold upon vesting to receive the corresponding value in cash. For shares received from PSA, a two-year blocking period applies, which is waived if the employment ends earlier.

In cases of termination by mutual agreement, expiration of employment contract (retirement, death, disability) or due to dismissal for reasons other than for cause or performance, grants vest at the next regular vesting date. If the termination occurs in the same year as the grant, the grant is reduced to a pro-rated number of units.

The Board of Directors is authorized to amend, supplement, suspend or terminate the plan at its discretion and at any point in time, including corporate events affecting the underlying shares.

In 2019, members of the Executive Committee received a portion of their compensation in the form of awards of OC Oerlikon Corporation AG, Pfäffikon stock. Grants were made to all members of the Executive Committee under the LTI program 2019. The LTI program is financed with treasury shares.

Benefits

The primary purpose of pension and insurance plans is to establish a level of security for employees and their dependents with respect to age, disability and death. The level and scope of pension and insurance benefits provided are country-specific, influenced by local market practices and regulations.

OC Oerlikon may provide other benefits in a specific country, such as a company car or a car allowance, or in case of an international hire also temporary housing, relocation or tax planning services.

Shareholding requirement

Members of the Executive Committee are required to build a significant personal shareholding in the business to further align the interests of the management and shareholders. The minimum threshold is a percentage of the annual base salary.

Role	% of Base Salary
CEO	200%
Other members of the Executive Committee	100%

Current members of the Executive Committee are required to reach their minimum investment limit within a period of five years. The shareholding of the individuals is reviewed regularly. New members of the Executive Committee have five years during which to reach their minimum investment limit. Members of the Executive Committee are encouraged to retain and use their LTI shares, when vested, to meet this requirement of the remuneration policy.

Employment Agreements

The employment contracts of Executive Committee members are of unlimited duration and end automatically when the member reaches retirement age. The contracts provide for a notice period of 12 months. The contracts of Executive Committee members contain a non-competition clause for the duration of 12 months following termination of employment, which is compensated with an annual base salary.

Compensation 2019

Effective Compensation

The following section discloses the pay components effectively received in 2019, including salary and bonus payments, contributions to pension plans, fringe benefits, as well as the actual value of equity plans at vesting date. This perspective reflects the income received by members of the Executive Committee, which in 2019 amounted to CHF 12.5 million. This amount includes the remuneration of the new CFO, Philipp Müller, who joined the company in October 2019 to ensure a smooth handover from the CFO, Jürg Fedier, who retired as per end of 2019. Although not yet formally a member of the Executive Committee in 2019, the associated remuneration may be considered part of his future role in the Executive Committee. The highest compensation effectively received by an individual member of the Executive Committee in 2019 was CHF 5.3 million.

The effective remuneration increased compared to the previous year mainly due to the exceptional performance of the LTI 2016 which vested in 2019 with a performance of 188.2% resulting from a cumulated increase of absolute TSR over three years of 34.5%, an average relative TSR of 55% and a dividend equivalent of 8.6% as reported in the 2018 remuneration report.

Effective Compensation of Members of the Executive Committee

	Fixed Compensation			Variable Compensation			
in CHF 000	Base salary	Pension	Other [1]	Bonus [2]	LTI 2016–2019 (Effective Value at Vesting Date) [3]	Total Effective Compensation 2019	Total Compensation 2018 [4]
Total compensation to members of the Executive Committee	2970	727	525	2171	6130	12523	8081
Thereof highest paid to one individual: Dr. Roland Fischer (CEO)	1000	237	18	857	3199	5311	3193

[1] Other compensation includes fringe benefits such as a company car, car allowance or relocation.
[2] The bonus is determined on Group and individual level and depends on business and individual performance.
[3] The LTI plan 2016 is based on PSA, which vested with a performance of 188% in 2019.
[4] Philipp Müller joined in October 2019 to ensure a smooth handover from Jürg Fedier, who retired as per end of 2019. Consequently, the compensation of five individuals is included in 2019 compared to four in 2018.

Granted Compensation

The following section discloses the granted pay components in 2019, including salary and bonus payments, contributions to pension plans, fringe benefits as well as the target value of equity programs at grant date. This perspective reflects the compensation potential provided to members of the Executive Committee, which in 2019 amounted to CHF 9.8 million. This amount includes also the remuneration of the new CFO, Philipp Müller, who joined the company in October 2019 to ensure a smooth handover from the CFO, Jürg Fedier, who retired per end of 2019. Although formally not yet a member of the Executive Committee in 2019, the associated remuneration consisting of salary, bonus and replacement award may be considered part of his future role in the Executive Committee. The highest compensation granted to an individual member of the Executive Committee in 2019 was CHF 3.6 million.

The target compensation of members of the Executive Committee was adjusted in 2019 for some members. Differences to the previous year stem mainly from a lower bonus payout and a lower LTI valuation.

Granted Compensation of members of the Executive Committee (Audited)

in CHF 000	Fixed Compensation: Base salary	Fixed Compensation: Pension	Variable Compensation: Other [1]	Variable Compensation: Bonus [2]	Variable Compensation: LTI 2019–2022 (Target Value at Grant Date) [3]	RSU [4]	Total Granted Compensation 2019	Total Granted Compensation (Market Value per Dec. 31, 2019) [5]	Total Granted Compensation 2018 [6]
Total compensation to members of the Executive Committee	2970	727	525	2171	2898	528	9819	7647	9966
Thereof highest paid to one individual: Dr. Roland Fischer (CEO)	1000	237	18	857	1454	0	3566	2742	4311
Estimated Mandatory Employer Contributions [7]							520	405	528

[1] Other compensation includes fringe benefits such as a company car, car allowance or relocation.
[2] The bonus is determined on Group and individual level and depends on business and individual performance.
[3] The LTI 2019 consists of 60% PSA and 40% RSU. The share price at grant date for the PSA portion was CHF 12.62 and CHF 13.30 for the RSU portion. The performance of the LTI plan per December 31, 2019 is 9.3% for the PSA portion. The RSU portion is subject to service but not to performance conditions. The effective performance of the plan will be determined per December 31, 2021 and the effective value at the time of vesting on April 30, 2022 and disclosed as effective compensation in the remuneration report the following year.
[4] Phillip Müller received RSU to replace remuneration forfeited at his previous employer. The RSU vest in 2020, 2021 and 2022. The fair value at grant date was CHF 10.01. The effective value will be disclosed in the remuneration report of the year in which they vest.
[5] The market value per year-end is based on a share price on Dec 31, 2019 of CHF 11.36 and a performance of the PSA portion of the LTI of 9.3%.
[6] Philipp Müller joined in October 2019 to ensure a smooth handover from Jürg Fedier who retired per end 2019. Consequently, the comparison between 2019 and 2018 entails one additional member.
[7] The Compensation Ordinance requires the disclosure of estimated employer contributions to social security.

The Annual General Meeting of Shareholders on April 10, 2018 approved a maximum aggregate amount of the fixed compensation of the Executive Committee from July 1, 2018 until June 30, 2019 of CHF 4.0 million. The table below shows the reconciliation between the effective Executive Committee compensation and the amount approved for this period.

During 2019, no compensation was paid to former members of the Executive Committee or related parties, either by OC Oerlikon Corporation AG, Pfäffikon or by any other company of the Oerlikon Group.

Current or former members of the Executive Committee did not receive any fees or other remuneration for additional services to OC Oerlikon or its subsidiaries in the 2019 business year. Neither OC Oerlikon nor its subsidiaries granted any guarantees, loans, advances or credit facilities to members of the Executive Committee or related parties in 2019 or 2018.

During 2019, no compensation was paid to related parties, either by OC Oerlikon Corporation AG, Pfäffikon or by any other company of the Oerlikon Group.

July 1, 2018 – June 30, 2019

in CHF 000	Cash Compensation	RSU	Other	Total	Approved Amount 2018–2019
	2743	717	81	3541	4000
Full year 2018				3521	
Full year 2019				4223	
Total 2018/2019				7744	
Period Jan 2018 – Jun 2018				1769	
Period Jul 2018 – Jun 2019				3541	
Period Jul 2019 – Dec 2019				2433	
Total 2018/2019				7744	

Report of the statutory auditor

to the General Meeting of OC Oerlikon Corporation AG, Pfäffikon

We have audited the accompanying remuneration report of OC Oerlikon Corporation AG, Pfäffikon for the year ended 31 December 2019. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the section “Compensation” of the board of directors on page 76 and section “Granted compensation” of the executive committee labelled 'audited' on page 81 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.

Opinion

In our opinion, the remuneration report of OC Oerlikon Corporation AG, Pfäffikon for the year ended 31 December 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

René Rausenberger
Audit expert
Auditor in charge

D Hattrup
Dominik Hattrup
Audit expert

Zürich, 28 February 2020

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Risk Management and Compliance

Oerlikon's Risk Management System

Oerlikon takes a company-wide, holistic approach to the identification, assessment and management of business risks. All organizational units and their business processes and projects are evaluated across the entire spectrum of market, credit and operational risks. The Risk Management System is a management tool that serves to integrate risk management within the company's executive ranks and organizational structure.

Objectives and Principles

The Board of Directors has defined five primary objectives for the Risk Management System. First, it must help secure the company's continued existence and profitability by creating a transparent risk profile and continuously improving and monitoring it. Second, it must contribute to improving planning and supporting a better achievement of targets. Third, it must secure revenue and reduce potential risk-related expenses, which safeguards and enhances the company's value. Fourth, it must align total risk exposure with the company's risk-bearing capacity and ensure that the risk-return ratio of business activities is transparent. Finally, risk management must also help protect the company's reputation.

Organization

Roles and responsibilities within the Risk Management System are defined as follows:

- In accordance with Swiss stock corporation law, the Board of Directors has overall responsibility for supervising and monitoring risk management. Supported by the Audit & Finance Committee, it monitors the Group's risk profile on the basis of internal reporting. In addition, it reviews the Risk Management System's performance and effectiveness. The Board of Directors also uses internal auditing to fulfill and document its supervisory and monitoring duties.
- Pursuant to Oerlikon's Organizational and Governance Rules, the Chief Executive Officer (CEO), with the support of the Executive Committee, bears overall responsibility for structuring and implementing risk management (delegated management responsibility for risk management). He approves the risk management directive and is responsible for revising it, and also monitors the Group's risk profile and the implementation of risk mitigation actions.
- In accordance with the principle of risk ownership, the Segments and Group Departments (assessment units) bear responsibility for risks and damage/losses in their respective areas. Each is responsible for the implementation of the risk management process. Each assessment unit has a risk management coordinator who coordinates the unit's activities with Group Risk Management. The assessment units conduct risk assessments, establish risk mitigation actions and report the results to Group Risk Management. They continuously monitor their risk profiles and report damage/losses to Group Risk Management.
- As process owner, Group Risk Management is tasked with operation and further development of the Risk Management System. The Head of Group Risk Management assumes technical responsibility for risk management. Group Risk Management provides, among other things, methods and tools, supports the assessment units in conducting risk assessments and developing mitigation actions, and oversees the implementation of risk mitigation actions. Other responsibilities include calculating the total risk exposure and the risk-adjusted key performance indicators (KPI), monitoring risk-bearing capacity, internal reporting, conducting internal audits and providing training with respect to the Risk Management System. Group Risk Management also coordinates risk-related activities of other units as and when necessary.
- Central units and decentralized departments carry out certain risk-related activities. For example: Group Treasury (liquidity, foreign exchange and interest rate risks); Group Tax (tax risks); Group Legal Services (legal risks, compliance risks, including trade control); IT Security (IT risks); Security (security risks); and Insurance Management (insurable risks); etc.

Process and Reporting

The assessment units conduct risk assessments semi-annually and prepare their risk profiles and mitigation action plans. The risk management process is co-ordinated with the budgeting/planning process and the forecasting process. From a methodological perspective, risk assessments are conducted according to a standard procedure comprising the following steps: preparation of the risk assessment, identification of risks, risk evaluation and planning of risk mitigation actions. The process is Group-wide supported by a risk management software. Internal risk reporting is done semi-annually to the Executive Committee, the Audit & Finance Committee and the Board of Directors based on consolidated risk reports.

Culture

Oerlikon's risk culture is shaped and developed according to the Code of Conduct, training, best-practice sharing, continuous implementation of the risk management process and the Executive Committee and senior management, who act as role models. The risk management directive also contains statements illustrating the desired risk culture.

Current Situation

Oerlikon operates in markets characterized by various uncertainties. The Segments have different risk profiles contingent upon strategy, the business model and operational implementation. From the perspective of the Group holding company, the following risks might impact Oerlikon's businesses and its performance:

Market Risks

- Economic slowdown and business cycles: as a result, order intake, sales and profitability could decrease.
- Competition: Competition and overcapacity in various markets could exert pressure on prices or trigger a decline in orders. As a result, order intake, sales and profitability could decrease.
- Digitalization: Industry 4.0 could change the marketplace, and failing to adapt and to seize opportunities could further increase pressure from competition.
- E-mobility: The Automotive industry is in a fundamental change from combustion engines towards electrical and digital mobility. Also suppliers in the entire value chain will be affected, and sales and profitability could decrease.
- Foreign currency effects (transaction and translation risk): Unfavorable currency developments, mainly with respect to the euro and US dollar, could trigger higher procurement costs and lower sales figures. In addition, profitability could decline as a result of local currencies being translated into the Group's reporting currency (Swiss franc).
- Country risks: For example, geopolitical events, regulations, new or higher taxes and fees, currency appreciation or depreciation, higher interest rates, reduced growth, loss of proprietary information (intellectual property), etc., could cause sales to decline and costs to rise. As a result, profitability could decrease.

Credit Risks

Credit risks arise when customers cannot meet their obligations as agreed. At present, there are no significant credit risks for the Group.

Operational Risks

- Additional costs/warranties: Insufficient product quality or machines and equipment that fail to perform as promised could lead to additional manufacturing costs and/or contractual warranty obligations. This could reduce profitability.
- Technology risks: If technologies do not prove successful in the market, order intake and sales targets may not be reached. Impairment charges may have to be reported.
- Legal: Oerlikon is exposed to numerous legal risks as a result of its international operations. These include, in particular, risks in the areas of competition and antitrust law, patent law, tax law and environmental protection law, trade control law and data protection law. Oerlikon has a valuable portfolio of industrial property rights, such as patents and trademarks. These property rights can become the target of attacks and infringements.
- Loss of key people/shortage of qualified skilled staff and managers: If key people leave the company and qualified skilled staff and managers are not available, sales and profitability targets may not be reached.
- IT security: Cyber attacks could result in business interruption, loss of data, and ultimately in loss of profit, additional costs and reputational dama.

Compliance and Ethics

There is a Group-wide compliance function that focuses on compliance within the legal, regulatory spectrum and internal regulations, including the Group's ethical standards, by actively invoking such preventive measures as training, communication and consulting.

The foundation of this program was laid and enhanced between 2009 and 2012, with a focus on key elements of a state-of-the-art compliance program, including a written Code of Conduct, compliance risk assessment analysis and the development of an anticorruption training program. Since that time, and this remains a key focus, Oerlikon enhances and promotes ethical behavioral aspects of leadership awareness while dealing with integrity issues. Oerlikon has done so by implementing and revising its business partner integrity screening process and by introducing and establishing an antitrust compliance program.

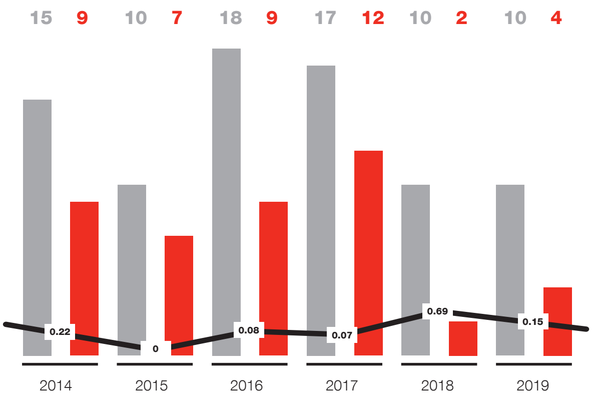
In 2015 and 2016, the compliance program emphasized the establishment of data compliance to enhance all aspects of data privacy and information security. In 2017, in particular, Compliance prepared for the implementation of the EU's General Data Protection Regulation (GDPR), which came into effect on May 25, 2018.

In 2019 and 2020, the Global Data Privacy and Compliance Officer continues to prioritize and focus on the implementation of GDPR requirements into Oerlikon's projects, processes, documentation and awareness programs.

As of end of 2019, Oerlikon has started focusing on China and Russia. Moreover, the Group is aiming to improve its alignment with applicable data protection and cybersecurity laws in Asia and Latin America in 2020 and 2021.

The Compliance program has a three-pillar framework:

- **Prevention**: through policies, directives, training, the Code of Conduct, risk assessment, maturity assessment, compliance councils, internal controls and metrics, examples and Q&A in all employee meetings.
- **Early detection**: the "whistleblowing" hotline, continuous compliance reviews, controls and internal audits, allegation management process.
- **Response**: disciplinary action on compliance breaches, process adaptation, resolution plans, remediation of internal control systems, fine-tune policies.



Compliance cases 2014–2019

Total number of cases
Number of substantiated cases
Financial Impact (in CHF million)

Oerlikon's eAFK Evo next generation of machines promise superior speeds, greater productivity and consistently high product quality, along with lower energy consumption and simpler operation vis-à-vis comparable market solutions.

Financial Report

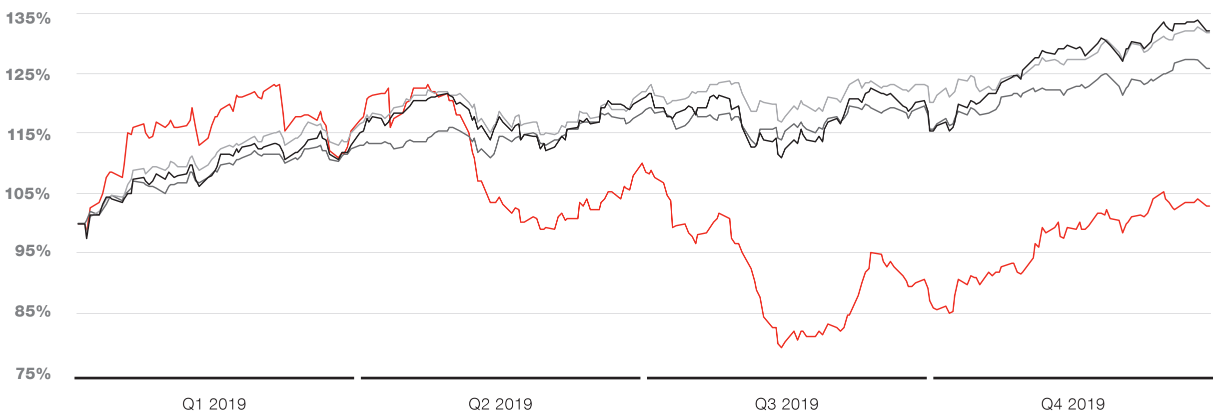
Information for Shareholders

2019 Capital Market Development

Global stock markets have posted the best year since the financial crisis a decade ago, as investors faced a continued low-interest environment and ignored trade tensions and warnings of slowing growth in the major economies. Over the year, the S&P 500 increased by 28% while the tech-dominated Nasdaq index posted a rise of 35%. In Europe, the STOXX Europe 600 Industrial Goods & Services Index ended 2019 with a rise of 24.5%, marking its best calendar year result since 2009. The Swiss Market Index (SMI) closed out the year at 10617 points, an increase of 26.0% compared to 2018 (8429 points), while the SMI Mid (SMIM) increased by 31.7% in 2019 to 2769 points (2018: 2102 points).

Oerlikon Share Performance in 2019

Oerlikon shares had a good start into 2019 and were positive in the first quarter. The closing of the divestment of the Drive Systems Segment at the end of February marked another strategic milestone and shares reached their annual high on March 5, 2019, at a share price of CHF 13.90, following the announcement of full-year results and the distribution of an extraordinary dividend. During the second quarter, the continuing trade conflict impacted global markets and sentiment and also affected the Oerlikon share price, resulting in a period of decline. While the second quarter started off well following the Annual General Meeting of Shareholders, fears of economic downturn and escalation in trade conflicts dominated the world economy and impacted most industrial end markets during the mid-year, which also took a toll on Oerlikon. With the publication of its half-year results, the company adjusted guidance for the full year. Better news on the USA-China trade front, Fed rate cuts and the ECB restarting quantitative easing supported markets, and the Oerlikon share price recovered in the third quarter. During the fourth quarter, the USA and China began moving toward a phase-one deal in trade negotiations, bolstering sentiment toward the end of the year. The Oerlikon share price closed out the year at CHF 11.36 (2018 closing price: CHF 11.04), an increase of 2.9%. Average daily trading volume on the 249 trading days in 2019 remained stable at around 1.1 million shares (2018: 1.1 million shares).



Development of the Oerlikon Share Price
Indexed; 100% = closing price as of December 31, 2018

- OERLIKON
- SMI
- SMIM
- STOXX Europe 600 Industrial Goods & Services Index

Analyst Recommendations

Thirteen financial analysts covered Oerlikon in 2019 and published performance estimates and recommendations based on their analyses. Oerlikon provides analysts and investors with market consensus figures in order to facilitate an independent and transparent assessment of performance. This consensus is based purely on analyst estimates and in no way reflects the opinion of Oerlikon.

In an adverse market environment and despite delivering on strategy and reporting solid operating results, several analysts had reduced their price target on multiple contraction, which led to a decrease in the analysts' average target price of 21%, from CHF 15.78 to CHF 12.43 during 2019 (with a range from CHF 10.50 to CHF 13.80 at year-end). As of December 31, 2019, 7 out of 13 analysts recommended the purchase of Oerlikon shares (buy/add/outperform). There were six neutral (hold/neutral/sector perform) and no negative (sell/underperform) recommendations.

Oerlikon is seeking to expand the number of financial institutions covering the company, particularly outside of Switzerland, in order to broaden the opinions available in the financial markets and the basis for the consensus figures. In January 2019, Deutsche Bank had initiated coverage with a buy recommendation. In August 2019, Jefferies terminated coverage due to a reorganization of the Capital Goods team.

Shareholder Earnings

In 2019, Oerlikon paid a dividend to its shareholders amounting to CHF 1.00 per share for the financial year 2018. This comprised an ordinary dividend payout consistent with the previous year of CHF 0.35 and an extraordinary dividend of CHF 0.65 as share of some proceeds from the sale of the drive business. Based on the underlying operational performance and considering the strong financial position, the Board of Directors of Oerlikon will propose a dividend of CHF 1.00 per share for the financial year 2019 at the Annual General Meeting of Shareholders, scheduled for April 7, 2020. This comprises an ordinary dividend payout consistent with the previous years of CHF 0.35 and once again an extraordinary dividend of CHF 0.65. The ordinary dividend proposal (CHF 0.35) will be equivalent to a payout ratio of 88% based on underlying earnings per share (EPS) of CHF 0.40 (reported EPS: CHF -0.21). Based on the year-end closing price of CHF 11.36 and the overall dividend proposal of CHF 1.00, Oerlikon shares yielded a return of 8.8% in 2019.

The dividend policy remained unchanged and the proposed dividend payout can be based on up to 50% of the Group's underlying net result and beyond after considering the Group's financial position and affordability from the balance sheet.

Listing on the Stock Exchange

The registered shares of OC Oerlikon Corporation AG, Pfäffikon have been listed on SIX Swiss Exchange since 1973 and are traded in the main segment.

Securities symbol	OERL
Securities number	81 682
Security type	Registered share
International Securities Identification Number (ISIN)	CH0000816824
Settlement currency	CHF
Stock exchange	SIX Swiss Exchange
Bloomberg ticker symbol	OERL S
Reuters ticker symbol	OERL.S

Weighting of the Oerlikon Share in Indices

As of December 31, in %	2019	2018
SMIM	1.15321	1.58064
SMI Expanded	0.16093	0.19724
SPI	0.14978	0.18333
SPI Extra	0.75198	0.98289
SPI ex SLI	1.10193	1.36792
SPI Select Dividend	0.70123	–
STOXX Europe 600	0.02319	0.02659
Swiss All Share	0.14877	0.18205
UBS 100 Index	0.15255	0.18730

Key Share-Related Figures[1]

		2019	2018	2017	2016	2015
Year-end	in CHF	11.36	11.04	16.45	10.00	8.95
Year high	in CHF	13.90	18.27	16.95	10.10	12.70
Year low	in CHF	8.63	10.59	10.05	7.76	8.42
Year average	in CHF	11.41	14.56	13.18	9.26	11.02
Average daily trading volume (SIX)	in thousands	1 174	1 177	831	1 107	1 226
Average daily trading volume (SIX)	in CHF thousands	12 404	16 689	10 996	10 217	13 103
Shares outstanding at year-end	number	339 758 576	339 758 576	339 758 576	339 758 576	339 758 576
Market capitalization at year-end	in CHF million	3 860	3 751	5 589	3 398	3 041
Earnings per share (undiluted)	in CHF	-0.21	0.71	0.44	1.14	-1.24
Earnings per share (diluted)	in CHF	-0.21	0.71	0.44	1.14	-1.24
Price-earnings ratio		—	15.55	37.39	8.77	—
Payout ratio		88%[2]	59%[3]	70%[4]	97%[5]	49%[6]
Dividend per share	in CHF	1.00[7]	1.00[8]	0.35[9]	0.30[10]	0.30[11]
Dividend yield		8.8%	9.1%	2%	3%	3%
Equity per share[12]	in CHF	5.19	5.90	5.80	5.38	4.58
Cash flow from operating activities per share	in CHF	0.45	1.48	1.41	0.86	0.85

[1] Average number of shares with voting and dividend rights.
[2] Based on an underlying EPS of CHF 0.40 and an ordinary dividend of CHF 0.35.
[3] Based on an underlying EPS of CHF 0.59 and an ordinary dividend of CHF 0.35.
[4] Based on an underlying EPS of CHF 0.50.
[5] Based on an underlying EPS of CHF 0.31.
[6] Based on an underlying EPS of CHF 0.61.
[7] Dividend proposal for the financial year 2019, to be paid in 2020, comprising an ordinary dividend of CHF 0.35 and an extraordinary dividend of CHF 0.65.
[8] For the financial year 2018, paid in 2019, comprising an ordinary dividend of CHF 0.35 and an extraordinary dividend of CHF 0.65.
[9] For the financial year 2017, paid in 2018.
[10] For the financial year 2016, paid in 2017.
[11] For the financial year 2015, paid in 2016.
[12] Attributable to shareholders of the parent.

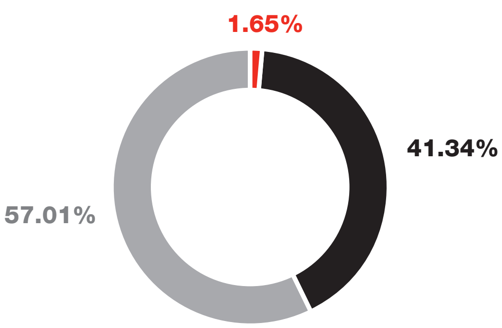
Shareholder Structure

Under the terms of the Financial Market Infrastructure Act (FMIA), shareholders whose holdings reach or exceed/fall short of a certain percentage of the share capital are required to disclose their holdings. The holdings of Liwet Holding AG, which remained Oerlikon's principal shareholder, amounted to 41.34% of outstanding shares at the end of the year (2018: 41.34%). On August 21, 2018, Black Creek Investment Management Inc. disclosed that their voting rights exceeded the threshold of 3% of outstanding shares. At the end of December 2019, Oerlikon held 5 597 805 treasury shares (1.65% of the share capital), which are intended to be used, among other things, as incentive instruments as part of the company's long-term compensation policy (2018: 942 398). The free float totaled 57.01% (2018: 58.38%) as of December 31, 2019. The number of registered shareholders slightly increased from around 13 200 in 2018 to about 14 900 in 2019.

Oerlikon announced on November 5, 2019, that its Board of Directors had decided to initiate a share buyback program. Over a period of up to 36 months, shares amounting to a maximum of 10% of the share capital recorded in the commercial register are expected to be repurchased in the open market over the ordinary trading line on SIX Swiss Exchange. The share buyback program is executed in cooperation with the Zürcher Kantonalbank and started on November 7, 2019. Oerlikon intends to utilize the repurchased securities to finance potential inorganic growth and to fund its global long-term employee incentive program.

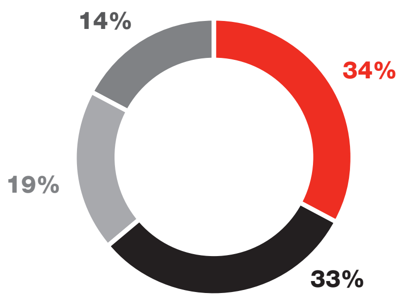
Oerlikon regularly commissions an analysis of its shareholder base in order to track the composition of registered shareholders as well as that of nonregistered investors. The latest study from January 2020 shows that the share capital held by private investors slightly increased to 9% (January 2019: 8%), the vast majority of whom are based in Switzerland. The other 91% is owned by professional investors, which include financial investors such as Liwet Holding AG and institutional investors (investment funds), insurance companies and pension funds. The percentage of shares from institutional investors was slightly reduced at 38%.

Oerlikon saw ongoing endorsement of institutional investors to take larger positions in the company. The ten largest positions all exceed 1% of the shares outstanding as investors value the execution of Oerlikon's strategy as well as the underlying performance improvement and disciplined use of cash. The 25 largest shareholders besides Liwet Holding AG slightly decreased their proportion of the shares outstanding to 31%, compared to 32% in the prior year.



Shareholder Structure

- OC Oerlikon
- Liwet Holding AG
- Other



Regional Distribution of Institutional Investors

- Switzerland
- North America
- United Kingdom and Ireland
- Other

The regional distribution of the institutional holdings was also balanced at the beginning of 2020. The majority of institutional holdings remains in Switzerland, making up 34% of all institutional shareholders. A year ago, this percentage was 33%. The percentage of institutional investors from North America increased to 33% (January 2019: 31%). Institutional shareholders from the UK and Ireland remained stable at 19%. The portion of institutional investors from the rest of the world marginally decreased to 14%, from 17% last year. The vast majority of these investors was domiciled in continental Europe.

Number of Registered Shareholders
at year-end

Shareholder Structure

Shareholder	**Dec. 2019 No. of shares**	**in % [4]**	Dec. 2018 No. of shares	in % [4]	Dec. 2017 No. of shares	in % [4]
Liwet Holding AG, Zurich, Switzerland [1]	140484860 [2]	41.34	140484860 [2]	41.34	146222889 [3]	43.04
OC Oerlikon Corporation AG, Pfäffikon, Switzerland	5597805	1.65	942398	0.28	322194	0.09
Other	193675911	57.01	198331318	58.38	193213493	56.87

[1] The shares of Liwet Holding AG, Zurich, are ultimately held as follows:

(a) 44.46% by Columbus Trust, a trust established under the laws of the Cayman Islands, whose ultimate beneficiary is Mr. Viktor F. Vekselberg, Moscow, Russia and Zug, Switzerland.

(b) 19.455% by Amapola Development Inc, Panama, and Polaris Trust, a trust established under the laws of Cyprus, whose ultimate beneficiary is Mr. Evgeny Olkhovik, Moscow, Russia.

(c) 19.455% by Ali International Ltd., Bahamas, and Olympia Trust, a trust established under the laws of Cyprus, whose ultimate beneficiary is Mr. Andrey Lobanov, London, United Kingdom.

(d) 16.63% by Next Generation Trust, a trust established under the laws of Cyprus, whose ultimate beneficiaries are Alexey Valerievich Moskov, Irina Arkadievna Matveeva, Mikhail Sergeevich Sivoldaev, Rinat Shavkiatovich Khalikov, Igor Vladimirovich Cheremikin and Andrey Alekseevich Shtorkh.

[2] Source: disclosure notification published by SIX Exchange Regulation on May 25, 2018.

[3] Source: disclosure notification published by SIX Exchange Regulation on November 15, 2017.

[4] Basis: shares issued (339758576).

External Financing

Syndicated Credit Facility Agreement

On December 7, 2016, Oerlikon signed an agreement for an unsecured syndicated revolving credit facility amounting to CHF 600 million. The facility comprises a revolving credit facility and an ancillary credit facility with a five-year term and two optional one-year extensions. The first option was successfully concluded in November 2017 and the second extension option was not used, defining the final maturity date as 2022. No liquidity was drawn from the cash facility at the balance sheet date.

On June 17, 2019, Oerlikon redeemed its matured CHF 300 million Swiss bond at nominal value. The bond was issued in 2014 with a coupon rate of 1.25%.

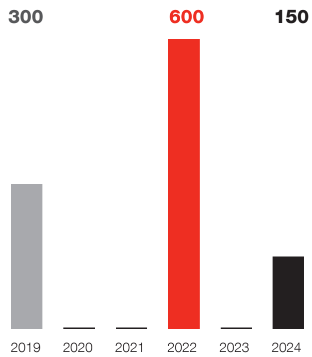
Cash and cash equivalents amounted to CHF 658 million at the balance sheet date. The Group had total net cash of CHF 333 million as of December 31, 2019.

Other Debt Instruments

At the 2019 balance sheet date, the Group had non-current loans and borrowings amounting to CHF 332 million, attributable primarily to the outstanding domestic bond. The creditworthiness of the domestic bond was BBB– as assessed by UBS, BBB as assessed by Zürcher Kantonalbank, and low BBB as assessed by Credit Suisse (all investment grade). All assessments remain unchanged with a stable outlook. Since 2017, fedafin AG is also covering Oerlikon's bond.

Financing Instruments
as of December 31, 2019

- Credit facility CHF 600 million
  [1] No liquidity was drawn as of the balance sheet date.
- Swiss bond CHF 150 million

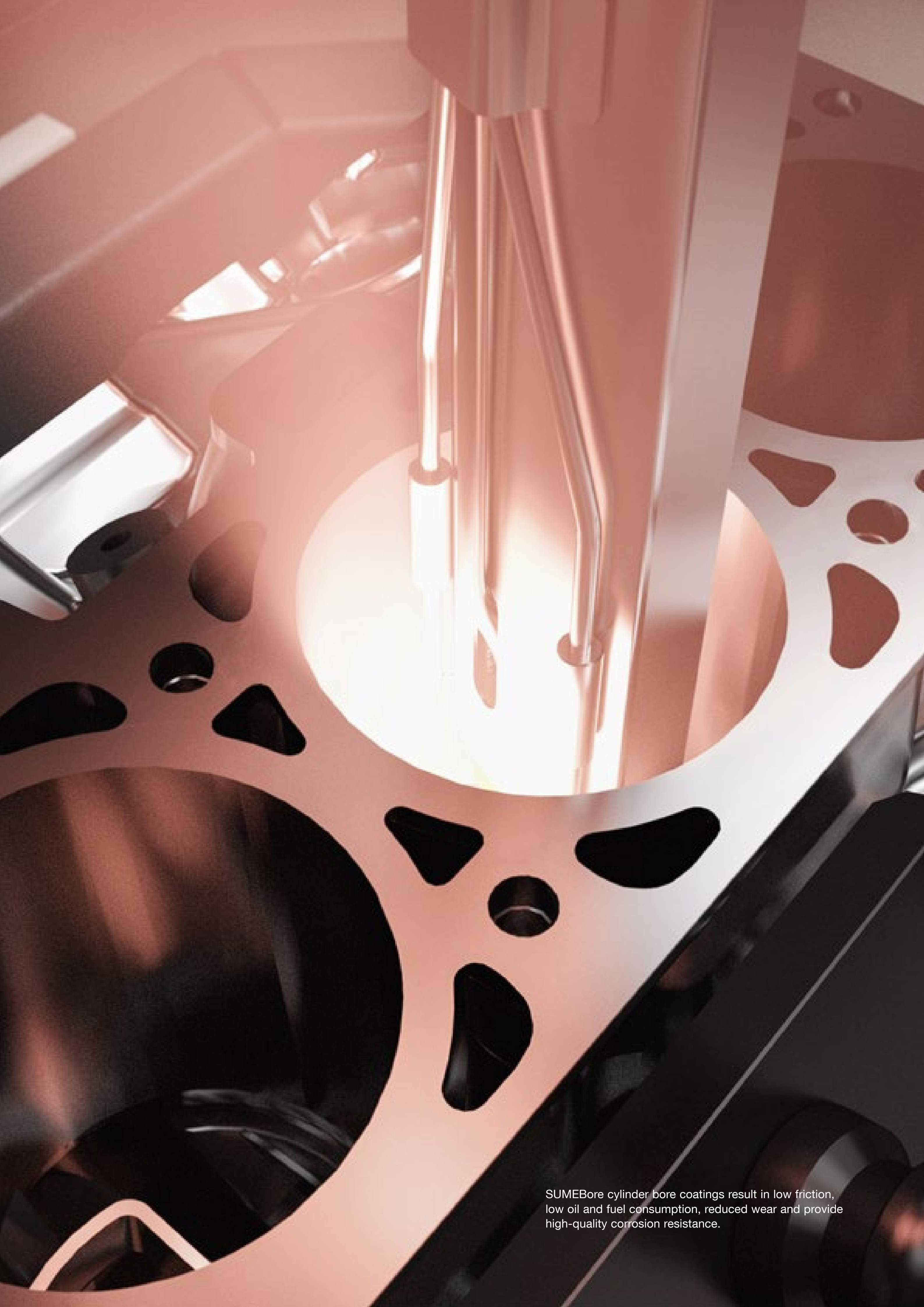


Maturity of Financing Instruments
as of December 31, 2019

- Repaid Swiss bond CHF 300 million
- Credit facility CHF 600 million
- Swiss bond CHF 150 million

Outstanding Bond as of December 31, 2019

ISIN	Coupon	Maturity	Volume	Issue price	Price as of Dec. 31, 2019	Price as of Dec. 31, 2018
CH0244692536	2.625%	June 17, 2024 Redemption at par	CHF 150 million	100%	111.274%	110.726%



SUMEBore cylinder bore coatings result in low friction, low oil and fuel consumption, reduced wear and provide high-quality corrosion resistance.

Financial Calendar and Contacts

FINANCIAL CALENDAR

March 3, 2020
Q4 / FY 2019 results and publication of Annual Report 2019

April 7, 2020
2020 Annual General Meeting of Shareholders, KKL Lucerne

May 5, 2020
Q1 2020 results

August 4, 2020
Q2 / HY 2020 results and publication of Interim Report 2020

November 3, 2020
Q3 / 9M 2020 results

Dates of roadshows, conferences and other events can be found in the financial calendar on our website at www.oerlikon.com/en/investors

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Key Figures Oerlikon Group

Key Figures Oerlikon Group

in CHF million	January 1 to December 31, 2019	January 1 to December 31, 2018
Order intake[1]	2590	2731
Order backlog	583	596
Sales[1]	2593	2609
EBITDA[1, 2]	366	406
- as % of sales[1, 2]	14.1%	15.6%
EBIT[1, 2]	164	243
- as % of sales[1, 2]	6.3%	9.3%
Result from continuing operations [2]	110	173
Result from discontinuing operations, net of income taxes	–176	73
Net result [2]	–66	245
– as % of equity attributable to shareholders of the parent	–4%	12%
Cash flow from operating activities[3]	152	498
Capital expenditure for property, plant and equipment and intangible assets[1]	179	207
Total assets	3647	4545
Equity attributable to shareholders of the parent	1756	2001
– as % of total assets	48%	44%
Net cash[4]	333	398
Net operating assets[5]	1826	1523
Number of employees (full-time equivalents)	11134	10727
Personnel expense[1]	822	782
Research and development expenditure[1, 6]	122	116

[1] Continuing operations.

[2] 2019 includes one-time effects of CHF -25 million (restructuring expenses of CHF -19 million and other one-time expenses of CHF -6 million).

[3] Cash flow from operating activities before changes in net current assets amounts to CHF 322 million (previous year: CHF 429 million).

[4] Net cash includes cash and cash equivalents, deposits and marketable securities less current and non-current debt.

[5] Net operating assets are defined as operating assets (total assets without cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets) less operating liabilities (total liabilities without financial and lease liabilities, current income taxes payable, non-current post-employment benefit liabilities and deferred tax liabilities). Due to the first-time application of IFRS 16, operating assets increased as of January 1, 2019, by CHF 171 million.

[6] Research and development expenditure includes expenses recognized as intangible assets in the amount of CHF 31 million (previous year: CHF 30 million).

Key share-related figures[1]

in CHF	January 1 to December 31, 2019	January 1 to December 31, 2018
Share price		
Year high	13.90	18.27
Year low	8.63	10.59
Year-end	11.36	11.04
Shares outstanding at year-end	339758576	339758576
Market capitalization at year-end in CHF million	3860	3751
EBIT per share[2]	0.49	0.72
Earnings per share	–0.21	0.71
Cash flow from operating activities per share	0.45	1.48
Equity per share[3]	5.19	5.90
Dividend per share	1.00[4]	1.00[5]

[1] Average number of shares with voting and dividend rights (undiluted).

[2] Continuing operations.

[3] Attributable to shareholders of the parent.

[4] Dividend proposal for 2019, to be paid in 2020, comprising of an ordinary dividend of CHF 0.35 and an extraordinary dividend of CHF 0.65.

[5] For financial year 2018, paid in 2019.

Key Figures by Segment

in CHF million	January 1 to December 31, 2019	January 1 to December 31, 2018
Oerlikon Group[1]		
Order intake	2 590	2 731
Order backlog	583	596
Sales	2 593	2 609
EBITDA	366	406
– as % of sales	14.1%	15.6%
EBIT	164	243
– as % of sales	6.3%	9.3%
Net operating assets[2]	1 826	1 523
Number of employees (full-time equivalents)	11 134	10 727
Surface Solutions Segment		
Order intake	1 468	1 574
Order backlog	181	193
Sales	1 494	1 519
– thereof sales to third parties	1 488	1 511
EBITDA	234	283
– as % of sales	15.6%	18.6%
EBIT	65	144
– as % of sales	4.4%	9.5%
Net operating assets[2]	1 771	1 584
Number of employees (full-time equivalents)	7 840	7 654
Manmade Fibers Segment		
Order intake	1 122	1 157
Order backlog	403	403
Sales	1 106	1 098
– thereof sales to third parties	1 106	1 098
EBITDA	144	128
– as % of sales	13.0%	11.7%
EBIT	117	106
– as % of sales	10.6%	9.6%
Net operating assets[2]	30	–59
Number of employees (full-time equivalents)	2 986	2 824

[1] Continuing operations.

[2] Net operating assets are defined as operating assets (total assets without cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets) less operating liabilities (total liabilities without financial and lease liabilities, current income taxes payable, non-current post-employment benefit liabilities and deferred tax liabilities). Due to the first-time application of IFRS 16, operating assets increased as of January 1, 2019, by CHF 171 million (Surface Solutions Segment CHF 135 million, Manmade Fibers Segment CHF 19 million and Group/Eliminations CHF 17 million).

Consolidated Income Statement

in CHF million	Notes	January 1 to December 31, 2019	January 1 to December 31, 2018
Sales of goods		1 608	1 615
Services rendered		985	995
Total sales	3	**2 593**	**2 609**
Cost of sales		–1 867	–1 817
Gross profit		**727**	**793**
Marketing and selling		–182	–184
Research and development		–127	–120
Administration		–276	–257
Other income	4	45	42
Other expense	4	–21	–30
Result before interest and taxes (EBIT)		**164**	**243**
Financial income	6	9	21
Financial expense	6	–25	–24
Result before taxes (EBT)		**149**	**240**
Income taxes	7	–39	–68
Result from continuing operations		**110**	**173**
Result from discontinued operations, net of income taxes	2	–176	73
Net result		**–66**	**245**
Attributable to:			
Shareholders of the parent		–70	240
Non-controlling interests		3	5
Earnings per share in CHF	8	**–0.21**	0.71
Diluted earnings per share in CHF	8	**–0.21**	0.71
Earnings per registered share continuing operations in CHF		**0.32**	0.50
Diluted earnings per registered share continuing operations in CHF		**0.32**	0.50
Earnings per registered share discontinued operations in CHF	2	**–0.52**	0.21
Diluted earnings per registered share discontinued operations in CHF	2	**–0.52**	0.21

Consolidated Statement of Comprehensive Income

in CHF million	Notes	**January 1 to December 31, 2019**	January 1 to December 31, 2018
Net result		–66	245
Other comprehensive income			
Items that will never be reclassified to the income statement			
Remeasurement of defined benefit plans[1]	16	–31	–10
Income taxes on items that will never be reclassified to the income statement		10	2
		–21	–8
Items that are or may be reclassified subsequently to the income statement			
Gains and losses from hedging[2]		3	–7
Conversion differences[3]		250	–73
Income taxes on items that are or may be reclassified subsequently to the income statement		–11	2
		241	–78
Other comprehensive income for the period, net of taxes		**221**	**–86**
Total comprehensive income for the period		**154**	**159**
Attributable to:			
Shareholders of the parent		152	155
Non-controlling interests		3	4

[1] Thereof CHF 3 million relating to discontinued operations (previous year: CHF -1 million).

[2] Thereof CHF 0 million relating to discontinued operations (previous year: CHF -1 million).

[3] 2019: Includes mainly reclassification of translation differences on the sale of the Drive Systems Segment, refer to note 2.

Consolidated Balance Sheet

Assets

in CHF million	Notes	December 31, 2019	December 31, 2018
Cash and cash equivalents	9	658	764
Current financial investments and derivatives	10	41	133
Trade and trade notes receivable	11	309	305
Current contract assets	3	12	31
Other receivables	11	96	92
Current income tax receivables		16	17
Inventories	12	338	343
Prepaid expenses and accrued income		20	19
Assets classified as held for sale	2	–	866
Current assets		**1 490**	**2 571**
Loans and other non-current financial receivables	11	15	24
Non-current financial investments	10	29	29
Property, plant and equipment	13	634	667
Right-of-use assets	14	211	–
Goodwill and intangible assets	15	1 117	1 139
Post-employment benefit assets	16	10	5
Deferred tax assets	7	142	110
Non-current contract assets	3	1	1
Non-current assets		**2 158**	**1 974**
Total assets		**3 647**	**4 545**

Liabilities and equity

in CHF million	Notes	December 31, 2019	December 31, 2018
Trade payables	17	264	277
Current contract liabilities	3	313	450
Current lease liabilities	17	30	1
Current financial liabilities and derivatives	17	6	308
Other current payables	17	60	63
Accrued liabilities	18	189	201
Current income taxes payable		66	65
Current post-employment benefit liabilities	16	14	15
Other current provisions	19	54	38
Liabilities classified as held for sale	2	–	363
Current liabilities		**997**	**1 780**
Non-current lease liabilities	20	178	39
Non-current loans and borrowings	20	154	155
Other non-current liabilities		16	24
Non-current post-employment benefit liabilities	16	347	329
Deferred tax liabilities	7	128	132
Other non-current provisions	19	58	65
Non-current liabilities		**881**	**743**
Total liabilities		**1 878**	**2 524**
Share capital		340	340
Treasury shares		–63	–13
Retained earnings and reserves		1 479	1 674
Equity attributable to shareholders of the parent		**1 756**	**2 001**
Non-controlling interests		13	21
Total equity		**1 769**	**2 021**
Total liabilities and equity		**3 647**	**4 545**

Consolidated Cash Flow Statement[1]

in CHF million	Notes	January 1 to December 31, 2019	January 1 to December 31, 2018
Net result		–66	245
Income taxes		40	94
Interest expense (net)		14	7
Depreciation of property, plant and equipment	13	97	120
Depreciation of right-of-use assets	14	36	–
Amortization of intangible assets	15	69	65
Addition to other provisions (net)	19	30	1
Impairment losses on property, plant and equipment	13	2	1
Decrease in post-employment benefit liabilities		–15	–19
Gain from sale of non-current assets		–	–2
Losses on sale of discontinued operations, net of income tax	2	166	–
Share-based payments		11	8
Income taxes paid		–55	–75
Other non-cash items		–6	–16
Cash flow from operating activities before changes in net current assets		322	429
Increase in receivables, contract assets, prepaid expenses and accrued income		–3	–6
Increase in inventories		–2	–83
Decrease/increase in payables, accrued liabilities and use of other provisions		–33	73
Decrease/increase in contract liabilities		–132	84
Non-cash impact on net current assets due to hedge accounting		1	1
Cash flow from changes in net current assets		–170	69
Cash flow from operating activities		**152**	**498**
Purchase of property, plant and equipment	13	–140	–232
Proceeds from sale of property, plant and equipment		5	3
Purchase of intangible assets	15	–44	–49
Disposal of Group companies, net of cash disposed	2	549	–
Acquisition of subsidiaries, net of cash acquired[2]	2	–48	–19
Investments in associates		–1	–18
Investments in marketable securities		–4	–
Purchase of financial investments		–10	–36
Proceeds from repayment of financial investments		101	–
Interest received		7	9
Cash flow from investing activities		**416**	**–342**
Dividends paid		–343	–118
Purchase of treasury shares		–64	–14
Repayment of financial debt		–302	–1
Principal elements of lease payments		–34	–4
Proceeds from financial debt		–	3
Interest paid		–17	–16
Cash flow from financing activities		**–760**	**–149**
Conversion adjustments to cash and cash equivalents		–10	–19
Decrease in cash and cash equivalents		**–201**	**–12**
Cash and cash equivalents at the beginning of the period[3]	9	858	871
Cash and cash equivalents at the end of the period[4]	9	658	858
Decrease in cash and cash equivalents		**–201**	**–12**

[1] The cash flow statement is presented including cash effects from discontinued operations as well as assets and liabilities held for sale. Refer to Note 2 for cash flow from discontinued operations.

[2] 2019: includes settlement of contingent consideration and deferred payments relating to acquisitions made in previous periods in the amount of CHF 20 million and cash consideration for current-period acquisitions net of cash acquired of CHF 28 million.

[3] 2019: includes CHF 94 million, which are included in “Assets classified as held for sale” in the balance sheet as of January 1, 2019.

[4] 2018: includes CHF 94 million, which are included in “Assets classified as held for sale” in the balance sheet as of December 31, 2018.

Consolidated Statement of Changes in Equity

in CHF million	Share capital[1]	Additional paid-in capital[2]	Treasury shares[3]	Conversion differences	Retained earnings	Hedge accounting	Income taxes	**Total equity attributable to shareholders**	Non-controlling interests	**Total share-holders' equity**
Balance at January 1, 2018	**340**	**1 013**	**–4**	**–363**	**885**	**5**	**95**	**1 971**	**18**	**1 989**
Net result	–	–	–	–	240	–	–	240	5	245
Gains and losses from hedging	–	–	–	–	–	–7	2	–5	–	–5
Remeasurement of defined benefit plans	–	–	–	–	–10	–	2	–8	–	–8
Conversion differences	–	–	–	–72	–	–	–	–72	–1	–73
Other comprehensive income for the period	**–**	**–**	**–**	**–72**	**–10**	**–7**	**4**	**–85**	**–1**	**–86**
Total comprehensive income for the period	**–**	**–**	**–**	**–72**	**230**	**–7**	**4**	**155**	**4**	**159**
Dividend distributions	–	–119	–	–	–	–	–	–119	–1	–120
Share-based payments	–	–	5	–	3	–	–	8	–	8
Purchase of treasury shares	–	–	–14	–	–	–	–	–14	–	–14
Contributions and distributions	**–**	**–119**	**–9**	**–**	**3**	**–**	**–**	**–125**	**–1**	**–126**
Total transactions with owners of the company	**–**	**–119**	**–9**	**–**	**3**	**–**	**–**	**–125**	**–1**	**–126**
Balance at December 31, 2018, as reported	**340**	**895**	**–13**	**–436**	**1 117**	**–2**	**99**	**2 001**	**21**	**2 021**
Adjustment on initial application of IFRS 16 (net of tax)	–	–	–	–	–6	–	–	–6	–	–6
Adjusted balance at January 1, 2019	**340**	**895**	**–13**	**–436**	**1 111**	**–2**	**99**	**1 995**	**21**	**2 015**
Net result	–	–	–	–	–70	–	–	–70	3	–66
Gains and losses from hedging	–	–	–	–	–	3	–	2	–	2
Remeasurement of defined benefit plans	–	–	–	–	–31	–	10	–21	–	–21
Conversion differences	–	–	–	250	–	–	–10	240	–	239
Other comprehensive income for the period	**–**	**–**	**–**	**250**	**–31**	**2**	**–1**	**221**	**–**	**221**
Total comprehensive income for the period	**–**	**–**	**–**	**250**	**–100**	**2**	**–1**	**152**	**3**	**154**
Dividend distributions	–	–338	–	–	–	–	–	–338	–3	–341
Share-based payments	–	–	13	–	–2	–	–	11	–	11
Purchase of treasury shares[4]	–	–	–64	–	–	–	–	–64	–	–64
Contributions and distributions	**–**	**–338**	**–50**	**–**	**–2**	**–**	**–**	**–391**	**–3**	**–393**
Disposal of subsidiaries with non-controlling interests	–	–	–	–	–	–	–	–	–7	–7
Changes in ownership interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–7**	**–7**
Total transactions with owners of the company	**–**	**–338**	**–50**	**–**	**–2**	**–**	**–**	**–391**	**–10**	**–401**
Balance at December 31, 2019	**340**	**558**	**–63**	**–185**	**1 008**	**–**	**98**	**1 756**	**13**	**1 769**

[1] The share capital of OC Oerlikon Corporation AG, Pfäffikon, consists of 339 758 576 fully-paid registered shares (previous year: 339 758 576) of nominal value CHF 1.00 each. On December 31, 2019, conditional capital amounted to CHF 47 200 000 (previous year: CHF 47 200 000).

[2] As of December 31, 2019, additional paid-in capital includes CHF 330 million (previous year: CHF 668 million) of legal reserves in OC Oerlikon Corporation AG, Pfäffikon.

[3] As of December 31, 2019, the Group held 5 597 805 own shares (previous year: 942 398).

[4] OC Oerlikon Corporation Inc., Pfäffikon, accounced on November 5, 2019, that the Board of Directors had approved a program to buy back own shares for up to a maximum of 10% of the share capital. The effective size of the buyback program depends, among other things, on the number of treasury shares held and the market situation. The repurchased registered shares shall be used as a reserve for future M&A transactions and employee benefit plans. The program started in November 2019 and will run up to 36 months. As of December 31, 2019, 4 380 000 shares were repurchased as part of the share buyback program for a consideration of CHF 54 million.

Significant Accounting Principles

Company operations

OC Oerlikon Corporation AG, Pfäffikon is a Swiss public company located in Churerstrasse 120, Pfäffikon, canton of Schwyz, Switzerland. It is the ultimate parent company of the Oerlikon Group, a leading high-tech industrial Group which provides innovative industrial solutions and cutting-edge technologies for surface solutions and manmade fibers manufacturing.

Apart from its activities in Switzerland, the Oerlikon Group operates primarily in EU member states, North America and Asia, and has a workforce of 11 134 employees (full-time equivalents).

Basis of preparation

The consolidated financial statements of OC Oerlikon Corporation AG, Pfäffikon have been prepared in accordance with International Financial Reporting Standards (IFRS) and Swiss company law. These accounting standards have been applied consistently in all periods presented in this report except for the changes explained in section “Adoption of new and revised accounting standards”. The consolidated financial statements are presented in Swiss francs (CHF). The consolidated financial statements were approved by the Board of Directors on February 28, 2020, and will be submitted to the Annual General Meeting of Shareholders on April 7, 2020, for approval. All standards issued by the International Accounting Standards Board (IASB) and all interpretations of the IFRS Interpretations Committee (IFRIC) effective at the date of the consolidated financial statements have been taken into account. All line item amounts in the consolidated financial statements are presented in millions of Swiss francs, and all such amounts (including totals and subtotals) have been rounded according to normal commercial practice. Thus, an addition of the figures presented can result in rounding differences. Values of assets and liabilities have been determined in accordance with the historical cost convention, with the exception of derivative financial instruments, contingent considerations and financial assets which are held at fair value. These consolidated financial statements are published in English and German. If there is any divergence in the wording, the English original text is authoritative.

Judgments, estimates and assumptions

Preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the values of reported revenues, expenses, assets, liabilities and contingent liabilities at the reporting date. These estimates and assumptions are constantly being revised. Depending on the issues involved, revision of such assumptions can have an effect on the current period, as well as potentially on future periods. These estimates, judgments and assumptions are based on historical experience and other factors that are believed to be reasonable and justified as expectations of future events.

However, actual results can differ from these estimates. Moreover, consistent application of the chosen accounting principles can require management to make decisions that may have a material impact on the amounts reported in the annual financial statements. Above all, assessment of business transactions that involve complex structures or legal forms call for decisions on management’s part. The most important accounting estimates are to be found in:

Business combinations: Where the Group acquires control of another business, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business shall be recognized, separately from goodwill.
This process involves management making an assessment of the fair value of these items. Management judgment is particularly involved in the recognition and measurement of the following items:

- Intellectual property. This may include technologies, patents, licenses, trademarks and similar rights for currently marketed products.
- Customer relationships.
- Contingencies such as legal, tax and environmental matters.
- The recoverability of any accumulated tax losses previously incurred by the acquired company.

In all cases, management makes an assessment based on the underlying economic substance of the items concerned, and not only on the contractual terms, in order to fairly present these items (refer to Note 2 for details).

Impairment of value: At December 31, 2019, the Group had CHF 634 million in property, plant and equipment, CHF 543 million in goodwill and CHF 574 million in intangible assets other than goodwill. A detailed test for impairment of the carrying amount is carried out for goodwill and other intangible assets with indefinite useful life annually or, as for all other assets, if there is any indication of a loss of value. Goodwill is allocated to the cash-generating units (CGUs) that are expected to benefit from the synergies of the business combination which gave rise to the goodwill. The recoverable amount of the CGUs is determined based on the value in use or fair value less costs of disposal. In the same way, future cash flows from the use of tangible fixed assets can be estimated and the carrying value tested, using the same rules. These tests use estimates of future cash flows to be expected from the use of the assets concerned, or from their potential sale. Actual cash flows may vary significantly from these estimates following changes of plan for the use of assets such as land and buildings, technological obsolescence or market changes (refer to Note 13 for impairment of property, plant and equipment and Note 15 for impairment of goodwill and intangible assets).

Provisions and contingent liabilities: At December 31, 2019, the Group had CHF 113 million in provisions and CHF 1 million in contingent liabilities. In the ordinary course of their business, companies of the Group may become involved in litigious conflict or disagreement with third parties. Provisions are made to cover the Group’s exposure in such matters, based on a realistic estimate of the economic outflow that may result. However, the ultimate resolution of such disputes can give rise to claims against the Group, which may not be fully covered by provisions or insurance. Specific warranty provisions are set up for known warranty claims as required, and also for situations where it is known from recent experience that the company is exposed to claims, usually for technical reasons. Besides this, a general provision is made for other possible claims, based on experience and linked to sales volumes. In cases where the company has entered into contractual obligations whose cost exceeds the economic benefit to be expected, corresponding provisions are made. These are based on management’s estimates (refer to Note 19 for provisions and Note 25 for contingent liabilities).

Pensions: At December 31, 2019, the carrying amount of the Group's post-employment liabilities (net) is CHF 352 million. The estimates and assumptions used to determine the underlying defined benefit obligations of CHF 895 million are based on future projections and actuarial calculations that have been determined together with the actuaries (refer to Note 16 for details).

Taxes on income: At December 31, 2019, the Group had current income tax receivables of CHF 16 million, current income taxes payable of CHF 66 million, deferred tax assets of CHF 142 million and deferred tax liabilities of CHF 128 million. Estimates are used initially to determine amounts receivable and payable in respect of current and deferred taxes on income. These estimates are based on interpretation of existing tax law and regulations. Many internal and external factors can influence the final determination of amounts receivable or payable, such as changes in tax law, changes in tax rates, the level of future profits and fiscal audits carried out by the tax authorities (refer to Note 7 for details).

Discontinued operations

Following the divestment of the Drive Systems Segment, the income statement amounts of this segment are shown as discontinued operations.

Adoption of new and revised accounting standards

The Oerlikon Group initially adopted IFRS 16 Leases from January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Oerlikon Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains unchanged to previous accounting policies.

The Oerlikon Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease: Previously, the Oerlikon Group determined at contract inception whether an arrangement was or con-tained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Oerlikon Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Oerlikon Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

The Oerlikon Group leases mainly properties and vehicles. As a lessee, the Oerlikon Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Oerlikon Group recognizes right-of-use assets and lease liabilities for most leases, i.e. these leases are on-balance sheet. Vehicles and other items of plant, equipment and furniture typically have a lease term between 3 and 5 years. Production and administrative buildings have an expected lease term of 5 to 20 years (including extension options where the Group is reasonably certain that they will be exercised).

However, the Oerlikon Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets (e.g. IT or office equipment). The Oerlikon Group recognizes the lease payments associated with these leases as an expense on straight-line basis over the lease term. The Oerlikon Group presents right-of-use assets and lease liabilities in separate lines on the balance sheet. In the previous years, liabilities related to finance leases have been included in Current financial liabilities and derivatives and Non-current loans and borrowings, respectively.

Impacts on significant accounting principles: The Oerlikon Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Oerlikon Group's incremental borrowing rate. Generally, the Oerlikon Group uses country and duration specific incremental borrowing rates as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or, as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Oerlikon Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized. Extension options and termination options are re-assessed only when a significant event or change in circumstances occurs that is within the control of the Group and affects whether it is reasonably certain to exercise an option.

Transition: At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Oerlikon Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets were measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

Practical expedients: When applying IFRS 16 to leases previously classified as operating leases under IAS 17, the Oerlikon Group:

- applied the exemption not to recognize right-of-use assets and liabilities for leases with a lease term which ends within 12 months of the initial application date,
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application and
- used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Impacts on financial statements: On transition to IFRS 16, the Oerlikon Group recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

in CHF million	January 1, 2019
Increase of right-of-use assets	223
Decrease of property, plant and equipment[1]	–52
Increase of deferred tax assets	2
Increase of assets held for sale	8
Increase of lease liabilities	179
Increase of liabilities held for sale	8
Decrease of retained earnings	–6

[1] Reclassification of assets held under finance leases.

When measuring lease liabilities for leases that were classified as operating leases, the Oerlikon Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 2.5%.

in CHF million	January 1, 2019
Payments under non-cancellable operating leases disclosed as at December 31, 2018	138
Discounted using the lessee's incremental borrowing rate at the date of initial application	131
Add: finance lease liabilities recognized as at December 31, 2018	48
(Less): short-term leases recognized on a straight-line basis as expense	–4
(Less): low-value leases recognized on a straight-line basis as expense	–2
Add: adjustments as a result of a different treatment of extension and termination options	63
Lease liability recognized as at January 1, 2019	236
Of which:	
Current lease liabilities	29
Non-current lease liabilities	190
Liabilities held for sale	17

In relation to the leases that were previously classified as operating leases, the Oerlikon Group has recognized CHF 32 million of depreciation charges and CHF 4 million of interest costs from these leases. In the Consolidated Cash Flow Statement the Cash Flow from operating activities increased by CHF 36 million, whereas the Cash flow from financing activities decreased by the same amount.

There were no other new or amended standards and interpretations effective for the financial year beginning on January 1, 2019 that had an impact on the Group's consolidated financial statements.

Newly published accounting standards not early adopted

Certain new accounting standards and interpretations have been published by the IASB that are not mandatory for the December 31, 2019 reporting period yet and that have not been early adopted by the Oerlikon Group. None of them is expected to have a material impact on the Group's financial statements.

Principles of consolidation

Subsidiaries

December 31 is the uniform closing date for all subsidiaries included in the consolidated financial statements. Subsidiaries are all entities over which OC Oerlikon Corporation AG, Pfäffikon has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the company and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements of the Oerlikon Group from the date on which control commences until the date on which control ceases.

Non-controlling interests are recorded separately under equity in the consolidated financial statements. Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions.

All consolidated subsidiaries held are shown in the listing at the end of the notes.

Disposal of subsidiaries

When the Group ceases to have control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related non-controlling interests and other components of equity. Any resulting gain or loss is recognized in the income statement. Amounts previously recognized in other comprehensive income that may be reclassified to the income statement are reclassified to the income statement. Any retained interest in the former subsidiary is remeasured to its fair value at the date when control is lost.

Business combinations and goodwill

The Oerlikon Group accounts for business combinations using the acquisition method when control is transferred to the Group (see above under “Subsidiaries”). At the date of their initial consolidation, the identifiable assets acquired and liabilities assumed of subsidiaries are measured at fair value. Goodwill is measured at the acquisition date as the fair value of the consideration transferred plus the amount of non-controlling interests in the acquiree less the net recognized assets. Transaction costs are expensed as incurred, except if related to the issue of debt or equity. Goodwill denominated in foreign currencies is translated into Swiss francs at the rates prevailing at the balance sheet date.

Translation of foreign currencies

The accounts of foreign entities are prepared in the relevant functional currency and translated into Swiss francs in accordance with IAS 21. An entity’s functional currency is the currency of the primary economic environment in which the entity operates. In the consolidation, assets and liabilities of foreign subsidiaries are translated into Swiss francs at the exchange rate prevailing on the balance sheet date, while income, expenses and cash flows are translated using average rates for the year. Differences resulting from the respective translation into Swiss francs are recognized in other comprehensive income. Exchange gains and losses, as recorded in the individual company accounts of subsidiaries, are included in the income statement. Excluded from this rule are specific long-term intercompany monetary items that form part of the net investment in a foreign subsidiary, whose exchange translation differences are recognized in other comprehensive income. In the year that a foreign entity is divested, the cumulative translation differences recorded in other comprehensive income are reclassified to the income statement as part of the gain or loss upon disposal.

Elimination of intercompany transactions and profits

Intercompany assets, liabilities, income, expenses and cash-flows are eliminated in the consolidated financial statements. The same applies to profits on intercompany sales not yet realized through sales to third parties, as well as profits on transfers of fixed assets and investments in subsidiaries.

Segment information

The Group consists of the following reportable Segments:

- The Surface Solutions Segment is a world-leading supplier of advanced materials and surface technologies for components and tools used in a wide range of industrial applications where superior materials and surface performance are required.
- The Manmade Fibers Segment is a world market leader for solutions and systems used to manufacture manmade fibers that enable customers to produce high-quality synthetic fibers.

The Segment reporting of the Oerlikon Group is in accordance with the “management approach” and based on the internal structure and reporting. The Chief Executive Officer (CEO) performs the function of the Chief Operating Decision Maker (CODM), assesses performance and makes resource allocation decisions. The CODM receives information on Business Unit level for the Surface Solutions Segment. In accordance with the aggregation criteria of IFRS 8, these Business Units have been aggregated to one reportable Segment.

The internal reporting to the CODM is based on uniform Group accounting principles, which correspond to those used in the consolidated financial statements. Intersegment pricing is determined on an arm’s length basis.

Assets

Financial assets: Financial assets such as Cash and cash equivalents (Note 9), Current and non-current financial investments and derivatives (Note 10), Trade and trade notes receivable (Note 11) and Loans and other non-current financial receivables (Note 11), are initially measured at fair value. Subsequent measurement depends on their classification according to IFRS 9 based on the entity's business model either at amortized cost, fair value through profit and loss or fair value through OCI. Debt and equity securities include debt instruments frequently traded. Other debt investments (i.e. trade and trade notes receivables, deposits) are for held and collect purpose. For more information please refer to Note 21.

Contract assets: Contract assets are an entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance). Contract assets include incremental costs to fulfill a contract.

Inventories: Inventories consisting of raw materials, purchased components and trade merchandise are carried at the lower of cost or net realizable value, using FIFO or weighted average cost valuation methods. Self-made components, work in progress and finished goods are carried at production cost. This includes all related material and labor costs, as well as a reasonable allocation of indirect production costs. Recognizable reductions in value resulting from excess inventory, reduced replacement cost or sales price and similar are taken into account through appropriate write-downs of inventory items.

Property, plant and equipment: Tangible fixed assets are recorded at historical purchase or production costs, less necessary depreciation. Components of PP&E that have a differing useful life are recorded separately and depreciated accordingly (component approach). Depreciation is calculated on a straight-line basis according to the expected useful life of the asset, as follows:

	Years
Plant, equipment and furniture:	
– IT hardware	3–7
– Company cars	4–7
– Trucks and electric vehicles	5–10
– Technical installations and machines	5–15
– Other operating and business equipment	3–15
Production and administration buildings:	
– Central building installations	10–25
– Leasehold improvements	2–20
– Plant and administrative buildings – used operationally	20–60

Developed land and Facilities under construction are not depreciated.

Estimated useful lives and residual values are examined annually.

Fixed assets under financial leasing agreements are treated identically to fixed assets owned.

Major spare parts and servicing equipment qualify as property, plant and equipment when an entity expects to use them during more than one period.

Intangible assets and goodwill: Intangible assets are identifiable non-monetary assets without physical substance from which future economic benefits are expected to flow to the Group. Intangible assets are amortized on a straight-line basis over their expected useful lives, as follows.

	Years
Development costs:	5
Other intangible assets:	
– Acquired customer relations	5–23
– Licenses, patents and technologies	5–10
– Software	2–3
– ERP platform	7

In the case of intangible assets with indefinite useful lives, an impairment test of the asset value is conducted annually at the balance sheet date, or earlier on the occurrence of a triggering event. Goodwill and brands are not amortized, but instead tested annually for possible value impairment.

Development costs are recognized as intangible assets if they meet the criteria for such recognition set forth in IAS 38. The cost capitalized comprises all costs directly attributable to the development process. After the development phase is complete, the asset is amortized over its estimated useful life.

Liabilities

Financial liabilities: Financial liabilities, such as Trade payables (Note 17), Current financial liabilities and derivatives (Note 17), Other current payables (Note 17), Non-current loans and borrowing (Note 20), and Other non-current liabilities (Note 21), are initially measured at fair value less directly attributable costs. Subsequent measurement depends on their classification according to IFRS 9 either at amortized cost or fair value through profit and loss. For more information please refer to Note 21.

Contract liabilities: Contract liabilities are an entity's obligation to transfer goods or services to a customer for which the entity has received consideration (or the amount is due) from customers.

Current and non-current provisions: Provisions are set up for obligations arising from past events if the future outflow of resources is more likely than not and can be estimated reliably. Other provisions represent uncertainties, for which a best estimate is made in arriving at the amount reserved. Non-current provisions are discounted at a pretax rate that reflects the current market assessments of the time value of money.

Restructuring provisions: Provisions are established in cases where a detailed restructuring plan exists and the Group has informed those concerned, or the restructuring process has started.

Onerous contracts: Provisions are established when unavoidable estimated costs to fulfill a contract exceed the related contract revenues. The difference is provided against income in the current period. When accounts are prepared, the related risks are reassessed systematically by all Business Units and all costs are adjusted as required. This reassessment is generally based on the "most likely outcome", which uses assumptions regarding technical feasibility and timely realization of the projects and includes a quantification of the risks. The actual future obligation can vary from these estimates.

Warranty provisions: Provisions are established for known customer claims and also for potential warranty exposure.

Product liability: Provisions are established for known claims; potential exposure is not provided for.

Acquirees' contingent liabilities: In a business combination, a contingent liability of the acquiree is recognized in acquisition accounting if it is a present obligation that arises from past events and its fair value can be measured reliably. The probability of payment being required is not relevant in determining whether a contingent liability that is a present obligation should be recognized in a business combination, but this probability will impact its fair value. A contingent liability recognized is initially measured at its fair value. Subsequently, it is measured at the higher of its acquisition-date fair value and the amount that would be recognized in accordance with the requirements for provisions above. A contingent liability initially recognized in a business combination is not derecognized until it is settled, cancelled or it expires.

Post-employment benefits provisions: The Oerlikon Group operates various post-employment benefit schemes, including both defined benefit and defined contribution plans.

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity. The Group will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.
The liability (asset) recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, taking into account any asset ceiling. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements of the net defined benefit liability (asset) are charged or credited to other comprehensive income in the period in which they arise.

Current and past-service costs are recognized immediately in the income statement (operating result).

Net interest on the net defined benefit liability comprises interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of asset ceiling. The net interest is calculated using the same discount rate that is used in calculating the defined benefit obligation, applied to the net defined liability at the start of the period, taking into account any changes from contribution or benefit payments. Net interest on the net defined benefit liability is recognized in the income statement (financial result).

The contributions to defined contribution plans are recognized in the income statement (operating result) when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Treasury shares: Treasury shares are shown as a reduction of shareholders' equity. Gains or losses arising from the sale of treasury shares are also shown in the consolidated statement of changes in equity, in retained earnings.

Income statement

Sales of goods and services: Revenue is recognized to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognized when performance obligations have been satisfied, i.e. when control of goods or services has been transferred to the customer, and if it is probable that the economic benefits will flow to the company. In accordance with the recognition criteria of IFRS 15, control may be transferred either at a point in time or over time.

Revenue is measured based on the consideration the Oerlikon Group received or expects to receive in exchange for its goods and services. If a contract contains more than one performance obligation, the overall consideration is allocated to the different components affected, based on the standalone observable selling price of each performance obligation. The consideration received in exchange for its goods or services may be fixed or variable. Variable consideration is only recognized when it is highly probable that a significant reversal of cumulative recognized revenue will not occur. The respective estimate is updated regularly. Sales commissions, which the company would have not incurred if the contract was not obtained, are recognized as contract costs (assets). Unless the amortization period is less than one year (expensed as occurred), contract costs are amortized over the duration of the contract and subject to impairment. Sales payment terms are in line with the industry's standards, and deferred payment terms are agreed only in rare circumstances.

Remaining performance obligation: Remaining performance obligation is the aggregate amount of consideration to which an entity expects to be entitled in the future in exchange for transferring promised goods or services to a customer (promised in a contract), which are unsatisfied, or partially unsatisfied, as of the end of the reporting period. As a practical expedient, no disclosure is given for performance obligations related to contracts with original expected duration of one year or less.
Although conceptually very similar, the calculation of remaining performance obligations does not necessarily align to the disclosed order backlog. A remaining performance obligation only qualifies as order backlog when specific cash down payments or additional pre-conditions in terms of customers financing are fulfilled.

Other income and expenses: Other income consists of income from real estate, investments, licenses, patents, income from reversal of provisions for acquired contingent liabilities (net of adjustment on related indemnification assets), income from a risk and revenue share agreement and non-operating assets. Other expense consists of non-operating expenses, taxes not based on income, expenses related to a risk and revenue share agreement and integration and acquisition costs.

Financial expenses: Interest expense is recognized in the income statement by using the effective interest rate method. Borrowing costs that can be directly allocated to the construction, buildup or purchase of a qualified asset are capitalized through the costs of the assets.

Current income taxes: Current income taxes are accrued on the basis of income reported locally for the financial year by the individual Group companies in keeping with the current year taxation principle.

Deferred taxes: Wherever local company tax values differ from Group values (temporary differences), deferred taxes are determined and recorded by applying tax rates enacted or substantially enacted at the balance sheet date to the differences (balance sheet liability method). Taxes on dividends from subsidiaries are only accrued when distributions are contemplated. The value of deferred tax assets deriving from tax losses carried forward is subject to annual review. Tax losses are only recognized as assets if they are expected to be realized, offset against taxable profits of Group companies individually or in tax groups. In countries or companies where realization of the losses cannot be foreseen, no asset is recognized. Management believes that its estimates are appropriate and that uncertainties in the valuation of tax assets and liabilities have been appropriately addressed. Deferred tax is not recognized for: a) temporary differences arising on the initial recognition of assets or liabilities in a transaction that is not a business combination, and that affects neither accounting profit nor taxable profit or loss; b) temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and c) taxable temporary differences arising on the initial recognition of goodwill.

Earnings per share: Earnings per share (EPS) is based on the portion of consolidated net profit attributable to shareholders of OC Oerlikon Corporation AG, Pfäffikon divided by the weighted average number of shares outstanding during the reporting period. Diluted earnings per share additionally take into account all potential equity securities that could have come into existence as the result of an exercise of option rights.

Assets and liabilities classified as held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. A component of the Group is reclassified into "discontinued operations" if it has been disposed of or is classified as held for sale and if it represents a major line of business or geographical area of operations and is part of a single co-ordinated plan to be disposed. Non-current assets and disposal groups held for sale are carried at the lower of their carrying amount or fair value less cost to sell, and any value impairments are recognized in the income statement. Depreciation of non-current assets ceases when the respective qualification as assets held for sale is met.

All disclosures in the notes to the consolidated financial statements refer to continuing operations, except where otherwise indicated.

Risks

Financial risk management/financial instruments: The Group is exposed to various financial risks, such as market risks (including foreign exchange risk, interest rate risk and pricing risk), credit risk and liquidity risk. The Group's financial risk management aims to limit any adverse effects that the markets may have on the Group's financial health, at an acceptable hedging cost. Risk limitation does not mean complete exclusion of financial risks, rather it means following a policy of economically sensible management of the Group's finances within an agreed framework of documented authority. The Group uses derivative financial instruments to hedge certain risks. Only preapproved instruments are used, and as a fundamental rule, no speculative transactions are conducted in the areas of foreign exchange or interest rates. No hedges are entered into without a corresponding base transaction. Management monitors and steers such risks continuously with the support of Group Treasury, which identifies and evaluates all financial risks, working with the Group's operating companies and hedging the risks as appropriate. The Group has documented guidelines for financial risk management, covering the use of derivative and non-derivative financial instruments and policies for use of surplus funds.

Foreign exchange risks: Risks related to fluctuations in foreign currencies are in certain instances hedged at Group level (refer to Note 21, "Financial instruments").

Interest rate risks: Risks related to fluctuations in interest rates are monitored by Group Treasury and in certain instances hedged at Group level (refer to Note 21, "Financial instruments").

Credit risks: Risks of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations are monitored locally by the individual Group companies (refer to Note 21, "Financial instruments").

Liquidity risks: The Oerlikon Group supervises and manages the Group's liquidity centrally to ensure that outstanding financial liabilities can at all times be met within their maturity period and at an acceptable financing cost (refer to Note 21, "Financial instruments").

Contingent liabilities

Contingent liabilities represent potential obligations whose impact depends on the occurrence of one or more future events that cannot be influenced. Contingent liabilities are also existing obligations that are not expected to result in a future outflow of benefits, or where the outflow of benefits cannot reliably be quantified.

Participation plans/share-based payments

Members of the Executive Committee and senior management may receive a portion of their compensation as a long-term bonus in the form of awards for OC Oerlikon Corporation AG, Pfäffikon shares under various plans. The fair value is determined on the day such share-based remuneration is granted and charged to the income statement on a straight-line basis over the vesting period within operating results, with a corresponding increase in equity (equity settled plans).

Notes to the Consolidated Financial Statements

Group structure

Note 1

Subsidiaries
A list of Oerlikon's subsidiaries can be found on pages 152 and 153.

During the financial year 2019, the following significant changes in the Group structure have occurred:

Acquisitions
On March 29, 2019, the Oerlikon Group acquired all outstanding equity interests of TeroLab Surface GmbH. The company was subsequently renamed to Oerlikon Metco Coating Services GmbH.

On July 31, 2019, the Oerlikon Group acquired all outstanding equity interests of AMT Solutions Holding AG and (indirectly) AMT AG.

On December 23, 2019, the Oerlikon Group acquired all outstanding equity interests of D-Coat GmbH.

Further information can be found in Note 2 “Acquisitions and Divestments”.

Foundation and liquidation of subsidiaries
As of September 20, 2019, Oerlikon Balzers Coating Vietnam Co., Ltd. was founded.

As of August 2, 2019, SAC Oerlikon Automotive Components B.V. in liquidation was deleted from the commercial register.

Mergers
On August 1, 2019, Scoperta Inc. was merged into Oerlikon Metco (US) Inc.

On September 27, 2019, Oerlikon Textile do Brasil Máquinas Ltda. was merged into Oerlikon Balzers Revestimentos Metálicos Ltda.

On October 23, 2019, OT Textile Verwaltungs GmbH was merged into OC Oerlikon Textile Holding AG, Pfäffikon.

Divestments
On July 29, 2018, the Oerlikon Group signed an agreement to divest its Drive Systems Segment to Dana Incorporated. The transaction closed on February 28, 2019. The following companies were sold as part of this transaction: GrazianoFairfield AG, GK Drive Systems (Suzhou) Co. Ltd, GK Drive Systems Baoding Co. Ltd., Graziano Fairfield E-Drive Systems (Changshu) Co., Ltd, Oerlikon Drive Systems (Suzhou) Co. Ltd., Transmission Trading Limited, Graziano Trasmissioni UK Ltd., Vocis Limited, Fairfield Atlas Ltd., Graziano Trasmissioni India Pvt. Ltd., Oerlikon Graziano S.p.A., Fairfield Manufacturing Company Inc., TH Licensing Inc.

Non-controlling interests
The following Group companies have non-controlling interests as at December 31:

		Non-controlling interests in %	
Company	**Country**	**2019**	2018
GK Drive Systems (Suzhou) Co. Ltd.	China	–	49.00
GK Drive Systems Baoding Co. Ltd.	China	–	49.00
Oerlikon Barmag Huitong (Yangzhou) Engineering Co. Ltd.	China	40.00	40.00
Zigong Golden China Speciality Carbides Co., Ltd.	China	40.00	40.00
Fairfield Atlas Ltd.	India	–	1.63
Oerlikon Balzers Coating Luxembourg S.à r.l.	Luxembourg	40.00	40.00
Oerlikon Balzers Coating Korea Co. Ltd.	South Korea	10.10	10.10

The share that non-controlling interests have in the Oerlikon Group's activities and cash flows is not material.

Interests in joint arrangements and associates
The Oerlikon Group does not hold any significant interests in joint arrangements and associates.

Group structure

Note 1 (cont.)

Significant prior-year changes in Group structure

Acquisitions
On February 19, 2018, the Oerlikon Group acquired all outstanding equity interests of DIARC-Technology Oy.

On March 1, 2018, the Oerlikon Group acquired all outstanding equity interests of Sucotec AG.

On April 25, 2018, the Oerlikon Group acquired all outstanding equity interests of AC-Automation GmbH & Co. KG and AC-Verwaltungs GmbH.

On May 31, 2018, the Oerlikon Group acquired all outstanding equity interests of DiSanto Technology Inc. The company was subsequently renamed to Oerlikon AM Medical Inc.

On June 12, 2018, the Oerlikon Group acquired all outstanding equity interests of Renfort Investments Sp.z.o.o. The company was subsequently renamed to Oerlikon Business Services Europe Sp.z.o.o.

On October 8, 2018, the Oerlikon Group acquired all outstanding equity interests of Härterei Dipl.-Ing. Peter Eicker KG.

Further information can be found in Note 2 “Acquisitions and Divestments”.

Foundation of subsidiaries
As of January 25, 2018, GK Drive Systems Baoding Co. Ltd. was founded (Oerlikon’s share being 51%).

As of May 18, 2018, Graziano Fairfield E-Drive Systems (Changshu) Co. Ltd. was founded.

As of October 29, 2018, Oerlikon Balzers Coating Taiwan Co. Ltd. was founded.

As of December 18, 2018, OT Textile Verwaltungs GmbH i. Gr. was founded.

Mergers
On July 13, 2018, DMX SAS was merged into Oerlikon Balzers France SAS.

On October 8, 2018, Härterei Dipl.-Ing. Peter Eicker KG was merged into Oerlikon Metaplas GmbH.

On October 31, 2018, DIARC-Technology Oy was merged into Oerlikon Balzers Coating Finland Oy.

On November 30, 2018, citim AM LLC was merged into Oerlikon AM US Inc.

On November 30, 2018, Melco Industries Inc. was merged into Oerlikon Management USA Inc.

On November 30, 2018, OC Oerlikon Textile Schweiz AG, Pfäffikon, was merged into OC Oerlikon Textile Holding AG, Pfäffikon.

On December 20, 2018, Primateria AB was merged into Oerlikon Balzers Coating Sweden AB.

Divestments
On November 21, 2018, the Oerlikon Group sold 50% of Oerlikon RS GmbH (company without significant operations) to a third party. The company is no longer controlled by the Group and therefore not consolidated anymore. The sale of the 50% share of Oerlikon RS GmbH had no effect on the consolidated income statement.

Acquisitions and Divestments

Note 2

Acquisitions in 2019

On March 29, 2019, Oerlikon acquired **TeroLab Surface GmbH**, a German provider of thermal spray coating services based in Langenfeld. The acquisition will expand the Surface Solutions Segment's portfolio of thermal spray coating services for industries like agriculture, steel and automotive as well as to machine OEMs.

On July 31, 2019, Oerlikon acquired **AMT AG**, a thermal spray coating equipment manufacturer based in Kleindöttingen, Switzerland. The acquisition extends the product and service offerings for thermal applications and turnkey solutions of the Surface Solutions Segment.

On December 23, 2019, Oerlikon acquired **D-Coat GmbH**, a provider of diamond coating technology based in Erkelenz, Germany. The acquisition expands Oerlikon Balzers' portfolio of surface treatment technologies, especially for cutting tools applied in the aerospace and automotive industries.

The total purchase consideration for the acquisitions mentioned above amounts to CHF 32 million and it includes CHF 30 million paid in cash in the reporting period and contingent consideration of CHF 2 million. The contingent consideration relates to earnout arrangements which are based on financial metrics (EBITDA targets) as well as non-financial metrics (operational targets). The potential undiscounted amount payable under the agreements amounts to between CHF 0 million and CHF 3 million. The fair value of the contingent consideration was estimated by calculating the present value of the expected future cash flows. The calculations are based on the current estimates of the fulfillment of the conditions on which the payment of the earnouts depends.

The goodwill of CHF 14 million arising from the acquisitions is mainly attributable to a strengthening of the market position, the expertise of the workforce and the expected synergies from combining the operations of the acquired businesses with the Oerlikon Group. None of the goodwill is expected to be deductible for income tax purposes.

The following table summarizes the consideration paid for the acquisitions and the fair value of assets acquired and liabilities assumed at the acquisition date.

Purchase consideration

in CHF million	2019
Cash	30
Contingent consideration	2
Total consideration	**32**

Recognized amounts of identifiable assets acquired and liabilities assumed

in CHF million	2019
Cash and cash equivalents	1
Trade receivables	4
Other receivables, prepaid expenses and accrued income	1
Inventories	8
Property, plant and equipment	6
Right-of-use assets	2
Intangible assets	13
Trade payables	–2
Current contract liabilities	–6
Other current payables and accrued liabilities	–3
Non-current lease liabilities	–1
Non-current post-employment benefit liabilities	–1
Deferred tax liabilities	–3
Total identifiable net assets	**18**
Goodwill	14
Total	**32**

The amounts recognized for the acquisitions are preliminary. Due to the timing of the acquisitions, certain information required to complete the recognition of the acquisitions remains outstanding.

Acquisition-related costs of below CHF 1 million have been recognized under other expense in the consolidated income statement for the period ended December 31, 2019.

Since their acquisition, the acquired businesses have contributed CHF 16 million to total sales and CHF -2 million to the net result of the Oerlikon Group. Had the transactions taken place at January 1, 2019, the Group's total sales and net result for the period ended December 31, 2019 would have amounted to approximately CHF 2 609 million and CHF -66 million, respectively. These amounts have been determined based on the assumption that the fair-value adjustments at the acquisition date would have been the same at January 1, 2019.

Acquisitions and Divestments

Note 2 (cont.)

Acquisitions in 2018
On February 19, 2018, Oerlikon acquired **DIARC-Technology Oy**, a provider of surface engineering technologies and services in Finland. The acquisition enhances the range of technologies provided by Oerlikon Balzers in the automotive and precision components industries and expands its portfolio of surface treatments.

On March 1, 2018, Oerlikon acquired **Sucotec AG**, a Swiss manufacturer specializing in CVD (Chemical Vapour Deposition) equipment for the tools market. The acquisition enhances the range of products and services provided by Oerlikon Balzers.

On April 25, 2018, Oerlikon acquired **AC-Automation GmbH & Co. KG**, a German engineering company specializing in large-scale plant automation solutions for the textile and packaging industries. The integration of AC-Automation in Oerlikon expands the market-leading technology portfolio of the Manmade Fibers Segment.

On May 31, 2018, Oerlikon acquired **DiSanto Technology Inc.** The company is based in Connecticut, USA, and offers manufacturing and engineering services for surgical implant and instrument systems, specializing in the orthopedic and spine markets. The acquisition allows Oerlikon's Additive Manufacturing Business Unit, part of the Surface Solutions Segment, to further expand into the medical market.

On October 8, 2018, Oerlikon acquired **Härterei Dipl.-Ing. Peter Eicker KG** in Germany, a specialised heat treatment supplier for the automotive industry. The acquisition allows Oerlikon Balzers to expand the plasma nitriding service offering for customers and to strengthen its position in the automotive market.

The total purchase consideration for the acquisitions mentioned above amounts to CHF 38 million and it includes CHF 34 million paid in cash in 2018, CHF 1 million payable in 2019 and 2020 and contingent consideration of CHF 3 million. The contingent consideration relates to earnout arrangements that are based on financial metrics (achievement of certain predefined sales targets) as well as non-financial metrics (operational targets and employee retention targets). The potential undiscounted amount payable under the agreements amounts to between CHF 0 million and CHF 3 million. The fair value of the contingent consideration was estimated by calculating the present value of the expected future cash flows. The calculations are based on the current estimates of the fulfillment of the conditions on which the payment of the earnouts depends and a discount rate of 2.7%.

The goodwill of CHF 14 million arising from the acquisitions is mainly attributable to the strengthening of the market position, the expertise of the workforce and the expected synergies from combining the operations of the acquired businesses with the Oerlikon Group. Goodwill in the amount of CHF 8 million is expected to be deductible for income tax purposes.

The following table summarizes the consideration paid for the acquisitions and the fair value of assets acquired and liabilities assumed at the acquisition date.

Purchase consideration

in CHF million	**2018**
Cash	34
Consideration payable within the next two years	1
Contingent consideration	3
Total consideration	**38**

Recognized amounts of identifiable assets acquired and liabilities assumed

in CHF million	**2018**
Cash and cash equivalents	15
Trade receivables	3
Other receivables, prepaid expenses and accrued income	8
Inventories	6
Loans and other non-current financial receivables	2
Property, plant and equipment	9
Intangible assets	13
Deferred tax assets	2
Trade payables	–2
Current contract liabilities	–20
Other current payables and accrued liabilities	–8
Other non-current liabilities	–1
Deferred tax liabilities	–1
Total identifiable net assets	**26**
Goodwill	14
Gain from bargain purchase	–2
Total	**38**

Acquisition-related costs of CHF 1 million and a gain from bargain purchase of CHF 2 million have been recognized under other expense/income in the consolidated income statement for the period ended December 31, 2018. The gain from bargain purchase resulted from the excess of the fair value of net assets acquired over the purchase price.

Acquisitions and Divestments

Note 2 (cont.)

From the date of acquisition until December 31, 2018, the acquired businesses have contributed CHF 24 million to total sales and CHF -5 million to the net result of the Oerlikon Group. Had the transactions taken place at January 1, 2018, the Group's total sales and net result for the period ended December 31, 2018 would have amounted to approximately CHF 2 631 million and CHF 244 million, respectively. These amounts have been determined based on the assumption that the fair-value adjustments at the acquisition date would have been the same at January 1, 2018.

Divestment of the Drive Systems Segment
On July 29, 2018, the Oerlikon Group signed an agreement to divest its Drive Systems Segment to Dana Incorporated. Consequently, the Drive Systems Segment was presented as a disposal group held for sale and as discontinued operations per December 31, 2018, comprising assets of CHF 866 million and liabilities of CHF 363 million. The transaction closed on February 28, 2019, resulting in the derecognition of assets of CHF 881 million and liabilities of CHF 503 million.

The total consideration amounts to CHF 625 million (including CHF 133 million for the settlement of pre-existing intragroup financing), all of which has been received as cash and cash equivalents in the reporting period.

The Oerlikon Group incurred a loss on disposal from this transaction in the amount of CHF -184 million in 2019, which is included in the result from discontinued operations, net of income taxes. This amount includes a loss from the reclassification of cumulative exchange differences and other items of other comprehensive income that were previously recognized in the equity of CHF -284 million. The loss is fully attributable to the shareholders of the parent.

In connection with this divestment, Oerlikon has assumed certain customary obligations such as representations and warranties as well as certain indemnities. The indemnities cover in particular tax- and environment-related topics. The limitations applicable to these indemnities vary, but are customary for a transaction of this nature.

Divestment of the tape and monofilament technologies in 2018
On May 22, 2018, the Oerlikon Group signed an agreement with the Austrian Starlinger Group to divest its tape and monofilament technologies. The transaction closed on October 1, 2018, resulting in the derecognition of assets of CHF 26 million and liabilities of CHF 7 million from the Manmade Fibers Segment.

The Oerlikon Group incurred a loss on disposal from this transaction in the amount of CHF 2 million, which is included in other expense in the consolidated income statement for the year ended December 31, 2018.

Result from discontinued operations

in CHF million	**January 1 to December 31, 2019** **Drive Systems Segment**	January 1 to December 31, 2018 Drive Systems Segment
Total sales	**141**	**845**
Total expenses	–125	–725
Result before taxes (EBT) from operating activities	**16**	**120**
Income taxes	–8	–25
Result from operating activities	**8**	**94**
Gain on sale of discontinued operations before reclassification of translation differences and other items of other comprehensive income	93	–
Reclassification of translation differences and other items of other comprehensive income[1]	–284	–
Costs related to divestment	–	–21
Income tax on sale of discontinued operations	7	–
Loss on sale of discontinued operations, net of income taxes	**–184**	**–21**
Result from discontinued operations, net of income taxes	**–176**	**73**
Attributable to:		
Shareholders of the parent	–176	72
Non-controlling interests	–	1
Earnings per registered share discontinued operations in CHF	–0.52	0.21
Diluted earnings per registered share discontinued operations in CHF	–0.52	0.21

[1] In the year that a foreign entity is divested, the cumulative translation differences and certain other items of other comprehensive income recorded in other comprehensive income (equity) are reclassified to the income statement as part of the gain or loss upon disposal.

Acquisitions and Divestments

Note 2 (cont.)

Cash flow from discontinued operations

in CHF million	January 1 to December 31, 2019 Drive Systems Segment	January 1 to December 31, 2018 Drive Systems Segment
Cash flow from operating activities	–26	82
Cash flow from investing activities[1]	–5	–75
Cash flow from financing activities	–1	–
Net cash flow from discontinued operations	**–32**	**7**

[1] Excludes proceeds from sale of discontinued operations, net of cash disposed of.

Effect of the disposal of the Drive Systems Segement on the balance sheet

in CHF million	February 28, 2019
Cash and cash equivalents	–76
Current financial investments and derivatives	–4
Trade and trade notes receivable	–152
Other current receivables, prepaid expenses and accrued income	–21
Current income tax receivables	–7
Inventories	–199
Loans and other non-current financial receivables	–1
Non-current financial investments	–7
Property, plant and equipment	–298
Right-of-use assets	–18
Goodwill and intangible assets	–78
Deferred tax assets	–19
Trade payables	144
Current contract liabilities	11
Current lease liabilities	5
Current financial liabilities and derivatives	22
Other current payables	13
Accrued liabilities	38
Current income taxes payable	6
Current post-employment benefit liabilities	1
Other current provisions	22
Non-current lease liabilities	13
Non-current loans and borrowings	110
Other non-current liabilities	2
Non-current post-employment benefit liabilities	56
Deferred tax liabilities	26
Other non-current provisions	34
Net assets	**–378**
Consideration received (cash and cash equivalents)	492
Settlement of pre-existing intragroup financing	133
Cash and cash equivalents disposed of	–76
Net cash inflow	**549**

Acquisitions and Divestments

Note 2 (cont.)

Disposal group classified as held for sale as at December 31, 2018
The assets and liabilities of the disposal group classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell and are presented separately on the balance sheet. Based on the decision to sell the disposal group, impairment reviews were performed which revealed no need for impairment. Fair value less cost to sell has been determined based on the expected sales proceeds as contractually agreed with the third party buyers. This is a level 3 fair value measurement.

As of December 31, 2018, the following assets and liabilities have been classified as held for sale:

Assets classified as held for sale

in CHF million	2018 Drive Systems Segment
Cash and cash equivalents	94
Current financial investments and derivatives	3
Trade and trade notes receivable	143
Other receivables, prepaid expenses and accrued income	21
Current income tax receivables	7
Inventories	192
Non-current financial investments	8
Property, plant and equipment	300
Intangible assets	77
Deferred tax assets	21
Total assets classified as held for sale	**866**

Liabilities classified as held for sale

in CHF million	2018 Drive Systems Segment
Trade payables	153
Current contract liabilities	12
Current financial liabilities and derivatives	2
Other current payables	14
Accrued liabilities	37
Current income taxes payable	4
Current post-employment benefit liabilities	1
Other current provisions	21
Non-current loans and borrowings	6
Other non-current liabilities	2
Non-current post-employment benefit liabilities	55
Deferred tax liabilities	22
Other non-current provisions	34
Total liabilities classified as held for sale	**363**

Revenue

Note 3

Disaggregation of revenue from contracts with customers by Segment and market[1]:

in CHF million	Surface Solutions Segment		Manmade Fibers Segment		Total	
	January 1 to December 31, 2019	January 1 to December 31, 2018	**January 1 to December 31, 2019**	January 1 to December 31, 2018	**January 1 to December 31, 2019**	January 1 to December 31, 2018
Automotive	372	397	–	–	372	397
Aviation	245	204	–	–	245	204
General Industry	381	393	–	–	381	393
Plant Engineering	–	–	138	146	138	146
Power Generation	65	71	–	–	65	71
Special Filaments	–	–	120	248	120	248
Textile Applications	–	–	848	705	848	705
Tooling	425	446	–	–	425	446
Total revenue from contracts with customers	**1 488**	**1 511**	**1 106**	**1 098**	**2 593**	**2 609**

[1] The definitions of the different markets in the Manmade Fibers Segment have been adjusted to better align with the product lines. For comparability reasons prior year figures have been adjusted accordingly.

Significant changes in contract assets and contract liabilities balances during the period:

in CHF million	**2019**	2018
Opening balance - Contract assets	**32**	**41**
Opening balance - Contract liabilities	**–450**	**–375**
Net opening balance	**–418**	**–334**
Increase due to revenue recognized over time during the year (including revenue catch-up)[1]	733	688
Decrease due to transfer of AR (sales invoiced, but no advance payments received) or due advance payments received (not yet invoiced)	–615	–772
Additions of contract costs	–	1
Amortization of contract costs	–	–1
Net closing balance	**–300**	**–418**
Thereof presented as contract assets[2]	**13**	**32**
Thereof presented as contract liabilities	**–313**	**–450**

[1] Of which CHF 450 million were already included in contract liabilities at the beginning of the period (previous year: CHF 375 million).

[2] Thereof CHF 1 million recognized as non-current contract assets, as it relates to the cost incurred to fulfill a contract (previous year: CHF 1 million).

Transaction price allocated to the remaining performance obligations:

Revenue related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date is expected to be recognized in the future as following:

in CHF million	**2019**	2018
< 1 year	908	913
1-2 years	634	563
2-3 years	360	210
Beyond 3 years	–	12
Total	**1 902**	**1 698**

Other income and expense

Note 4

in CHF million	2019	2018
Licensing, patent and know-how income	3	2
Other income	42	40
Other income	**45**	**42**
Taxes not based on income	–9	–9
Other expense	–12	–21
Other expense	**–21**	**–30**
Other income and expense, net	**24**	**12**

Expenses included in EBIT

Note 5

in CHF million	2019	2018
Personnel expense		
Salaries and wages	650	627
Social security and other employee benefits[1]	172	154
Total	**822**	**782**
Depreciation and amortization		
– Property, plant and equipment	97	97
of which in:		
Cost of sales	82	76
Marketing and selling	1	2
Research and development	6	6
Administration	9	12
– Right-of-use assets	35	–
of which in:		
Cost of sales	22	–
Marketing and selling	3	–
Research and development	1	–
Administration	10	–
– Intangible assets	69	65
of which in:		
Cost of sales	2	1
Marketing and selling	19	19
Research and development	38	35
Administration	10	10
Total	**201**	**161**

[1] Included in the expense for social security and other employee benefits is CHF 28 million (previous year: CHF 29 million) attributable to specific post-employment benefit plans of the individual companies. The remainder includes the legally required benefit contributions of Group companies, as well as other social security expenses.

Financial income and expense

Note 6

in CHF million	2019	2018
Interest income	7	9
Other financial income	2	2
Foreign currency gain, net	–	10
Financial income	**9**	**21**
Interest on financial debt	–8	–9
Interest on liabilities for defined benefit plans, net	–6	–5
Interest expense for lease liabilities	–7	–
Other financial expense	–3	–6
Net loss on hedging transactions recognized in the income statement	–	–4
Financial expense	**–25**	**–24**
Financial expense, net	**–15**	**–3**

Income taxes

Note 7

in CHF million	2019 Continuing operations	2019 Discontinued operations	2019 Total	2018 Continuing operations	2018 Discontinued operations	2018 Total
Current income tax expense (-)/ income (+)	–65	5	**–61**	–63	–17	**–80**
Deferred tax income (+)/ expense (-)	26	–6	**20**	–4	–9	**–14**
Total	**–39**	**–1**	**–40**	**–68**	**–26**	**–94**

Analysis of tax expense

in CHF million	2019	2018
Result before taxes from continuing operations	149	240
Result before taxes from discontinued operations	–175	99
Total	**–26**	**339**
Tax expense from continuing operations	–39	–68
Tax expense from discontinued operations	–1	–26
Total	**–40**	**–94**
Expected tax expense (-)[1]	–39	–61
Difference between actual and expected tax expense	**–1**	**–33**

The difference between the actual and the expected tax expense is calculated using the weighted average tax rate of the continuing operations of Oerlikon Group (expected tax expense) of 27% (previous year expected tax rate: 25%) and the effective tax expense arises from the factors mentioned below. The calculation of the previous year is adjusted to consider the divestment of the Drive Systems Segment. Further, dividends between group companies are now excluded from the tax reconciliation. In prior year, these were included in the tax reconciliation, expected tax expenses and the expected tax rate.

The comparative figures presented were changed for expected tax expense from CHF -133 million to CHF -61 million in order to ensure a consistent presentation with the 2019 figures.

Non-taxable income and non-deductible expenses	5	–22
Unrecognized deferred taxes on current-year losses	–6	–9
Non-refundable withholding tax	–8	–11
Utilization of not recognized tax loss carry forwards from previous periods	–	6
Income tax for prior years	1	2
Recognition of previously not recognized tax losses	8	–
Other effects	–	1
Difference between actual and expected tax expense	**–1**	**–33**

[1] The expected tax expense is calculated from the various profits and losses of the individual Group companies, using local tax rates. From these a composite tax rate is developed, averaged over the whole Group.

Deferred taxes

Note 7 (cont.)

Composition of deferred taxes

in CHF million	2019 Deferred tax balances Assets	2019 Deferred tax balances Liabilities	2018 Deferred tax balances Assets	2018 Deferred tax balances Liabilities
Trade receivables	2	–	2	1
Other receivables and accruals	–	23	1	15
Inventories	46	–	44	–
Post-employment benefit assets	–	1	–	1
Financial assets	–	5	–	8
Property, plant and equipment (incl. right-of-use assets)	29	60	28	45
Assets classified as held for sale	–	–	–21	–
Intangible assets	15	132	17	162
Assets	**93**	**222**	**72**	**233**
Trade payables	1	2	1	1
Other current and non-current liabilities	12	21	3	23
Financial liabilities	47	–	9	–
Liabilities classified as held for sale	–	–	–	–22
Provisions	87	3	107	3
Liabilities	**147**	**26**	**120**	**6**
Deferred tax asset from recognized tax loss carry forwards[1]	20	–	24	–
Offsetting	– 118	– 118	– 106	– 106
Total	**142**	**128**	**110**	**132**

[1] As per end of 2019 tax loss carry forwards of CHF 71 million for federal taxes and CHF 50 million for state/local taxes were recognized (previous year: CHF 88 million for federal taxes and CHF 38 million for state/local taxes).

Movement in deferred tax balances during the year

in CHF million	2019	2018
Balance at January 1	**–23**	**–14**
Recognized in profit or loss	26	–14
Recognized in other comprehensive income	10	4
Acquired in acquisitions (see Note 2)	–3	1
Other	2	–
Initial application of IFRS 16	2	–
Balance at December 31	**14**	**–23**

Unrecognized deferred tax liabilities:

At December 31, 2019 there are temporary differences of CHF 274 million (previous year, from continuing operations: CHF 270 million) with regard to investments in subsidiaries for which no deferred tax liabilities with a potential tax effect of CHF 30 million (previous year, from continuing operations: CHF 29 million) were recognized since the Group controls the timing of the reversal of the related taxable temporary differences and management is convinced that they will not reverse in the foreseeable future.

Deferred Taxes on temporary differences amounting to CHF 320 million with a potential tax effect of CHF 15 million (previous year: CHF 16 million) are not recognized.

Deferred taxes

Note 7 (cont.)

Utilization of tax loss carry forwards is limited as follows:

	2019		2018		2019		2018	
	Tax losses not recognized as deferred tax assets		Tax losses not recognized as deferred tax assets		**Total tax loss carry forwards**		Total tax loss carry forwards	
in CHF million	**federal tax**	**state/local tax**	federal tax	state/local tax	**federal tax**	**state/local tax**	federal tax	state/local tax
1 year	–	3	2	6	–	3	2	6
2 years	–	8	7	5	–	8	7	5
3 years	2	14	11	14	2	14	17	14
4 years	27	19	148	160	27	19	153	160
5 years	–	5	9	27	1	5	11	27
Over 5 years	41	145	52	131	49	147	63	134
No expiry	116	36	195	64	178	84	259	98
Total	**187**	**230**	**424**	**406**	**258**	**280**	**512**	**443**

Compared to previous year tax loss carry forwards not recognized decreased on federal level (decrease of CHF 237 million). On state level the tax loss carry forwards not recognized decreased by CHF 176 million. This is mainly due to the sales of the Drive Systemes Segment.

The deferred tax on not recognized tax loss carry forwards would amount to CHF 47 million in 2019 (previous year: CHF 79 million).

Earnings per share

Note 8

Earnings per share of CHF -0.21 (previous year: CHF 0.71) have been calculated on the basis of a net result of CHF -70 million (previous year: CHF 240 million), attributable to shareholders of the parent, and the average weighted number of outstanding shares (issued shares less treasury shares). In 2019, the average weighted number of shares entitled to vote and receive dividends amounted to 338 494 600 (previous year: 339 266 670). Diluted earnings per share amounted to CHF -0.21 (previous year: CHF 0.71). The average weighted number of shares used in the calculation of diluted earnings per share amounted to 338 494 600 (previous year: 339 266 670).

Number of outstanding shares	2019	2018
Total shares issued at year-end	339 758 576	339 758 576
Weighted average number of shares outstanding for the year	338 494 600	339 266 670
Effect of potential exercise of option rights	–	–
Weighted average number of shares diluted for the year	338 494 600	339 266 670

Cash and cash equivalents

Note 9

in CHF million	2019	2018
Cash, postal and bank current accounts	358	328
Time deposits	152	305
Money market funds[1]	148	131
Total	**658**	**764**

[1] Investment grade rated money market funds available on a daily basis.

CHF 256 million (previous year: CHF 278 million) of total cash and cash equivalents are held in countries in which local exchange control regulations with regard to capital export exist. If the Group complies with legal and tax regulations, such liquid funds are at its disposal within a reasonable period of time.

Cash and cash equivalents are held in the following currencies:

Currency

in CHF million	2019	2018
CHF	223	328
EUR	88	106
USD	25	24
CNY	281	249
Other	41	57
Total	**658**	**764**

Financial investments

Note 10

in CHF million	2019	2018
Deposits	7	102
Debt and equity securities	30	27
Foreign exchange contracts	3	3
Current financial investments and derivatives	**41**	**133**
Investments in associates and joint arrangements	10	9
Other investments[1]	19	19
Non-current financial investments	**29**	**29**
Total	**70**	**162**

[1] Non-current other investments mainly include a 14.54% investment in Kinexon Beteiligungsgesellschaft mbH (an unquoted equity instrument) that is carried at fair value through other comprehensive income.

Loans and receivables

Note 11

in CHF million	2019	2018
Current		
Trade receivables	288	280
Trade notes receivable	21	25
Current contract assets	12	31
Other receivables[1]	96	92
Non-current		
Loans and other non-current financial receivables[2]	15	24
Non-current contract assets	1	1
Total	**432**	**453**

[1] Other receivables include mainly receivables from Swiss and foreign tax authorities (VAT).

[2] Includes indemnification assets related to provisions for acquiree's contingent liabilities of CHF 10 million (previous year: CHF 19 million).

Inventories

Note 12

	2019			2018		
in CHF million	Gross value	Value adjustment	**Net value**	Gross value	Value adjustment	**Net value**
Raw material and components	124	–10	**114**	122	–8	**114**
Work in progress	125	–4	**121**	131	–5	**126**
Finished goods and trade merchandise	127	–23	**103**	127	–23	**104**
Total	376	–37	**338**	380	–36	**343**

Amounts charged to the income statement for write-downs of inventories in the reporting year were CHF 4 million (previous year: CHF 3 million). In 2019, inventories of CHF 1 101 million (previous year: CHF 1 081 million) were recognized as an expense during the period and included in cost of sales.

Property, plant and equipment

Note 13

in CHF million	Plant, equipment and furniture	Production and administration buildings	Developed land	Facilities under construction	**2019 Total**
Cost					
Balance at December 31, 2018, as reported	1 226	384	37	62	1 709
Adjustment on initial application of IFRS 16	–2	–53	–1	–	–55
Adjusted balance at January 1, 2019	1 224	331	36	62	1 654
Conversion differences	–42	–8	–1	–1	–51
Changes in the scope of consolidated companies	2	2	1	–	6
Additions	58	1	–	75	135
Disposals	–6	–2	–1	–	–9
Transfers	72	1	–	–77	–4
Balance at December 31, 2019	1 310	326	36	59	1 730
Accumulated depreciation and impairment losses					
Balance at December 31, 2018, as reported	–840	–202	–	–	–1 042
Adjustment on initial application of IFRS 16	1	3	–	–	4
Adjusted balance at January 1, 2019	–840	–198	–	–	–1 038
Conversion differences	29	5	–	–	34
Depreciation	–86	–11	–	–	–97
Impairment losses	–	–1	–	–	–2
Disposals	4	–	–	–	4
Transfers	2	1	–	–	3
Balance at December 31, 2019	–891	–205	–	–	–1 096
Net Group values at December 31, 2018 as reported	386	182	37	62	667
Adjustment on initial application of IFRS 16	–1	–49	–1	–	–52
Net book values at January 1, 2019	385	133	36	62	616
Net book values at December 31, 2019	**419**	**121**	**36**	**59**	**634**

Open purchase commitments for property, plant and equipment at the end of 2019 amounted to CHF 8 million (previous year: CHF 18 million, thereof CHF 6 million relate to discontinued operations). Open purchase commitments for financial leasing at the end of 2018 amounted to CHF 9 million.

in CHF million	Plant, equipment and furniture	Production and administration buildings	Developed land	Facilities under construction	**2018 Total**
Cost					
Balance at January 1, 2018	1 716	426	66	59	2 267
Conversion differences	–51	–10	–1	–2	–64
Changes in the scope of consolidated companies	9	–	–	–	9
Additions	103	38	–	92	233
Disposals	–11	–1	–	–	–12
Reclassifications to assets held for sale	–585	–90	–29	–20	–724
Other movements	–1	2	–	–1	–
Transfers	46	19	1	–67	–1
Balance at December 31, 2018	1 226	384	37	62	1 709
Accumulated depreciation and impairment losses					
Balance at January 1, 2018	–1 199	–222	–1	–	–1 422
Conversion differences	36	5	–	–	41
Depreciation	–106	–14	–	–	–120
Impairment losses	–1	–	–	–	–1
Disposals	7	1	–	–	8
Reclassifications to assets held for sale	420	29	1	–	450
Transfers	1	–1	–	–	–
Balance at December 31, 2018	–840	–202	–	–	–1 042
Net book values at January 1, 2018	517	204	65	59	845
Net book values at December 31, 2018	**386**	**182**	**37**	**62**	**667**
Of which assets held under finance leases	2	38	–	–	40

Right-of-use assets

Note 14

Leases as lessee (IFRS 16)

in CHF million	Plant, equipment and furniture	Production and administration buildings	2019 Total
Balance at January 1, 2019	**15**	**208**	**223**
Depreciation	–7	–28	–35
Additions	14	15	29
Disposals	–	–3	–3
Changes in the scope of consolidated companies	–	2	2
Conversion differences	–	–5	–5
Balance at December 31, 2019	**22**	**189**	**211**

One material contract with a right-of-use asset of 16 CHF million over a 20 years contract duration starting in January 2020 has been signed but not yet included in the balance sheet.

Amounts included in the consolidated income statement

Leases under IFRS 16

in CHF million	2019
Depreciation on right-of-use assets	–35
Expenses relating to short-term leases	–1
Expenses relating to low-value leases, excluding short-term leases of low-value assets	–1
Expenses for variable lease payments not included in lease liabilities	–
Interest on lease liabilities (included in financial expense)	–7

Operating leases under IAS 17

in CHF million	2018
Lease expense	–48
thereof relating to discontinued operations	–7
Net (continuing operations)	–41

Amounts included in the statement of cash flows 2019

in CHF million	2019
Total cash outflow for leases	–45

Payments under non-cancellable operating leases (as previous year disclosed under IAS 17)

in CHF million	2018
Due in 1st year	29
Due in 2nd year	23
Due in 3rd year	19
Due in 4th year	14
Due in or beyond 5th year	53
Total	**138**

Leases as lessor

The Oerlikon Group leases out selected buildings and machines. All leases are classified as operating leases from a lessor perspective.

During 2019, the Group recognized rental income of CHF 5 million.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

in CHF million	2019
Due in 1st year	4
Due in 2nd year	3
Due in 3rd year	2
Due in or beyond 4th year	5
Total	**14**

Goodwill and intangible assets

Note 15

in CHF million	Goodwill	Brands	Development costs	Other intangible assets[1]	2019 Total
Cost					
Balance at January 1, 2019	738	150	163	627	1 677
Conversion differences	–20	–4	–2	–14	–40
Changes in the scope of consolidated companies	14	–	–	13	27
Additions	–	–	31	12	44
Disposals	–	–	–	–5	–5
Transfers	–	–	–	1	1
Balance at December 31, 2019	732	146	191	635	1 704
Accumulated amortization and impairment losses					
Balance at January 1, 2019	–196	–	–74	–268	–537
Conversion differences	7	–	1	6	14
Amortization	–	–	–17	–52	–69
Disposals	–	–	–	5	5
Balance at December 31, 2019	–189	–	–89	–309	–588
Net book values at January 1, 2019	542	150	89	359	1 139
Net book values at December 31, 2019	**543**	**146**	**102**	**326**	**1 117**

[1] The Net book values contain mainly acquired customer relations (CHF 220 million), licenses, patents and technologies (CHF 70 million) and software (CHF 25 million).

The capitalized development costs pertain to the Segments as follows:

Capitalized development costs for the period

in CHF million	2019	2018
Surface Solutions Segment	22	23
Manmade Fibers Segment	9	7
Total	**31**	**30**

Goodwill and intangible assets

Note 15 (cont.)

Goodwill and brands are attributed to the Segments and Business Units as follows:

Goodwill and brands

in CHF million	Goodwill 2019	Goodwill 2018	Brands 2019	Brands 2018
Surface Solutions Segment	**428**	**423**	**21**	**22**
- Balzers Industrial Solutions	286	256	2	2
- Metco Aero & Energy	125	92	19	19
- Automotive Solutions	–	57	–	–
- Additive Manufacturing	17	18	–	–
Manmade Fibers Segment	**114**	**119**	**125**	**128**
Total	**543**	**542**	**146**	**150**

Goodwill and other intangible assets with indefinite useful life are allocated to those cash–generating units (CGUs) that are expected to benefit from the relevant business combination. The Manmade Fibers Segment corresponds to one CGU and is the lowest level at which goodwill is monitored by management. For the Surface Solutions Segment the Chief Operation Decision Maker (CODM) receives information for the businesses Balzers Industrial Solutions, Metco Aero & Energy, Automotive Solutions and Additive Manufacturing on Business Unit level. As per the end of 2019, the Business Unit Automotive Solutions was dissolved and the corresponding goodwill of CHF 55 million (previous year: CHF 57 million) was split equally on the basis of the respective fair values between Balzers Industrial Solutions and Metco Aero & Energy.

Goodwill and intangible assets with indefinite useful life are tested annually for possible impairment, using discounted cash flow analysis. Asset values used in the impairment testing are based on value in use (fair value less costs of disposal for the Business Unit Additive Manufacturing) and on the latest forecasts approved by management. The fair value measurement was categorized as a Level 3 based on the inputs in the valuation technique used. The forecast period used for future cash flows covers the years 2020 to 2024 with the exception of Business Unit Additive Manufacturing, where a 10 years forecast period from 2020 to 2029 was taken into calculation. The discount rates used are based on the weighted average cost of capital (WACC), derived from peer groups adjusted to specific risks of the businesses concerned and the countries in which they operate. The capital costs were determined using the capital asset pricing model (CAPM).

The annual goodwill and brand impairment test carried out at Segment level for Manmade Fibers and on Business Unit level for Surface Solutions supported the carrying amounts and therefore no need for impairment was identified.

Detailed results of the impairment testing are presented below for goodwill and brands allocated to the Surface Solutions Business Units and the Manmade Fibers Segment.

The following growth and pre-tax discount rates were used:

Growth and discount rates per Segment and Business Unit

	Growth rates[1] 2019	Growth rates[1] 2018	Discount rates[2] 2019	Discount rates[2] 2018
Surface Solutions Segment				
- Balzers Industrial Solutions	2.0%	2.0%	9.3%	10.2%
- Metco Aero & Energy	2.0%	2.0%	9.8%	10.0%
- Automotive Solutions	n.a.	2.0%	n.a.	10.2%
- Additive Manufacturing	3.0%	3.0%	9.9%	11.9%
Manmade Fibers Segment	**2.0%**	**2.0%**	**11.6%**	**11.7%**

[1] For periods following the five-year plan period (for Balzers Industrial Solutions, Metco Aero & Energy and Manmade Fibers Segment after 2024, for Additive Manufacturing after 2029).

[2] Discount rates were calculated considering IFRS 16 and the resulting target capital structure

For the Surface Solutions Business Units Balzers Industrial Solutions and Metco Aero & Energy as well as the Manmade Fibers Segment, neither a reduction of the growth rate of the terminal value to 0.5% (previous year: 0.5%), nor an increase in the discount rate by 1.5% (previous year: 1.5%) would give rise to an impairment of goodwill for the time being. For the Additive Manufacturing Business Unit, any adverse movement in either the growth rate or the discount rate would lead to impairments on the goodwill.

Goodwill and intangible assets

Note 15 (cont.)

Previous year

in CHF million	Goodwill	Brands	Development costs	Other intangible assets[1]	2018 Total
Cost					
Balance at January 1, 2018	1 235	225	144	623	2 227
Conversion differences	–15	–5	–2	–10	–32
Changes in the scope of consolidated companies	14	–	–	13	27
Additions	–	–	30	15	45
Reclassifications to assets held for sale	–496	–70	–9	–15	–591
Transfers	–	–	–	1	1
Balance at December 31, 2018	738	150	163	627	1 677
Accumulated amortization and impairment losses					
Balance at January 1, 2018	–698	–	–69	–231	–998
Conversion differences	6	–	1	4	10
Amortization	–	–	–14	–52	–65
Reclassifications to assets held for sale	496	–	8	12	516
Balance at December 31, 2018	–196	–	–74	–268	–537
Net book values at January 1, 2018	537	225	75	392	1 229
Net book values at December 31, 2018	**542**	**150**	**89**	**359**	**1 139**

[1] The Net book values contain mainly acquired customer relations (CHF 234 million), licences, patents and technologies (CHF 88 million) and software (CHF 18 million).

Post-employment benefits

Note 16

in CHF million	2019 Total	2019 due within 1 year	2019 due beyond 1 year	2018 Total	2018 due within 1 year	2018 due beyond 1 year
Net defined benefit liability[1]	**338**	13	325	**381**	15	366
Other employee benefit liabilities	**13**	1	12	**14**	1	13
Subtotal	**352**	**14**	**337**	**395**	**16**	**379**
Net defined benefit liability classified as held for sale	**–**	–	–	**–55**	–1	–54
Other employee benefit liabilities classified as held for sale	**–**	–	–	**–1**	–	–1
Total on the balance sheet	**352**	**14**	**337**	**339**	**15**	**324**
Post-employment benefit assets	**10**	–	10	**5**	–	5
Post-employment benefit liabilities	**361**	14	347	**344**	15	329

[1] In 2019, net defined benefit liability related to funded plans was CHF 143 million and CHF 195 million related to unfunded plans (previous year: funded CHF 165 million, including CHF 36 million classified as held for sale, and CHF 216 million related to unfunded plans, including CHF 19 million classified as held for sale).

Post-employment benefit expense

in CHF million	2019 Total	2019 Defined benefit	2019 Defined contribution	2018 Total	2018 Defined benefit	2018 Defined contribution
Pension cost (operating)[1]	**29**	20	9	**26**	11	15
Pension cost (financial)[2]	**5**	5	–	**7**	7	–
Total post-employment benefit plan cost in the income statement	**34**	25	9	**33**	18	15

[1] Pension cost (operating) of CHF 1 million was included in result of discontinued operations (previous year: pension income of CHF -3 million).

[2] Pension cost (financial) of CHF 0 million was included in result of discontinued operations (previous year: CHF 1 million).

Post-employment benefits

Note 16 (cont.)

Defined benefit plans

The Group's material defined benefit pension plans are located in Germany, the USA, and Switzerland and account for 97% of the Group's net defined benefit liability (previous year: 93%). Usually, the plans are established as trusts independent of the Group and are funded by payments from Group companies and by employees. The cash funding of these plans is designed to ensure that present and future contributions should be sufficient to meet future liabilities. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. Most of the major plans in Germany are unfunded and, as the result the Group pays pensions to retired employees directly from its own financial resources.

Pension plans in Germany

12 unfunded and 6 funded defined benefit plans existed in 2019 (previous year: 12 and 6 respectively). These pension arrangements are governed by the German Occupational Pensions Act (BetrAVG). The employer is required by German law to increase pension payments every three years according to price inflation, as measured by the Consumer Price Index ("Verbraucherpreisindex – VPI") or according to comparable pay grades. In case of unfunded pension plans, the Group pays pensions to retired employees directly from its own financial resources. Funded pension plans are administered through a Contractual Trust Agreement (CTA). In a CTA arrangement, the assets are outsourced to an independent entity (e.g. a trust), which has the sole purpose of financing, paying out and ensuring benefits. The transferred assets are completely segregated from the employer's assets to protect these assets against the risk of the employer's insolvency. The employer is free to determine the scope and the kinds of assets that are to be transferred to the Trust and used for funding the pension liabilities. No minimum funding requirements or regular funding obligations apply to CTAs. Based on a special trust agreement between the employer and the Trust, the Trust acquires legal title in the transferred assets while the economic ownership rests with the employer. By creating the CTA, the employer creates additional insolvency protection for the beneficiaries.

Pension plans in the USA

1 funded defined benefit plan existed in 2019 (previous year: 2 unfunded and 2 funded, thereof 2 unfunded and 1 funded relating to discontinued operations). The Oerlikon USA Holding, Inc. Pension Plan is non-contributory for the employees. The plan uses a final-average-pay-based formula, with benefits based on members' years of service and final average pay earned while in the employ of a participating company. This plan has been closed to new members since 2006 and benefit accruals under the plan ceased in January 2010. Participants receive their benefits in the form of monthly annuities, which are actuarially reduced for early retirement and/or election of a form of payment providing for continued payments after the participant's death to a surviving beneficiary. Some participants have the option of receiving their benefits in a single lump-sum payment in lieu of an annuity. The plan does not provide for automatic pension increases. The companies' contributions to the defined benefit plan are made based on US pension funding regulations, in the form of cash. Employees joining Oerlikon USA Holding after specified dates participate in a defined contribution pension plan.

Pension plans in Switzerland

8 funded defined benefit plans existed in 2019 (previous year: 7 plans). These plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which stipulates that pension plans are to be managed by independent, legally autonomous units. The pension plan assets are held within a separate foundation and cannot revert to the employer. The Board of Trustees, the most senior governing body of the collective foundation, is responsible for investment strategy and policy. This Board is composed of equal numbers of employees and employer representatives. The plans provide old-age, disability and death-in-service (survivors') benefits to plan participants, their spouses and children, as defined in pension plan rules compliant with the BVG, which specifies the minimum benefits to be provided. Pension funds are financed according to a level premium system, which means that every insured person directly finances his/her own retirement benefits and saves up for his/her retirement. The insured and the employer usually pay equal contributions to the pension fund in case of retirement benefits. The employer must contribute an amount that equals at least the contributions of all employees together. Disability and survivors' benefits are funded via risk contributions; the corresponding benefits are defined based on the current salary.

The following risks arise from the 8 funded defined benefit plans (5 autonomous and 3 partly-autonomous).

The autonomous pension institutions bear the risks from the savings process, the asset management and the demographic risks (longevity, death, disability). The respective pension institution may change the funding system (contributions and future benefits) at any time. In case of a deficit according to BVG and if there are no other measures, the pension institution may require contributions for financial recovery by the employer.

The partly-autonomous pension institutions insure the demographic risks with a life insurance company, but bear the risks from the savings process and asset management. The respective pension institution may change the funding system (contributions and future benefits) at any time. In case of a deficit according to BVG and if there are no other measures, the pension institution may require contributions for financial recovery from the employer. With respect to the insured demographic risks, there are further risks, namely that the insurance coverage is only of a temporary nature (cancellation by the life insurance company) and that the inherent risks of the plan result in variable insurance premiums over time.

Post-employment benefits

Note 16 (cont.)

Movement in net defined benefit liability

The following table shows a reconciliation from the opening balances to the closing balances for net defined benefit liability and its components:

	Defined benefit obligation		Fair value of plan assets		Adjustment to asset ceiling		Net defined benefit liability	
in CHF million	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
Balance at January 1	**1 018**	**1 081**	**–659**	**–689**	**22**	**11**	**381**	**403**
Included in the income statement								
Current service cost (employer)	20	22	–	–	–	–	20	22
Past service cost[1]	–	–11	–	–	–	–	–	–11
Interest expense on defined benefit obligation	12	17	–	–	–	–	12	17
Interest income on plan assets	–	–	–7	–10	–	–	–7	–10
Administration cost (excl. cost for managing plan assets)[2]	–	–	–	–	–	–	–	–
Total in the income statement[3]	**32**	**28**	**–7**	**–10**	**–**	**–**	**25**	**18**
Included in other comprehensive income								
Remeasurement gain (-)/ loss (+) arising from:	89	–30	–44	29	–15	11	31	10
– Actuarial gain (-)/ loss (+) arising from:								
– demographic assumptions	–	2	–	–	–	–	–	2
– financial assumptions	88	–38	–	–	–	–	88	–38
– experience adjustments	–	6	–	–	–	–	–	6
– Return on plan assets excluding interest income	–	–	–44	29	–	–	–44	29
– Change in effect of asset ceiling excluding interest expense/income	–	–	–	–	–15	11	–15	11
Effect of movements in exchange rates	–14	–13	2	1	–	–	–12	–12
Total in other comprehensive income	**75**	**–43**	**–41**	**30**	**–15**	**11**	**19**	**–2**
Other effects								
Employer contributions[4]	–	–	–18	–21	–	–	–18	–21
Employee contributions[5]	7	9	–7	–8	–	–	–	1
Benefits paid/deposited	–43	–57	28	39	–	–	–15	–18
Effect of business combination and disposal	–195	–	142	–	–	–	–54	–
Total in other effects	**–231**	**–48**	**144**	**10**	**–**	**–**	**–87**	**–38**
Balance at December 31	**895**	**1 018**	**–564**	**–659**	**8**	**22**	**338**	**381**

of which:

in CHF million								
– Germany	374	370	–59	–61	–	–	314	309
– USA	53	213	–40	–166	–	–	13	47
– Switzerland	451	401	–459	–425	8	22	–	–2

[1] 2018: Change in Postretirement Medical Plan from Fairfield Manufacturing Company Inc.

[2] Administration costs are less than CHF 1 million (previous year: less than CHF 1 million).

[3] 2018: Pension income of CHF 10 million are included in result of discontinued operations.

[4] Employer contributions to defined benefit plans for 2020 are expected to be approximately CHF 21 million.

[5] Including employee contributions in unfunded plans in the USA.

Post-employment benefits

Note 16 (cont.)

The plan assets consist of the following:

in CHF million	2019 Total	2019 Quoted	2019 Unquoted	2019 %	2018 Total	2018 Quoted	2018 Unquoted	2018 %
Equity instruments	**130**	**130**	**–**	**23%**	**128**	**128**	**–**	**19%**
Debt instruments, of which in:	**177**	**177**	**–**	**31%**	**143**	**143**	**–**	**22%**
– Government bonds	53	53	–		43	43	–	
– Corporate bonds - investment grade	123	123	–		100	100	–	
Real estate, of which in:	**124**	**56**	**68**	**22%**	**127**	**66**	**61**	**19%**
– Properties[1]	68	–	68		61	–	61	
– Real estate funds	56	56	–		66	66	–	
Cash and cash equivalents	**28**	**28**	**–**	**5%**	**21**	**21**	**–**	**3%**
Investment funds	**81**	**49**	**31**	**14%**	**184**	**37**	**147**	**28%**
Other	**24**	**21**	**2**	**4%**	**56**	**45**	**11**	**8%**
Total plan assets	**564**	**462**	**101**	**100%**	**659**	**440**	**219**	**100%**

[1] Real estate in Germany with a fair value of CHF 8 million (previous year: CHF 9 million) is rented by a Group company, with an annual rent of CHF 1 million (previous year: CHF 1 million).

Plan assets

In the Group's financial statements, the difference between the actual return on plan assets and interest income is as remeasurement recorded directly to other comprehensive income. During 2019, the actual return on plan assets was a gain of CHF 51 million (previous year: loss of CHF 19 million). The recognition of a net defined benefit asset is limited to the present value of any economic benefits available out of refunds from the plans or reductions in future contributions to the plans.

Post-employment benefits

Note 16 (cont.)

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date for significant defined benefit plans in Germany, the USA and Switzerland (expressed as weighted averages):

Assumptions used in actuarial calculations	2019			2018		
in percentage	**Germany**	**USA**	**Switzerland**	Germany	USA	Switzerland
Discount rate	0.6	3.1	0.1	1.5	4.2	0.9
Future salary increases	0.1	0.0	1.2	0.1	2.3	1.2
Future pension increases	1.6	–	–	1.6	–	–

The discount rate is determined by reference to market yields at the end of the reporting period on AA- and AAA-rated corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the obligations.

Longevities

Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date are provided below:

Longevities	2019			2018		
in years	**Germany**	**USA**	**Switzerland**	Germany	USA	Switzerland
Retiring at the end of the reporting period:						
– Males	21.6	20.6	23.0	21.4	19.7	22.8
– Females	25.2	22.6	25.8	25.1	22.1	25.5
Retiring 20 years after the end of the reporting period:						
– Males	24.5	22.2	24.8	24.3	21.4	23.3
– Females	27.5	24.2	27.4	27.3	23.7	26.4

	2019			2018		
Weighted average duration of the defined benefit obligation	**Germany**	**USA**	**Switzerland**	Germany	USA	Switzerland
Number of years	10.9	10.6	15.1	10.3	11.6	13.7

The Group's major pension plans give members lump-sum or annuity benefit payment options. The Group values its pension liabilities on the assumption that the choices made by members who will retire in the future will be consistent with choices made by members who have retired recently.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Defined benefit obligation in 2019					
	Increase			**Decrease**		
Sensitivity analysis	**Germany**	**USA**	**Switzerland**	**Germany**	**USA**	**Switzerland**
Discount rate (0.5% movement)	–19	–3	–32	21	3	37
Future salary (0.5% movement)	–	–	4	–	–	–4
Future pension (0.5% movement)	17	–	26	–12	–	–24
Future mortality (1 year movement)	–24	–2	–19	19	2	15

	Defined benefit obligation in 2018					
	Increase			Decrease		
Sensitivity analysis	Germany	USA	Switzerland	Germany	USA	Switzerland
Discount rate (0.5% movement)	–18	–11	–25	20	13	30
Future salary (0.5% movement)	–	–	3	–	–	–3
Future pension (0.5% movement)	15	–	21	–12	–	–19
Future mortality (1 year movement)	–22	–7	–13	18	6	12

Current financial liabilities

Note 17

in CHF million	2019	2018
Lease liabilities	30	1
Bond[1]	–	300
Current loans and borrowings	1	2
Foreign exchange contracts	5	7
Total current financial liabilities and derivatives	**36**	**309**
Trade payables	264	277
Other payables	60	63
Total current financial liabilities	**360**	**650**

[1] Refer to Note 20 "Non-current loans and borrowings" for terms and conditions.

Accrued liabilities

Note 18

in CHF million	2019	2018
Accrued personnel expenses	81	95
Accrued material expenses	51	40
Other accrued liabilities[1]	57	66
Total accrued liabilities	**189**	**201**

[1] Contains mainly accrued expenses for services.

Provisions

Note 19

in CHF million	Product warranties	Acquiree's contingent liabilities[1]	Restructuring[2]	Other provisions[3]	2019 Total
Balance at January 1, 2019	25	48	11	19	**103**
Conversion differences	–1	–	–	–1	**–2**
Additions[4]	17	1	16	28	**62**
Amounts used	–7	–	–6	–3	**–16**
Amounts reversed	–9	–22	–	–4	**–35**
Balance at December 31, 2019	**26**	**27**	**21**	**38**	**113**
of which:					
Due within 1 year	25	–	18	11	**54**
Due beyond 1 year	2	27	3	27	**58**

[1] Acquiree's contingent liabilities pertain to the Surface Solutions Segment. Contingent liabilities have been recognized primarily due to several environmental liabilities and potential tax risks. Any potential cash outflow is estimated to occur during the next 10-15 years. The selling shareholder (Sulzer AG) has contractually agreed to indemnify Oerlikon for an amount up to CHF 20 million related to certain of these environmental liabilities. Following a re-assessment of the contingent liabilities in 2019, the related indemnification asset has been adjusted accordingly to CHF 10 million (prior year: CHF 19 million).

[2] The restructuring provision pertains mainly to the Manmade Fibers Segment (CHF 4 million) and the Surface Solutions Segment (CHF 15 million) and relates mostly to personnel expenses.

[3] Consists mainly of provisions for pending litigation, technical risks, onerous contracts as well as environmental and tax risks.

[4] Includes unwinding of discount for non-current provisions.

Non-current loans and borrowings

Note 20

in CHF million	2019	2018
Bonds	150	150
Lease liabilities	178	39
Other loans and borrowings	4	5
Total non-current loans, borrowings and lease liabilities	**332**	**194**

The terms and conditions of outstanding loans are as follows:

2019

in CHF million	Currency	Nominal interest rate	Year of maturity	Nominal value	Carrying amount
Syndicated loan/Revolving Credit Facility	CHF	Libor + 0.60%	2022	–	–
Bond[1]	CHF	2.625%	2024	150	150
Lease liabilities	var.	var.	var.	208	208
Various current and non-current liabilities	EUR	var.	var.	5	5
Total loans, borrowings and lease liabilities					**363**
– Current loans, borrowings and lease liabilities					31
– Non-current loans, borrowings and lease liabilities					332

2018

in CHF million	Currency	Nominal interest rate	Year of maturity	Nominal value	Carrying amount
Syndicated loan/Revolving Credit Facility	CHF	Libor + 0.60%	2022	–	–
Bond[1]	CHF	1.25%	2019	300	300
Bond[1]	CHF	2.625%	2024	150	150
Lease liabilities	var.	var.	2019–2038	40	40
Various current and non-current liabilities	var.	var.	var.	7	7
Total loans, borrowings and lease liabilities					**497**
– Current loans and borrowings					303
– Non-current loans and borrowings					194

[1] No transaction costs related to the financing of the bonds were deducted (previous year: CHF 1 million). All such costs were completely expensed by June 2019.

Syndicated loan facility

In 2016, Oerlikon signed an agreement for a unsecured syndicated credit facility, comprising of a revolving credit facility and an ancillary credit facility, amounting to CHF 600 million. The initial maturity was in 2021, and in 2017, Oerlikon successfully extended the facility by one year to 2022. As of December 31, 2019, the drawn revolving credit facility balance was zero, and out of CHF 235 million allocated to the ancillary credit facility, the amount of CHF 95 million was used for issuing guarantees.

As per December 31, 2019, the interest rate of the loan under the syndicated credit facility is defined as Libor plus a margin of 0.60% per year, subject to a margin grid based on the ratio of Net Debt to EBITDA (within a range of 0.60% and 1.40%).

As of December 31, 2019, the syndicated credit facility contains the following financial covenants, which are tested quarterly:

- Total Equity
- Net Debt/EBITDA

In 2019, the Group was in compliance with all covenants.

Bonds

On June 17, 2014, the Oerlikon Group issued a 5 year CHF 300 million straight bond with a nominal interest of 1.25% (effective interest: 1.33%) and a 10 year CHF 150 million straight bond with a nominal interest of 2.625% (effective interest: 2.625%). At maturity in June 2019 the 5 year CHF 300 million straight bond was repaid in full.

Financial instruments

Note 21

The carrying amounts and fair values of financial assets and liabilities as of December 31, 2019, including their levels in the fair value hierarchy, are as follows:

in CHF million	Carrying amount: Fair value – through other comprehensive income	Carrying amount: Fair value – through profit & loss	Carrying amount: Amortized Costs[1]	Carrying amount: Total	Fair value: Level 1	Fair value: Level 2	Fair value: Level 3	Fair value: Total
Financial assets								
Foreign exchange contracts	1	2	–	**3**	–	3	–	**3**
Debt and equity securities	–	30	–	**30**	30	–	–	**30**
Other investments	19	–	–	**19**	–	–	19	**19**
Cash and cash equivalents	–	–	658	**658**	–	–	–	**–**
Deposits	–	–	7	**7**	–	–	–	**–**
Trade and trade notes receivable	–	–	309	**309**				
Current contract assets	–	–	12	**12**				
Loans and other non-current financial receivables	–	–	3	**3**				
Total	**20**	**32**	**990**	**1 042**				
Financial liabilities								
Foreign exchange contracts	1	4	–	**5**	–	5	–	**5**
Other liabilities	–	19	2	**22**	–	–	19	**19**
Bonds	–	–	150	**150**	167	–	–	**167**
Lease liabilities	–	–	208	**208**				
Trade payables	–	–	264	**264**				
Accrued liabilities	–	–	108	**108**				
Other loans and borrowings	–	–	4	**4**				
Total	**1**	**23**	**737**	**762**				

[1] With the exception of the bonds, the Group has not disclosed the fair values for financial assets and liabilities measured at amortized cost because their carrying amounts are a reasonable approximation of fair values.

Financial instruments

Note 21 (cont.)

The carrying amounts and fair values of financial assets and liabilities as of December 31, 2018, including their levels in the fair value hierarchy, are as follows:

	Carrying amount				Fair value			
in CHF million	Fair value – through other comprehensive income	Fair value – through profit & loss	Amortized Costs[1]	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets								
Foreign exchange contracts	1	2	–	**3**	–	3	–	**3**
Debt and equity securities	–	27	–	**27**	27	–	–	**27**
Other investments	19	–	–	**19**	–	–	19	**19**
Cash and cash equivalents	–	–	764	**764**				
Deposits	–	–	102	**102**				
Trade and trade notes receivable	–	–	305	**305**				
Current contract assets	–	–	31	**31**				
Loans and other non-current financial receivables	–	–	24	**24**				
Total	**20**	**29**	**1 226**	**1 275**				
Financial liabilities								
Foreign exchange contracts	5	2	–	**7**	–	7	–	**7**
Other liabilities	–	37	3	**40**	–	–	37	**37**
Bonds	–	–	450	**450**	468	–	–	**468**
Lease liabilities	–	–	40	**40**				
Trade payables	–	–	277	**277**				
Accrued liabilities	–	–	105	**105**				
Other loans and borrowings	–	–	6	**6**				
Total	**5**	**39**	**881**	**925**				

[1] With the exception of the bonds, the Group has not disclosed the fair values for financial assets and liabilities measured at amortized cost because their carrying amounts are a reasonable approximation of fair values.

Measurement of fair values

The different levels of fair values have been defined as follows:

- **Level 1:** unadjusted quoted prices for identical assets or liabilities in active markets.
- **Level 2:** inputs (other than quoted prices mentioned in Level 1) for identical or similar assets or liabilities that are observable either directly or indirectly in active markets.
- **Level 3:** valuation inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Level 1 fair values

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume providing information on an ongoing basis. Instruments included in level 1 comprise investments in various debt and equity instruments via investment funds.

Level 2 fair values

The following table shows the valuation technique used in measuring level 2 fair values:

Type of financial instruments	Valuation technique
Foreign exchange contracts	The fair values of foreign exchange hedging contracts are derived from quoted foreign exchange rates received from brokers.

Financial instruments

Note 21 (cont.)

Level 3 fair values

The following table shows the valuation technique used in measuring level 3 fair values:

Type of financial instruments	Valuation technique
Other investments	Other investments mainly include a 14.54% investment in Kinexon Beteiligungsgesellschaft mbH (an unquoted equity instrument) that is carried at fair value through other comprehensive income. Such investments are valued initially at fair value through the established purchase price between a willing buyer and seller and subsequently adjusted based on fair value less costs of disposal derived from a discounted cash flow analysis. The forecast period used for future cash flows covers the years 2020 to 2028. For the periods following the plan period a growth rate of 3% was assumed. The discount rate of 29% is based on the weighted average cost of capital (WACC).The capital costs were determined using the capital asset pricing model (CAPM).
Other non-current liabilities	The valuation of the contingent considerations is based on the current estimate of the fulfillment of the conditions on which the payment of the earnout depends. The fair value is based on various unobservable inputs. A change in these inputs may result in a significantly higher or lower fair value.

Transfers between levels of fair values

There were no transfers between levels during the year.

Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk
- liquidity risk
- market risk

Credit risk

Credit risk is the risk of financial loss to the Group, if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Group's customer receivables, investment securities and cash placed with banks.

The credit or default risk associated with operating receivables is monitored locally by the individual Group companies. These companies follow a credit policy defined by each operating unit, under which each new customer is analyzed individually for creditworthiness before payment and delivery terms and conditions are offered. Credit ratings are reviewed regularly, and limits are set and monitored on an ongoing basis.

Trade receivables are valued at the original invoiced amount less any necessary value adjustments for default risks. These risks are insured with third parties only in exceptional cases. Value adjustments are set at varying levels corresponding to risks recognized in the different Business Units.

As a fundamental principle, the Group places funds only with investment grade rated domestic and foreign banking institutions, and Group Treasury periodically assesses the relevant ratings and credit default spreads of these banking institutions.

The Oerlikon Group's maximum credit risk from financial instruments is reflected in the book values of the individual financial assets as per year-end. There are no commitments or obligations which might lead to an exposure exceeding these book values. The maximum credit risk is therefore:

in CHF million	**2019**	2018
Cash and cash equivalents	658	764
Deposits	7	102
Debt and equity securities	30	27
Derivatives used for hedging	3	3
Trade and trade notes receivable	309	305
Current contract assets	12	31
Loans and other non-current financial receivables	3	24
Total	**1 023**	**1 256**

At December 31, trade and trade notes receivables are distributed geographically (by location of the Group company) as follows:

in CHF million	**2019**	2018
Asia	105	110
Europe	143	137
North America	55	50
Other	6	8
Total	**309**	**305**

No concentrations of risk to the Group are expected from the outstanding receivables.

Financial instruments

Note 21 (cont.)

At December 31, the aging of trade and trade notes receivable was as follows:

in CHF million	2019 Gross amount	2019 Value adjustment	2018 Gross amount	2018 Value adjustment
Current (not due)	**220**	**–1**	**222**	**–**
Total past due	**98**	**–9**	**91**	**–8**
0–30 days	48	–1	49	–1
31–60 days	14	–	15	–
61–90 days	11	–	10	–
91–120 days	5	–1	4	–1
Over 120 days	20	–7	13	–6
Total	**318**	**–10**	**313**	**–8**

The allowance for doubtful debts is based on the Expected Credit Loss (ECL) method, which consists in applying a current and forward-looking model to identify factors that may affect the ability of customers to settle their obligations as agreed. The Group applies IFRS 9 simplified approach and calculates expected credit losses using a provision matrix where trade receivables are grouped based on different customer attributes. If substantial expected payment delays occurs receivables are assessed individually for further impairment.

Reconciliation of changes in allowance accounts for credit losses:

in CHF million	2019	2018
Balance at January 1	–8	–10
Reclassifications to assets held for sale	–	2
Additional impairment losses charged to income	–4	–3
Reversal of impairment losses	2	2
Write-off	1	1
Balance at December 31	**–10**	**–8**

Liquidity risk
Liquidity risk is the risk that the Oerlikon Group may be unable to discharge its financial liabilities in a timely manner or at acceptable cost. Oerlikon supervises and manages the Group's liquidity centrally, in order to ensure that outstanding financial liabilities can at all times be met within their maturity period and at acceptable financing cost. Group Treasury prepares and provides the relevant decision support and arranges for the availability of the relevant funds once approval is given.

Oerlikon's liquidity is monitored using short-, medium- and long-term rolling forecasts, about which senior management is kept informed. On the basis of these plans, Oerlikon mobilizes the necessary liquid funds and takes any further steps necessary in a timely manner.

The remaining contractual maturities of financial liabilities as of December 31 are as follows:

in CHF million (2019)	Carrying amount	Contractual cash flow	within 1 year	1 to 5 years	more than 5 years	of which secured
Trade payables	264	264	264	–	–	–
Loans and borrowings[1]	154	175	6	169	–	–
Lease liabilities	208	269	36	105	128	–
Accrued liabilities	108	108	108	–	–	–
Other liabilities	22	22	8	11	2	–
Non-derivative financial liabilities	**757**	**838**	**421**	**285**	**130**	**–**
Foreign exchange contracts used for hedging	–	762	752	10	–	–
– thereof: for hedging fx-outflows (notional value)	–	505	495	10	–	–
– thereof: for hedging fx-inflows (notional value)	–	257	257	–	–	–
Derivative financial instruments[2]	**–**	**762**	**752**	**10**	**–**	**–**
Total	**757**	**1 600**	**1 173**	**295**	**130**	**–**

[1] Loans and borrowings mainly include one Swiss franc bond of CHF 150 million, maturing in June 2024. There are no capitalized transaction costs included. The contractual cash flows include mainly future interest payments of the Swiss franc bond until maturity and commitment fees of the syndicated credit facility.

[2] Contractual cash flows relate to underlying transactions that cover the contractual cash flows almost completely.

Financial instruments

Note 21 (cont.)

in CHF million	Carrying amount	Contractual cash flow	within 1 year	1 to 5 years	more than 5 years	of which secured
						2018
Trade payables	277	277	277	–	–	–
Loans and borrowings[1]	456	485	309	23	153	–
Lease liabilities	40	75	3	13	59	–
Accrued liabilities	105	105	105	–	–	–
Other liabilities	40	40	21	14	5	–
Non-derivative financial liabilities	**918**	**981**	**714**	**50**	**217**	**–**
Foreign exchange contracts used for hedging	–	1 179	1 160	19	–	–
– thereof: for hedging fx-outflows (notional value)	–	715	715	–	–	–
– thereof: for hedging fx-inflows (notional value)	–	464	445	19	–	–
Derivative financial instruments[2]	**–**	**1 179**	**1 160**	**19**	**–**	**–**
Total	**918**	**2 160**	**1 874**	**69**	**217**	**–**

[1] Loans and borrowings mainly include two Swiss franc bonds of CHF 450 million, maturing in June 2019 and June 2024 with capitalized transaction costs of less than CHF 1 million. The contractual cash flows include mainly future interest payments of the Swiss franc bonds until maturity and commitment fees of the syndicated credit facility.

[2] Contractual cash flows relate to underlying transactions that cover the contractual cash flows almost completely.

Changes in liabilities arising from financial activities[1]

in CHF million

Liabilities from financial activities as of December 31, 2018	**496**
Cash-flows from financing activities	
Repayment of financial debt	–302
Principal element of lease payments	–34
Total cash-flows from financing activities	**–335**
Non-cash changes	
Increase of lease liabilities due to the first time application of IFRS 16	179
Increase of lease liabilities in 2019 (net)	29
Conversion differences	–6
Total non-cash changes	**202**
Liabilities from financial activities as of December 31, 2019	**363**

[1] Liabilities from financial activities consist of loans and borrowings as well as lease liabilities.

Financial instruments

Note 21 (cont.)

Market risk

Market risk is the risk that the fair value or the future cash flows of a financial instrument may change as a result of fluctuations in market prices. The Oerlikon Group is exposed in particular to fluctuations in foreign exchange and interest rates. The Group also has a minor risk from exposure to fluctuations in raw material prices.

Foreign exchange risk

Foreign exchange transaction risk

Due to its most significant markets, the Group is primarily exposed to exchange risks versus the USD and EUR. If costs and revenues of Group companies are incurred or earned in differing or in non-functional currencies, the underlying business transactions are hedged on a centrally coordinated basis by means of commonly used financial instruments. Group companies make regular plans for receipt or payment of cash in foreign currencies and advise these to Group Treasury, which hedges the related exchange risks using external contracts with investment grade rated banks.

The Group's hedging strategy for exchange risks distinguishes between the routine business of supplying components or spare parts and the Group's project activities. For the routine business, cash flows in foreign currencies are hedged for a whole year in advance, based on the annual budget. The hedging quota, i.e. the percentage of the base volume to be hedged, is set forth in the related guidelines. Periodically, a check is performed as to whether the latest forecast of business volumes calls for an increase or a reduction in the hedging volume. For projects, the exchange risks are hedged when the contract is entered into. For special transactions that do not fall into either category – routine or project – the hedging strategy can be determined for individual cases.

Foreign exchange translation risk

Translation exposure arises from consolidation of foreign currency denominated financial statements of the Group's subsidiaries. The Group's consolidated financial statements are reported in Swiss francs. The translation risk arising from foreign subsidiary balance sheets, which affects the consolidated Group equity is not hedged.

Long-term foreign exchange economic risk

The Group policy is not to hedge long-term foreign exchange risk.

The following rates were used to convert the most important foreign currencies in the financial statements:

	Average rates		Change	**Year-end rates**		Change
	2019	2018	19/18	**2019**	2018	19/18
1 USD	0.994	0.978	1.6%	0.968	0.985	–1.7%
1 EUR	1.112	1.155	–3.7%	1.086	1.126	–3.6%
100 CNY	14.379	14.790	–2.8%	13.909	14.320	–2.9%
100 HKD	12.682	12.480	1.6%	12.435	12.580	–1.2%
100 JPY	0.912	0.886	2.9%	0.891	0.895	–0.4%
1 SGD	0.728	0.725	0.4%	0.719	0.723	–0.5%

Sensitivity analysis

For the sensitivity analysis, the two most important currencies were selected in which the Group holds significant amounts of receivables and payables. Based on a two-year volatility of 5.58% (USD/CHF) and 4.32% (EUR/CHF), a corresponding appreciation of the foreign currencies on December 31, 2019, would have changed the equity and the income statement by the amounts listed below.

December 31		**2019**		2018
Effect in CHF million	**Equity**	**Income statement**	Equity	Income statement
USD	1	2	2	2
EUR	1	1	1	1

A depreciation of the two foreign currencies by 5.58% (USD/CHF) and 4.32% (EUR/CHF) against the Swiss franc would have had the same but opposite effect on the equity and the income statement, assuming all other variables remain constant. In the previous period, the sensitivity analysis was calculated with 6.18% (USD/CHF) and 5.31% (EUR/CHF).

Financial instruments

Note 21 (cont.)

The Group's exposure to foreign exchange risk was as follows, based on nominal amounts as of December 31:

			2019			2018
in million	EUR	USD	CHF	EUR	USD	CHF
Trade receivables	8	32	1	13	44	1
Trade payables	8	3	1	9	9	1
Net financial position	16	21	–1	9	2	–2
Gross exposure consolidated balance sheet	**32**	**56**	**1**	**31**	**55**	**–**
Gross foreign exchange risk in business operations	**–30**	**1**	**–28**	**–22**	**50**	**–37**
Open net foreign exchange forward contracts	**11**	**–29**	**21**	**–**	**–82**	**28**
Net exposure	**13**	**28**	**–6**	**9**	**23**	**–9**

Interest rate risk

Oerlikon is mainly exposed to interest rate risk in relation to its liquid funds, which are placed at variable rates or held as short-term investments.

Group Treasury prepares and provides the relevant decision support for senior management (Board of Directors, senior financial management) and arranges for hedging against interest rate fluctuations, once approval is given. Such hedging is carried out using derivative financial instruments, such as interest rate swaps and interest rate caps.

As of December 31, the interest rate profile of the Group's interest-bearing financial instruments was:

	2019	2018
in CHF million	Net carrying amount	Net carrying amount
Fixed rate interest		
Financial assets	3	3
Financial liabilities	–362	–494
Total	**–359**	**–491**
Variable rate interest		
Financial assets	694	890
Financial liabilities	–1	–2
Total	**693**	**888**

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) in interest rates at the reporting date would have affected profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Income statement	
Effect in CHF million	100 bp increase	100 bp decrease
2019		
Cash flow sensitivity	5	–5
2018		
Cash flow sensitivity	6	–6

The assumption in the underlying sensitivity analysis is that an increase as well as a decrease by 100 bp has a full impact on interest income and expense. Due to the overall low interest rate environment, a decrease by 100 bp would lead to a negative average interest rate. The tax impact has been included in all figures regarding interest sensitivity.

A change of 100 basis points in interest rates would have the same impact in Group equity, as there are no direct impacts in Other comprehensive income.

Financial instruments

Note 21 (cont.)

Derivative assets and liabilities

in CHF million	2019 Contract volume	2019 Fair value positive	2019 Fair value negative	2018 Contract volume	2018 Fair value positive	2018 Fair value negative
Foreign exchange contracts	**762**	**3**	**5**	**1 179**	**3**	**7**

Based on the Group's business activities, the following main currency pairs are hedged: EUR/USD, EUR/CHF, EUR/CNY, USD/CHF, and USD/CNY. Positive and negative changes in fair values of foreign exchange contracts are offset by the corresponding gain or loss on the hedged transactions. The maximum risk from counterparty non-performance is equal to the positive market value of outstanding derivatives as per year-end. In view of the reputation of the counterparties, this risk is deemed to be minimal. In principle, the maturities of currency hedges correspond to the maturity of the hedged transactions. If the maturity of the base transaction shifts, the maturity of the hedge contract will be shifted correspondingly (roll-over/swaps). Thus, the cash flows deriving from the hedge contracts are synchronized with the impact of the base transaction in the income statement. The hedging transactions are first recorded in other comprehensive income, then released to the income statement when the base transaction is recorded. For this reason, there is no need for a separate presentation of the maturities of hedge contracts and their underlying transactions.

Maturity structure of open foreign exchange contracts at December 31:

in CHF million	Carrying amount	Expected cash flows	6 months or less	6-12 months	1-2 years	2-5 years	more than 5 years
Foreign exchange contracts							
2019	–1	**762**	672	80	10	–	–
2018	–4	**1 179**	971	190	18	–	–

Netting of financial assets and liabilities
No significant netting of financial assets and liabilities occurred in 2019 and 2018.

Capital Management

Note 22

Oerlikon Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital using the ratios shown below:

in CHF million	2019	2018
Total assets	3 647	4 545
Equity attributable to shareholders of the parent	1 756	2 001
Equity ratio in %	**48%**	**44%**
Interest-bearing debt	363	496
Total equity	1 769	2 021
Debt-to-equity ratio	**0.2**	**0.2**
Average equity attributable to shareholders of the parent	1 879	1 986
Net result attributable to shareholders of the parent	–70	240
Net result from continuing operations attributable to shareholders of the parent	107	169
Return on equity	**–4%**	**12%**
Return on equity (from continuing operations)	**6%**	**9%**

With an equity ratio of 48% (previous year: 44%), the Oerlikon Group is above the target range of its financial strategy. The currently outstanding bond has an investment-grade rating.

OC Oerlikon participation plans

Note 23

On December 31, 2019, the following equity-settled plans were open, pursuant to which the holder is entitled to shares of OC Oerlikon Corporation AG, Pfäffikon:

Restricted Stock Units (RSU)
Members of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon, receive a portion of their compensation by means of Restricted Stock Units (RSU) which are allocated on the day of the Annual General Meeting of Shareholders and vest upon the next Annual General Meeting of Shareholders, at which time they are converted into Oerlikon shares. For Directors resigning their mandate prior to the end of the term, the number of RSU converted into shares is determined at the sole discretion of the Board of Directors. The fair value for the 2019 plan is based on the stock price at grant date of CHF 13.43. The grants allocated in 2019 will vest on April 8, 2020.

Under the Long-Term Incentive Plan (LTI), members of the Executive Committee and senior management may receive a portion of their compensation as long-term bonus in the form of awards for OC Oerlikon Corporation AG, Pfäffikon, shares that are based on a vesting period of three years. Upon vesting, the RSU are converted into shares. For each RSU granted, the equivalent of dividends paid per share to shareholders during the vesting period is added to the final payout. The fair value for the 2019 plan is based on the stock price at grant date of CHF 13.23 (average). The grants allocated in 2019 will vest on May 1, 2022.

Additional RSU grants were made in 2019 under a discretionary plan to a designated member of the Executive Committee. They were allocated as of October 1, 2019 and will vest on May 1, 2020, 2021 and 2022. The fair value for these grants is based on the stock price at grant date of CHF 10.01.

Year of allocation	Outstanding on 1.1.	Granted in 2019	Forfeited in 2019	Exercised in 2019	Outstanding on 31.12.	Fair Value at grant date in CHF[1]	Expense 2019 in CHF million	Vesting Period
2016	16495	–	–	7732	8763	n.a.	0.0	06.04.16 - 30.04.19
2017	10879	–	–	10879	–	n.a.	0.0	01.05.17 - 30.04.19
2018	64915	–	–	64915	–	n.a.	0.3	11.04.18 - 30.04.19
2019	–	320812	6831	–	313981	12.75	1.8	10.04.19 - 30.04.22
Total	**92289**	**320812**	**6831**	**83526**	**322744**		**2.1**	

[1] The fair values relate to the units granted in 2019.

Performance Share Awards (PSA)
Under the Long-Term Incentive Plan (LTI), members of the Executive Committee and senior management may receive a portion of their compensation as long-term bonus in the form of awards for OC Oerlikon Corporation AG, Pfäffikon, shares that are based on performance conditions and a vesting period of three years. Their achievement determines the effective number of total Performance Share Awards (PSA). Upon vesting, the effective number of PSA is converted into shares.

Performance conditions for the 2019 plan are based on the absolute and relative Total Shareholder Return (TSR) of Oerlikon over a three-year period. TSR is measured with a starting value of the volume-weighted average share price (VWAP) over 60 trading days, i.e. 30 before and 30 after the start and 30 before and 30 after the end of the year. The absolute TSR result is derived from the cumulated TSR for each of the three years. The relative TSR result is derived from the average percentile among a comparator group for each of the three years. The peer group is reviewed every year by the HRC and includes the companies of the Euro Stoxx 600 Industrial, Goods and Services index. At the start of the program, the Board of Directors sets target and cap for absolute TSR (aTSR). A result at or above the cap corresponds to a payout factor of 150%, a result at target corresponds to 100% and a result of 0 corresponds to 0%. For relative TSR (rTSR), a result at or above the 90th percentile corresponds to a payout factor of 150%, at the 50th percentile the payout is 100%, at the 20th percentile the payout factor is 50% and below it is 0%. The number of PSA granted, multiplied by the weighted payout factors of absolute and relative TSR results corresponds to the final payout. For each PSA granted, the equivalent of dividends paid per share to shareholders during the vesting period is added to the final payout. The shares received are subject to a two-year blocking period.

For the 2019 plan, the fair value at grant date is CHF 12.62 and it was calculated using a Monte Carlo Simulation. Main assumptions include a valuation date stock price of CHF 13.30 and an average expected volatility of the peer group of 25.75%. Dividend equivalents to which award holders are entitled are reflected in the fair value at grant date.

Year of allocation	Outstanding on 1.1.	Granted in 2019	Forfeited in 2019	Exercised in 2019	Outstanding on 31.12.	Fair Value at grant date in CHF[1]	Expense 2019 in CHF million[2]	Vesting Period
2016	542479	–	5205	537274	–	n.a.	0.9	01.05.16 - 30.04.19
2017	538948	–	12119	94054	432775	n.a.	2.6	01.05.17 - 30.04.20
2018	437421	–	9637	68704	359080	n.a.	3.8	01.05.18 - 30.04.21
2019	–	286968	10246	–	276722	12.62	1.2	01.05.19 - 30.04.22
Total	**1518848**	**286968**	**37207**	**700032**	**1068577**		**8.4**	

[1] The fair values relate to the awards granted in 2019.

[2] The total expense of CHF 8.4 million (previous year: CHF 7.6 million) includes expense related to discontinued operations in the amount of CHF 1.5 million (previous year: CHF 1.2 million).

Related party transactions

Note 24

Related parties include joint arrangements, associates, members of the Board of Directors, the Executive Committee, employee benefit plans or important shareholders as well as companies under their control. Transactions with related parties are generally conducted at arm's length.

Primary shareholder

The share capital of CHF 339 758 576 consists of 339 758 576 registered shares, each with a par value of CHF 1.00. On December 31, 2019, conditional capital amounted to CHF 47 200 000.

The shareholders registered as holding more than 5% of the shares as at December 31, 2019, were:

	Share ownership[1]	
Shareholder	Number of shares	in %[2]
Liwet Holding AG, Zurich, Switzerland[3]	140 484 860[4]	41.34%

[1] Source: Disclosure notifications pursuant to Art. 120 et seqq. of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA), published by SIX Exchange Regulation.

[2] Basis: Shares issued (339 758 576).

[3] The shares of Liwet Holding AG are ultimately held as follows:
A) 44.46% by Columbus Trust, a trust established under the laws of Cayman Islands, whose ultimate beneficiary is Mr. Viktor F. Vekselberg, Moscow, Russian Federation and Zug, Switzerland
B) 19.455% by Amapola Development Inc, Panama, and Polaris Trust, a trust established under the laws of Cyprus, whose ultimate beneficiary is Mr. Evgeny Olkhovik, Moscow, Russia
C) 19.455% by Ali International Ltd., Bahamas, and Olympia Trust, a trust established under the laws of Cyprus, whose ultimate beneficiary is Mr. Andrey Lobanov, London, United Kingdom
D) 16.63% by Next Generation Trust, a trust established under the laws of Cyprus, whose ultimate beneficiaries are Moskov Alexey Valerievich, Matveeva Irina Arkadievna, Sivoldaev Mikhail Sergeevich, Khalikov Rinat Shavkiatovich, Cheremikin Igor Vladimirovich and Shtorkh Andrey Alekseevich.

[4] Source: Disclosure notification by Liwet Holding AG published by SIX Exchange Regulation on May 25, 2018.

Share ownership, options and related instruments

The disclosure below follows Art. 663c Para. 3 of the Swiss Code of Obligations, which requires disclosure of share ownership, options and related instruments individually for each member of the Board of Directors and Executive Committee, including shares, options and related instruments held by persons closely related to, and by companies controlled by members of the Board of Directors and Executive Committee.

Members of the Board of Directors	Number of shares	Number of Restricted Stock Units (RSU)
Prof. Dr. Michael Süss	1 213 247	20 849
Gerhard Pegam	15 130	9 308
Paul Adams (since 9. April 2019)	–	9 308
Geoffery Merszei	19 065	9 308
David Metzger	32 169	9 308
Alexey V. Moskov	32 169	9 308
Dr. Suzanne Thoma (since 9. April 2019)	–	9 308
Total	**1 311 780**	**76 697**

Members of the Executive Committee	Number of shares	Number of Performance Share Awards (PSA)	Number of Restricted Stock Units (RSU)
Dr. Roland Fischer	149 675	286 189	45 113
Jürg Fedier	618 676	190 793	30 076
Anna Ryzhova	5 841	50 961	8 722
Dr. Helmut Rudigier	20 408	18 192	3 008
Total	**794 600**	**546 135**	**86 919**

Note 24 (cont.)

Related party transactions

Overview on the compensation of the Board of Directors and the Executive Committee

	Executive Committee		Board of Directors	
in CHF thousand	**2019**	2018	**2019**	2018
Short-term employee benefits	5667	5738	1374	1292
Post-employment benefits	727	717	–	–
Share-based payments	2898	3327	1030	905
Total	**9292**	**9782**	**2404**	**2197**

Disclosures required by the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies on Board and Executive compensation are shown in the Remuneration Report.

Group companies
An overview of the significant Group subsidiary companies can be found on pages 152 and 153. Transactions between the parent company and its subsidiaries as well as between the Group subsidiaries themselves have been eliminated in the consolidated annual financial statements.

Related party transactions
In Germany, a Group company rents property from its pension fund. The fair value of the real estate included in the fair value of the assets of the pension fund is CHF 8 million (previous year: CHF 9 million) and the annual rent is CHF 1 million (previous year: CHF 1 million).

In 2019, OC Oerlikon sold goods and services to joint arrangements and associates in the amount of CHF 14 million (previous year: CHF 6 million), from these transactions accounts receivables in the amount of CHF 3 million (previous year: CHF 0 million) were outstanding as of December 31, 2019. The Group purchased goods and services from joint arrangements and associates in the amount of CHF 23 million (previous year: CHF 41 million), from these transactions accounts payables in the amount of CHF 3 million (previous year: CHF 4 million) were outstanding as of December 31, 2019.

The Group received services from key managment personnel in the amount of CHF 0.1 million in 2019 (previous year: CHF 0.1 million).

Participation plans: see Note 23.

During the year under review, there were no other related party transactions.

Contingent liabilities

Note 25

Contingent liabilities as of December 31, 2019, amount to CHF 1 million, mostly for excise duties and debt guarantees (previous year: CHF 6 million, thereof CHF 5 million related to discontinued operations).

Pledged assets

Note 26

As of December 31, 2019, CHF 5 milion assets were pledged as a security (previous year: CHF 9 milion, thereof CHF 3 million related to discontinued operations).

Subsequent events

Note 27

In February 2020 the company recognized the outbreak of the corona virus in China and its so far limited circulation in other countries. Possible impacts on the global economy and Oerlikon's key end markets are currently too early to assess. The company has taken actions to protect its employees in line with regulations from local authorities and recommendations from the WHO. Oerlikon monitors the situation and potential impacts on its business closely and will take actions as required

No other events occurred between the balance sheet date and the date on which this report was approved by the Board of Directors that could have a significant impact on the consolidated financial statements 2019.

Segment Information

in CHF million	Surface Solutions Segment 2019	Surface Solutions Segment 2018	Manmade Fibers Segment 2019	Manmade Fibers Segment 2018	Total Segments 2019	Total Segments 2018	Group/ Eliminations 2019	Group/ Eliminations 2018
Order intake	**1 468**	**1 574**	**1 122**	**1 157**	**2 590**	**2 731**	**–**	**–**
Order backlog	**181**	**193**	**403**	**403**	**583**	**596**	**–**	**–**
Sales								
Sales to third parties	1 488	1 511	1 106	1 098	2 593	2 609	–	–
Sales to other segments	7	8	–	–	7	8	–7	–8
Eliminations	–7	–8	–	–	–7	–8	7	8
	1 488	**1 511**	**1 106**	**1 098**	**2 593**	**2 609**	**–**	**–**
Sales to third parties by market region								
Asia/Pacific	430	447	772	763	1 203	1 210	–	–
Europe	671	691	226	161	897	852	–	–
North America	322	306	72	103	394	409	–	–
Other regions	64	67	36	71	99	138	–	–
	1 488	**1 511**	**1 106**	**1 098**	**2 593**	**2 609**	**–**	**–**
Sales to third parties by location								
Asia/Pacific	388	408	338	374	726	782	–	–
thereof China	122	143	330	366	452	509	–	–
Europe	728	736	746	698	1 474	1 434	–	–
thereof Switzerland	141	128	–	–	141	128	–	–
Germany	340	353	746	698	1 086	1 051	–	–
North America	328	323	21	28	350	351	–	–
thereof USA	294	286	21	28	316	314	–	–
Other regions	43	44	–	–	43	44	–	–
	1 488	**1 511**	**1 106**	**1 098**	**2 593**	**2 609**	**–**	**–**
Timing of revenue recognition								
At a point in time	1 488	1 511	373	411	1 860	1 921	–	–
Transferred over time	–	–	733	688	733	688	–	–
	1 488	**1 511**	**1 106**	**1 098**	**2 593**	**2 609**	**–**	**–**
Capital expenditure for property, plant and equipment and intangible assets[1]								
Asia/Pacific	33	49	3	1	36	50	–	–
Europe	68	71	29	24	96	95	11	12
North America	32	44	1	–	32	44	–	–
Other regions	3	5	–	–	3	5	–	1
	136	**169**	**32**	**26**	**167**	**195**	**11**	**13**
EBITDA	**234**	**283**	**144**	**128**	**378**	**411**	**–12**	**–5**
EBIT	**65**	**144**	**117**	**106**	**183**	**250**	**–18**	**–7**
Other material items								
Research and development expense	–97	–89	–30	–31	–126	–120	–1	–1
Depreciation and amortization	–168	–137	–26	–22	–195	–159	–6	–2
Impairment of property, plant and equipment	–	–1	–	–	–	–1	–	–
Restructuring expense/income	–13	–	–1	–	–14	–	–4	–
Net operating assets	**31.12.19**	31.12.18	**31.12.19**	31.12.18	**31.12.19**	31.12.18	**31.12.19**	31.12.18
Operating assets[2]	2 062	1 929	641	667	2 703	2 596	84	56
Operating liabilities[3]	–291	–345	–611	–726	–903	–1 071	–59	–58
	1 771	**1 584**	**30**	**–59**	**1 800**	**1 525**	**26**	**–3**
Number of employees (full-time equivalents)	**31.12.19**	31.12.18	**31.12.19**	31.12.18	**31.12.19**	31.12.18	**31.12.19**	31.12.18
Asia/Pacific	1 854	1 871	1 106	1 074	2 960	2 945	–	–
Europe	4 220	4 047	1 819	1 687	6 040	5 734	302	239
North America	1 411	1 372	61	63	1 472	1 435	–	–
Other regions	356	364	–	–	356	364	6	10
	7 840	**7 654**	**2 986**	**2 824**	**10 827**	**10 478**	**308**	**249**

	Total from continuing operations		Discontinued operations[4]		Total incl. discontinued operations	
	2019	2018	**2019**	2018	**2019**	2018
	2 590	**2 731**	**140**	**854**	**2 731**	**3 585**
	583	**596**	**–**	**195**	**583**	**791**
	2 593	2 609	141	845	2 734	3 454
	–	–	–	–	–	–
	–	–	–	–	–	–
	2 593	**2 609**	**141**	**845**	**2 734**	**3 454**
	1 203	1 210	24	177	1 226	1 387
	897	852	57	330	954	1 182
	394	409	51	290	446	699
	99	138	9	47	108	185
	2 593	**2 609**	**141**	**845**	**2 734**	**3 454**
	726	782	35	233	761	1 015
	452	509	8	74	459	583
	1 474	1 434	63	369	1 537	1 803
	141	128	–	–	141	128
	1 086	1 051	–	–	1 086	1 051
	350	351	43	243	393	594
	316	314	43	243	359	557
	43	44	–	–	43	44
	2 593	**2 609**	**141**	**845**	**2 734**	**3 454**
	1 860	1 921	141	845	2 001	2 766
	733	688	–	–	733	688
	2 593	**2 609**	**141**	**845**	**2 734**	**3 454**
	36	50	4	33	40	83
	107	107	1	34	108	142
	32	44	1	7	33	51
	3	6	–	–	3	6
	179	**207**	**5**	**75**	**184**	**282**
	366	**406**	**–173**	**120**	**193**	**526**
	164	**243**	**–175**	**97**	**–11**	**340**
	–127	–120	–3	–12	–130	–132
	–201	–161	–1	–24	–202	–185
	–	–1	–1	–	–2	–1
	–19	–	–	12	–19	12
	31.12.19	31.12.18	**31.12.19**	31.12.18	**31.12.19**	31.12.18
	2 787	2 652	–	720	2 787	3 372
	–962	–1 129	–	–273	–962	–1 402
	1 826	**1 523**	**–**	**447**	**1 826**	**1 970**
	31.12.19	31.12.18	**31.12.19**	31.12.18	**31.12.19**	31.12.18
	2 960	2 945	–	2 973	2 960	5 918
	6 342	5 973	–	1 757	6 342	7 729
	1 472	1 435	–	751	1 472	2 186
	361	374	–	–	361	374
	11 134	**10 727**	**–**	**5 480**	**11 134**	**16 207**

[1] Does not include non-current assets acquired through business combinations.

[2] Operating assets include total assets without cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets. Due to the first-time application of IFRS 16, operating assets increased as of January 1, 2019, by CHF 171 million (Surface Solutions Segment CHF 135 million, Manmade Fibers Segment CHF 19 million and Group/Eliminations CHF 17 million).

[3] Operating liabilities include total liabilities without financial and lease liabilities, current income taxes payable, non-current post-employment benefit liabilities and deferred tax liabilities.

[4] Discontinued operations in 2019 and 2018 include the Drive Systems Segment.

Reconciliation to the consolidated income statement and balance sheet

in CHF million	2019	2018
EBIT	164	243
Financial income	9	21
Financial expense	–25	–24
EBT	**149**	**240**
Operating assets (continuing operations)	2 787	2 652
Non-operating assets	860	1 893
Total assets	**3 647**	**4 545**
Operating liabilities (continuing operations)	962	1 129
Non-operating liabilities	917	1 395
Total liabilities	**1 878**	**2 524**

Geographical information on non-current assets

in CHF million		2019	2018
Asia/Pacific		**251**	**229**
thereof	China	104	96
Europe		**1 435**	**1 340**
thereof	Switzerland	867	853
	Germany	359	307
North America		**301**	**276**
thereof	USA	291	266
Other regions		**19**	**15**
Total		**2 006**	**1 860**

Non-current assets as shown in the table above do not include deferred tax assets and post-employment benefit assets.

Information about major customers

In 2019 and 2018, no customer represented 10% or more of the company's third-party sales.

Companies by Country

Country	Name, registered office of consolidated companies by country	Currency	Share capital[1]	Group owns %	Number of employees
Australia	Oerlikon Metco Australia Pty Ltd., Bella Vista, NSW/AU	AUD	500000	100.00	4
Austria	Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT	EUR	350000	100.00	150
Austria	OT Textile Verwaltungs GmbH, Kapfenberg/AT	EUR	35000	100.00	–
Belgium	Oerlikon Balzers Coating Benelux N.V., St.-Truiden/BE	EUR	620000	100.00	49
Brazil	Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR	BRL	31343163	99.99	130
Brazil	Oerlikon Friction Systems do Brasil Ltda., Diadema, SP/BR	BRL	4418300	100.00	25
Canada	Oerlikon Metco (Canada) Inc., Fort Saskatchewan, AB/CA	CAD	100	100.00	83
China	Oerlikon (China) Technology Co. Ltd., Suzhou/CN	USD	30000000	100.00	404
China	Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN	USD	6150000	100.00	439
China	Oerlikon Barmag Huitong (Yangzhou) Engineering Co. Ltd., Yangzhou/CN	CNY	100000000	60.00	67
China	Oerlikon China Equity Ltd., Hong Kong/CN	HKD	253910000	100.00	–
China	Oerlikon Metco Surface Technology (Shanghai) Co. Ltd., Shanghai/CN	CHF	9500000	100.00	288
China	Oerlikon Textile China Investments Ltd., Hong Kong/CN	HKD	266052500	100.00	–
China	Oerlikon Textile Far East Ltd., Hong Kong/CN	HKD	100000	100.00	–
China	Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN	USD	7000000	100.00	194
China	Oerlikon Textile Systems Far East Ltd., Hong Kong/CN	HKD	250000	100.00	–
China	Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN	USD	1112200	100.00	266
China	Zigong Golden China Specialty Carbides Co., Ltd., Zigong/CN	CNY	10000000	60.00	32
Finland	Oerlikon Balzers Coating Finland Oy, Helsinki/FI	EUR	2500	100.00	30
France	Oerlikon Balzers France SAS, Ferrières-en-Brie/FR	EUR	4900000	100.00	194
Germany	AC-Automation GmbH & Co. KG, Bernkastel-Kues/DE	EUR	200000	100.00	67
Germany	AC-Verwaltungs GmbH, Bernkastel-Kues/DE	EUR	25000	100.00	–
Germany	AM Munich Research Institute GmbH, Feldkirchen/DE	EUR	25000	100.00	–
Germany	D-Coat GmbH, Erkelenz/DE	EUR	75000	100.00	30
Germany	Dr. Schippers Unterstützungskasse GmbH, Remscheid/DE	EUR	26000	100.00	–
Germany	Oerlikon AM Europe GmbH, Barleben/DE	EUR	51000	100.00	137
Germany	Oerlikon AM GmbH, Feldkirchen/DE	EUR	25000	100.00	55
Germany	Oerlikon Balzers Coating Germany GmbH, Bingen/DE	EUR	511300	100.00	861
Germany	Oerlikon Business Services GmbH, Remscheid/DE	EUR	25000	100.00	17
Germany	Oerlikon Deutschland Holding GmbH, Remscheid/DE	EUR	30680000	100.00	–
Germany	Oerlikon Friction Systems (Germany) GmbH, Bremen/DE	EUR	1000000	100.00	106
Germany	Oerlikon Metaplas GmbH, Salzgitter/DE	EUR	1000000	100.00	174
Germany	Oerlikon Metco Coatings GmbH, Salzgitter/DE	EUR	1000000	100.00	68
Germany	Oerlikon Metco Coating Services GmbH (formerly: TeroLab Surface GmbH), Langenfeld/DE	EUR	1533900	100.00	78
Germany	Oerlikon Metco Europe GmbH, Kelsterbach/DE	EUR	1000000	100.00	125
Germany	Oerlikon Metco WOKA GmbH, Barchfeld/DE	EUR	1000000	100.00	154
Germany	Oerlikon Surface Solutions Holding GmbH, Kelsterbach/DE	EUR	17345100	100.00	–
Germany	Oerlikon Textile GmbH & Co. KG, Remscheid/DE	EUR	41000000	100.00	1753
Germany	Oerlikon Vermögens-Verwaltungs GmbH, Remscheid/DE	EUR	25000	100.00	–
Germany	W. Reiners Verwaltungs-GmbH, Remscheid/DE	EUR	38346900	100.00	–
Great Britain	Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK	GBP	2000000	100.00	61
Great Britain	Oerlikon Metco (UK) Ltd., Cwmbran/UK	GBP	500000	100.00	20
Great Britain	Oerlikon Metco Coatings Ltd., Dukinfield/UK	GBP	57100	100.00	41
Great Britain	Oerlikon Neomet Ltd., Stockport/UK	GBP	292700	100.00	32
Hungary	Oerlikon Eldim (HU) Kft, Debrecen/HU	HUF	161000000	100.00	211
India	Oerlikon Balzers Coating India Ltd., Pune/IN	INR	70000000	100.00	303
India	Oerlikon Friction Systems (India) Ltd., Chennai/IN	INR	7100000	100.00	112
India	Oerlikon Textile India Pvt. Ltd., Mumbai/IN	INR	57360000	100.00	175
Italy	Oerlikon Balzers Coating Italy S.p.A., Brugherio/IT	EUR	129100	100.00	92
Italy	Oerlikon Friction Systems (Italia) S.r.l., Caivano/IT	EUR	250000	100.00	42
Japan	Oerlikon Metco (Japan) Ltd., Tokyo/JP	JPY	180000000	100.00	40
Japan	Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP	JPY	100000000	100.00	217
Liechtenstein	OC Oerlikon Balzers AG, Balzers/LI	CHF	1000000	100.00	85
Liechtenstein	Oerlikon (Liechtenstein) Holding AG, Balzers/LI	CHF	120000	100.00	–
Liechtenstein	Oerlikon Balzers Coating AG, Balzers/LI	CHF	1000000	100.00	227
Luxembourg	Oerlikon Balzers Coating Luxembourg S.à.r.l., Differdange-Niederkorn/LU	EUR	1000000	60.00	26
Malaysia	Oerlikon Balzers Coating Malaysia Sdn. Bhd., Kuala Lumpur/MY	MYR	6000000	100.00	36
Mexico	Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX	MXN	71458000	100.00	160
Netherlands	Oerlikon Eldim (NL) B.V., Lomm/NL	EUR	396400	100.00	258
Philippines	Oerlikon Balzers Coating Philippines Inc., Muntinlupa/PH	PHP	15000000	99.99	14
Poland	Oerlikon Balzers Coating Poland Sp. z o.o., Polkowice Dolne/PL	PLN	5000000	100.00	115
Poland	Oerlikon Business Services Europe Sp. z.o.o., Warsaw/PL	PLN	5000	100.00	56

Country	Name, registered office of consolidated companies by country	Currency	Share capital[1]	Group owns %	Number of employees
Russia	Oerlikon Metco Rus LLC, Lyubertsy/RU	RUB	18600000	100.00	23
Russia	Oerlikon Rus LLC, Moscow/RU	RUB	1700000	100.00	6
Russia	OOO Oerlikon Balzers Rus, Elektrostal/RU	RUB	1000000	100.00	14
Singapore	Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG	SGD	6000000	100.00	–
Singapore	Oerlikon Metco (Singapore) Pte. Ltd., Singapore/SG	SGD	600000	100.00	23
Slovakia	Oerlikon Balzers Coating Slovakia s.r.o., Bratislava/SK	EUR	20060000	100.00	211
South Korea	Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR	KRW	6300000000	89.90	211
Spain	Oerlikon Balzers Coating Spain S.A.U., Antzuola/ES	EUR	150300	100.00	85
Sweden	Oerlikon Balzers Coating Sweden AB, Stockholm/SE	SEK	11600000	100.00	66
Switzerland	AMT AG, Böttstein/CH	CHF	300000	100.00	17
Switzerland	AMT Solutions Holding AG, Freienbach/CH	CHF	100000	100.00	–
Switzerland	InnoDisc AG, Freienbach (formerly: Windisch)/CH	CHF	100000	100.00	–
Switzerland	OC Oerlikon Corporation AG, Pfäffikon, Freienbach/CH	CHF	339758600	100.00	–
Switzerland	OC Oerlikon Management AG, Pfäffikon, Freienbach/CH	CHF	2000000	100.00	89
Switzerland	OC Oerlikon Textile Holding AG, Pfäffikon, Freienbach/CH	CHF	112019600	100.00	–
Switzerland	Oerlikon Balzers Coating SA, Brügg, Brügg/CH	CHF	100000	100.00	28
Switzerland	Oerlikon IT Solutions AG, Pfäffikon, Freienbach/CH	CHF	500000	100.00	45
Switzerland	Oerlikon Metco AG, Wohlen, Wohlen/CH	CHF	5000000	100.00	232
Switzerland	Oerlikon Surface Solutions AG, Pfäffikon, Freienbach/CH	CHF	10000000	100.00	281
Switzerland	Sucotec AG, Langenthal/CH	CHF	300000	100.00	6
Switzerland	Unaxis GmbH, Freienbach/CH	CHF	20000	100.00	–
Taiwan	Oerlikon Balzers Coating Taiwan Co. Ltd., Taipeh/TW	TWD	500000	100.00	4
Thailand	Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH	THB	80000000	99.99	63
Turkey	Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR	TRY	2500000	99.99	69
USA	Oerlikon AM Medical Inc., Shelton, CT/US	USD	n.a.	100.00	76
USA	Oerlikon AM US Inc., Wilmington, DE/US	USD	2000	100.00	43
USA	Oerlikon Balzers Coating USA Inc., Wilmington, DE/US	USD	20000	100.00	501
USA	Oerlikon Friction Systems (US) Inc., Dayton OH/US	USD	1000	100.00	178
USA	Oerlikon Management USA Inc., Pittsburgh, PA/US	USD	500000	100.00	–
USA	Oerlikon Metco (US) Inc., Westbury NY/US	USD	1000	100.00	529
USA	Oerlikon Textile Inc., Charlotte, NC/US	USD	3000000	100.00	61
USA	Oerlikon USA Holding Inc., Wilmington, DE/US	USD	40234000	100.00	–
Vietnam	Oerlikon Balzers Coating Vietnam Co., Ltd., Bac Ninh/VN	USD	1000000	100.00	4

[1] Share capital partly rounded to full hundred. Some articles of association and trade registers still contain old European currencies that are converted to EUR.

OC Oerlikon Corporation AG, Pfäffikon

Report of the statutory auditor to the General Meeting

on the consolidated financial statements 2019

Report of the statutory auditor

to the General Meeting of OC Oerlikon Corporation AG, Pfäffikon

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of OC Oerlikon Corporation AG, Pfäffikon and its subsidiaries (the Group), which comprise the consolidated income statement and consolidated statement of comprehensive income for the year ended 31 December 2019, the consolidated balance sheet at 31 December 2019, the consolidated cash flow statement and the consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 98 to 153) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

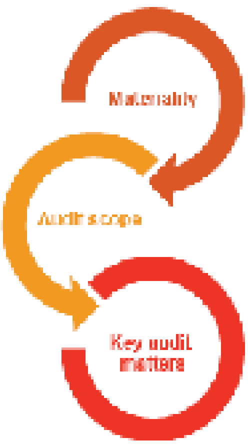
Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) 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, as well as the IESBA Code of Ethics for Professional Accountants, 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 10,300,000

- We concluded full scope audit work at 18 reporting units in 7 countries
- Our audit scope addressed 69% of the Group’s total revenue and 74% of the Group’s total assets

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

- Impairment assessment of goodwill
- Deconsolidation of the Drive Systems Segment

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.

On the basis of 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 10,300,000
How we determined it	2.5% of average 2018-2019 EBITDA, adjusted for one-time effects
Rationale for the materiality benchmark applied	We chose EBTIDA as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and it is a generally accepted benchmark. We believe that it is an appropriate benchmark given the volatility of the Group's earnings.

We agreed with the Audit Committee that we would report to them misstatements above CHF 515,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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 Group financial statements are a consolidation of around 100 reporting units, each of which is considered to be a component. We identified 18 reporting units across 7 countries that, in our view, required a full scope audit due to their size or risk characteristics. This addressed 67% of the Group’s total revenue and 71% of the Group’s total assets. This was complemented by specified audit procedures and a review of financial information performed for two reporting units representing 2% of the Group’s revenue and 3% of the Group’s total assets. The remaining 31% of the Group’s total revenue and 26% of the Group’s total assets were distributed over a large number of smaller reporting units.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units. Senior members of the Group audit team visit the most significant components on regular basis. These visits included discussing the risks identified and any issues arising from our work, challenging the audit approach in significant risk areas as well as meeting local management. For those reporting units in the Group audit scope where a site visit was not undertaken, our involvement included reviewing the component auditors’ results and attending clearance meetings. Further specific audit procedures over central functions, the Group consolidation and areas of significant judgement (including M&A transactions, goodwill, intangible assets, taxation and litigations) were directly led and performed by the Group audit team.

Not considered in the above coverage is our audit evidence from performing analytical review procedures, which covers a significant portion of the Group’s smaller and lower risk reporting units that were not included directly in our Group audit scope.

Key audit matters

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.

Impairment assessment of goodwill

Key audit matter	How our audit addressed the key audit matter
The impairment assessment of goodwill is considered a key audit matter due to the size of the assets (goodwill: CHF 543 million) and the significant estimates required of management. The main estimate relates to the future cash flows of the underlying businesses as well as the discount rates applied to perform the necessary impairment tests. Please refer to pages 128 and 129 (note 15). Goodwill is tested annually for potential impairment whereby the carrying value is compared with the recoverable amount (which is estimated as the higher of the fair value less costs of disposal and the value in use).	We obtained the impairment analyses undertaken by management and performed the following procedures: • We assessed the determination of the carrying values of the assets of individual cash-generating units and the allocation of goodwill to those units. We ensured that the value in use and the fair value less cost of disposal calculations are based on the latest business plans. • We assessed the reasonableness of the business plan by comparing the implicit growth rates with market data. • We further compared the current year actual results with the forecast figures included in the prior year impairment tests to assess management's forecasting accuracy. • We compared model inputs, such as weighted average cost of capital, long-term growth rate and other assumptions, with observable market data. • We assessed the discount rate, by assessing the risk-adjusted cost of capital used to derive the discount rate for the Group. • We performed thorough sensitivity analyses on the key assumptions to ascertain the extent of changes in those assumptions that would be required for the goodwill to be impaired. Overall, on the basis of our work on the impairment testing model, the supporting evidence as well as our own sensitivity analyses, we concluded that the results of the impairment tests performed by management were reasonable.

Deconsolidation of the Drive Systems Segment

Key audit matter	How our audit addressed the key audit matter
In 2019, the Drive Systems Segment was disposed of for an overall consideration of CHF 625 million. The transaction was closed on 28 February 2019. Please refer to pages 115 (note 2). The accounting for discontinued operations requires a clear segregation of continuing and discontinuing operating activities in order to report associated income statement items separately and correctly. Management judgment is also involved in the identification, recognition and measurement of the assets and liabilities of the discontinued operation including potential remaining provisions or contingencies that remain. The deconsolidation of the Drive Systems Segment is significant to our audit because of the magnitude of the underlying assets and liabilities. Further the transaction and its accounting are non-routine (for instance reclassification of cumulative translation adjustments) and involves significant management judgements and attention. Furthermore, management must ensure that the discounted operations are reported in accordance with the requirements of IFRS 5 – Assets held for sale and discontinued operations.	We have analysed the share purchase agreement and verified the closing date. We further tested the material adjustments to book values prior to deconsolidation and reconciled the reported values as at the closing date with the corresponding underlying accounting data. At Group level, we tested the deconsolidation entries including the reclassification of the associated currency translation adjustments. Finally, we tested the calculation of the results of the discontinued operation and the split between the result from continuing and discontinued activities. We concluded, that managements approach in relation to the deconsolidation was reasonable.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of OC Oerlikon Corporation AG, Pfäffikon and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 IFRS 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, ISAs 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

René Rausenberger	Dominik Hattrup
Audit expert Auditor in charge	Audit expert

Zürich, 28 February 2020

Five-year summary of key figures

in CHF million	**2019**	2018	2017	2016	2015
Order intake[1]	2590	2731	2211	2413	2537
Order backlog[1]	583	596	496	447	431
Sales[1]	2593	2632	2068	2331	2671
EBITDA[1, 2]	366	406	322	334	338
- as % of sales[1, 2]	14%	16%	16%	14%	13%
EBIT[1, 3]	164	243	168	158	–306
- as % of sales[1, 3]	6%	9%	8%	7%	–11%
Net result[3]	–66	245	151	388	–418
- as % of equity attributable to shareholders of the parent[3]	–4%	12%	8%	21%	–27%
Cash flow from operating activities[4]	322	429	404	269	393
Capital expenditure for property, plant and equipment and intangible assets[1]	179	207	169	144	150
Total assets	3647	4545	4363	3825	4097
Equity attributable to shareholders of the parent	1756	2001	1971	1826	1554
– as % of total assets	48%	44%	45%	48%	38%
Net cash[5]	333	398	499	401	79
Net operating assets[6]	1826	1523	1949	1867	1875
Number of employees[1]	11134	10727	9798	13840	13723
Personnel expense[1]	822	782	681	796	785
Research and development expenditure[1, 7]	122	116	95	94	103

[1] 2019 continuing operations, 2018, 2017, 2016 and 2015 as reported.

[2] 2019 includes one-time effects of CHF -25 million (restructuring expenses of CHF -19 million and other expenses of CHF -6 million) and 2015 includes one-time effects of CHF -112 million (restructuring).

[3] 2019 includes one-time effects of CHF -25 million (restructuring expenses of CHF -19 million and other expenses of CHF -6 million) and 2015 includes one-time effects of CHF -588 million (restructuring expenses of CHF -112 million and impairment losses of CHF 476 million).

[4] Before changes in net current assets.

[5] Net cash includes cash and cash equivalents and marketable securities less current and non-current debt.

[6] Net operating assets are defined as operating assets (total assets without cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets) less operating liabilities (total liabilities without financial and lease liabilities, current income taxes payable, non-current post-employment benefit liabilities and deferred tax liabilities). Due to the first time application of IFRS 16, operating assets increased per January 1, 2019 by CHF 171 million.

[7] Research and development expenditure includes expense recognized as intangible assets.

OC Oerlikon Corporation AG, Pfäffikon

Income Statement of OC Oerlikon Corporation AG, Pfäffikon

in CHF	Notes	**2019**	2018
Income from investments	2.1	282 510 667	206 090 931
Financial income	2.2	25 987 932	24 237 380
Other income	2.3	67 998 119	51 700 876
Total income		**376 496 718**	**282 029 187**
Financial expenses	2.4	–11 098 219	–24 258 490
Personnel expenses		–2 439 043	–2 090 279
Other expenses	2.5	–61 975 849	–57 227 307
Result before taxes and value adjustments on investments		**300 983 607**	**198 453 112**
Valuation adjustments on investments	2.6	–188 000 000	–
Result before taxes		**112 983 607**	**198 453 111**
Direct taxes		–2 020 140	–166 699
Result for the year		**110 963 467**	**198 286 412**

Balance Sheet at December 31 of OC Oerlikon Corporation AG, Pfäffikon

Assets

in CHF	Notes	2019	2018
Cash and cash equivalents	3.1	284 489 180	414 905 282
Current financial receivables			
- from third parties		464 479	41 639
- from companies in which the entity holds an investment	3.2	494 952 648	345 772 950
Other current receivables	3.3	–	101 376 000
Prepaid expenses and accrued income		700 032	495 000
Current assets		**780 606 340**	**862 590 871**
Non-current financial receivables			
- from third parties		214 695	126 017
- from companies in which the entity holds an investment	3.4	513 447 784	643 777 242
Other non-current financial assets	3.5	18 532 800	18 532 800
Investments	3.6	1 798 018 693	2 422 697 747
Non-current assets		**2 330 213 972**	**3 085 133 806**
Total assets		**3 110 820 312**	**3 947 724 676**

Liabilities and equity

in CHF	Notes	2019	2018
Current interest-bearing payables			
- due to third parties	3.7	–	300 000 000
- due to companies in which the entity holds an investment	3.8	683 678 201	966 995 773
Current payables			
- due to third parties		372 304	174 727
- due to companies in which the entity holds an investment		203 749	527 462
- due to shareholders		13 436	2 023 922
Accrued liabilities and deferred income		6 363 166	7 739 591
Current liabilities		**690 630 857**	**1 277 461 474**
Non-current interest-bearing payables			
- due to third parties	3.7	150 000 000	150 000 000
- due to companies in which the entity holds an investment	3.9	381 911 897	357 405 647
Provisions	3.10	36 573 699	33 618 036
Non-current liabilities		**568 485 596**	**541 023 683**
Total liabilities		**1 259 116 453**	**1 818 485 157**
Share capital	3.11	339 758 576	339 758 576
Legal capital reserves			
– Reserves from capital contributions	3.12	259 102 841	597 457 140
Legal retained earnings			
– General legal retained earnings		70 593 765	70 593 765
Voluntary retained earnings			
– Free reserves and statutory reserves		293 910 850	293 910 850
– Available earnings			
- Profit brought forward		840 291 580	641 925 267
- Result for the year		110 963 467	198 286 412
Treasury shares	3.13	–62 917 220	–12 692 491
Total equity		**1 851 703 859**	**2 129 239 519**
Total liabilities and equity		**3 110 820 312**	**3 947 724 676**

Notes to the Financial Statements of OC Oerlikon Corporation AG, Pfäffikon

Principles (1)

General aspects (1.1)

These financial statements were prepared according to the provisions of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Financial receivables (1.2)

Financial receivables include loans from third parties and from companies in which the entity holds an investment. Loans granted in foreign currencies are translated at the rate at the balance sheet date, whereby unrealized losses are recorded but unrealized profits are not recognized.

Treasury shares (1.3)

Treasury shares are recognized at acquisition cost and deducted from shareholders' equity at the time of acquisition. In case of a resale, the gain or loss is recognized directly in equity in the position profit brought forward.

Interest-bearing payables (1.4)

Interest-bearing payables are recognized in the balance sheet at nominal value.

Foregoing a cash flow statement and additional disclosures in the notes (1.5)

As OC Oerlikon Corporation AG, Pfäffikon has prepared its consolidated financial statements in accordance with a recognized accounting standard (IFRS), it has decided to forego presenting additional information on interest-bearing payables and audit fees in the notes, as well as a cash flow statement, in accordance with the law.

Information on income statement items (2)

Income from investments (2.1)

The income from investments consists mainly of dividend income from companies in which the entity holds an investment.

Financial income (2.2)

Financial income mainly includes interest income from loans from companies in which the entity holds an investment.

Other income (2.3)

Other income consists mainly of trademark fees as well as gain on the sale of a group company.

Financial expenses (2.4)

Financial expenses include interest expenses due to companies in which the entity holds an investment and due to third parties as well as net exchange losses (if any).

Other expenses (2.5)

Other expenses consist mainly of management service fees charged by OC Oerlikon Management AG, Pfäffikon.

Valuation adjustments on loans and investments (2.6)

In 2019 OC Oerlikon Corporation AG received an extraordinarily high dividend from an entity in which it holds an investment. The dividend payment reduced the equity of the entity in which it holds an investment substantially. As a consequence, the company has recognized a value adjustment on the respective investment in the amount of CHF 188 million.

Information on balance sheet items (3)

Cash and cash equivalents (3.1)

This item consists mainly of current balances denominated in Swiss francs, Euros and US dollars and is held with European banks.

Current financial receivables from companies in which the entity holds an investment (3.2)

The current financial receivables from companies in which the entity holds an investment consist mainly as cash pool deposits in Swiss francs and Euros.

Other current receivables (3.3)

In 2018 the other current receivables consisted mainly of deposits in Euros, which has been fully repaid in 2019.

Non-current financial receivables from companies in which the entity holds an investment (3.4)

The non-current financial receivables from companies in which the entity holds an investment consist mainly of non-current deposits in Euros and US Dollars.

Other non-current financial assets (3.5)

The other non-current financial assets consist of a 14.54% investment in an unquoted equity investment.

Investments (3.6)

OC Oerlikon Corporation AG, Pfäffikon, holds on the balance sheet date significant investments which are listed in the table on page 168. These investments are recorded at historical costs less any valuation adjustments. Compared to prior year the amount of investments has decreased due to the sale of an investment (GrazianoFairfield AG) as well as due to the additional valuation adjustment recognized in connection with an extraordinarily high dividend received (see note 2.6).

Interest-bearing payables due to third parties (3.7)

The interest-bearing payables due to third parties contain the following bonds:

Conditions on outstanding bonds:

	CHF thousand	CHF thousand
	2014–2019	**2014–2024**
Nominal value at December 31, 2019	–	150 000
Nominal value at December 31, 2018	300 000	150 000
Interest	1.250%	2.625%
Duration in years	5	10
Maturity	**June 17, 2019**	**June 17, 2024**

Additional information about the bonds can be found in Note 20 of the Group's consolidated financial statements on page 136.

Notes to the Financial Statements of OC Oerlikon Corporation AG, Pfäffikon

Current interest-bearing payables due to companies in which the entity holds an investment (3.8)
The current interest-bearing payables due to companies in which the entity holds an investment contain mainly cash pool debts in Swiss francs, Euros and US dollars.

Non-current interest-bearing payables due to companies in which the entity holds an investment (3.9)
The non-current interest-bearing payables due to companies in which the entity holds an investment contain long-term loans mainly in Swiss francs and Hong Kong dollars.

Provisions (3.10)
Provisions cover mainly risks related to investments and other risks.

Share capital (3.11)
The share capital of CHF 339 758 576 (previous year: CHF 339 758 576) consists of 339 758 576 registered shares (previous year: 339 758 576), each with a par value of CHF 1.00. On December 31, 2019, conditional capital amounted to CHF 47 200 000 (previous year: 47 200 000).

Reserves from capital contributions (3.12)
As of December 31, 2019, OC Oerlikon Corporation AG, Pfäffikon shows reserves from capital contributions of CHF 259 102 841. Thereof CHF 258 555 674 are not yet available for distribution due to the current practice of the Swiss Federal Tax Authorities. Dividend distributions can be done out of available reserves from capital contribution first. Available reserves from capital contributions amount to CHF 547 167. In 2019, the value of available reserves from capital contributions has changed due to a dividend payment.

Reserves from capital contributions:

in CHF	available	not available yet	**Total**
Balance at January 1, 2019	328 750 837	268 706 303	597 457 140
Dividend payment	–328 203 670	–10 150 629	–338 354 299
Balance at December 31, 2019	**547 167**	**258 555 674**	**259 102 841**

Treasury shares (3.13)
Treasury shares are shown directly in equity.

in CHF	Amount	Number of treasury shares	Lowest rate	Highest rate	Average rate of treasury shares
Balance at January 1, 2019	12 692 491	942 398	–	–	–
Acquisitions	63 520 004	5 660 584	8.750	13.668	11.221
Allocation to Board members	–643 206	–48 629	–	–	13.227
Allocation to management	–12 652 069	–956 548	–	–	13.227
Balance at December 31, 2019	62 917 220	5 597 805	–	–	–

in CHF	Amount	Number of treasury shares	Lowest rate	Highest rate	Average rate of treasury shares
Balance at January 1, 2018	3 726 403	322 194	–	–	–
Acquisitions	13 563 242	962 981	10.723	17.808	14.085
Allocation to board members	–987 623	–73 640	–	–	13.412
Allocation to management	–3 609 531	–269 137	–	–	13.412
Balance at December 31, 2018	12 692 491	942 398	–	–	–

On November 5, 2019 the Board of Directors approved a program to buy back own shares for up to a maximum of 10% of the share capital. The effective size of the buyback program depends, among other things, on the number of treasury shares held and the market situation. The repurchased registered shares shall be used as a reserve for future M&A transactions and employee benefit plans. The program started in November 2019 and will run up to 36 months. As of December 31, 2019 4 830 000 shares were repurchased as part of the share buyback program for a consideration of CHF 54 million.

Other information (4)
Joint and several liabilities in favor of Group companies (4.1)
VAT group
OC Oerlikon Corporation AG, Pfäffikon belongs to a VAT group and therefore all participants are jointly liable to the Swiss Federal Tax Administration for the value added tax debts of the whole Group.

Cash pooling group
OC Oerlikon Corporation AG, Pfäffikon is liable for liabilities of the cash pool participants.

Full-time equivalents (4.2)
OC Oerlikon Corporation AG, Pfäffikon does not have any employees.

Contingent liabilities (4.3)
The contingent liabilities relate primarily to corporate guarantees and bank guarantees in favor of companies in which the entity holds an investment and amount to CHF 315 million (previous year: CHF 448 million).

Notes to the Financial Statements of OC Oerlikon Corporation AG, Pfäffikon

Significant shareholders (4.4)

Significant shareholders registered as holding more than 5% of the shares as at December 31, 2019, were:

Share ownership[1]

	2019		2018	
Shareholder	**Number of shares**	in %[2]	Number of shares	in %
Liwet Holding Ltd., Zurich, Switzerland[3]	140 484 860[4]	41.34%	140 484 860[4]	41.34%

[1] Source: Disclosure notifications pursuant to Art. 120 et seq. of the Federal Act on Financial Market Infrastructures and Market Conduct in Securities and Derivatives Trading (Financial Market Infrastructure Act, FMIA), published by SIX Exchange Regulation.

[2] Basis: Shares issued (339 758 576).

[3] The shares of Liwet Holding Ltd. are ultimately held as follows:
A) 44.46% by Columbus Trust, a trust established under the laws of Cayman Islands, whose ultimate beneficiary is Mr. Viktor F. Vekselberg, Moscow, Russian Federation and Zug, Switzerland
B) 19.455% by Amapola Development Inc, Panama, and Polaris Trust, a trust established under the laws of Cyprus, whose ultimate beneficiary is Mr. Evgeny Olkhovik, Moscow, Russia
C) 19.455% by Ali International Ltd., Bahamas, and Olympia Trust, a trust established under the laws of Cyprus, whose ultimate beneficiary is Mr. Andrey Lobanov, London, United Kingdom
D) 16.63% by Next Generation Trust, a trust established under the laws of Cyprus, whose ultimate beneficiaries are Moskov Alexey Valerievich, Matveeva Irina Arkadievna, Sivoldaev Mikhail Sergeevich, Khalikov Rinat Shavkiatovich, Cheremikin Igor Vladimirovich and Shtorkh Andrey Alekseevich.

[4] Source: Disclosure notification by Liwet Holding Ltd. published by SIX Exchange Regulation on May 25, 2018.

Equity owned by Executive Committee and the Board of Directors, including any related parties (4.5)

Members of the Board of Directors:

	2019	2018
	Number of shares	Number of shares
Prof. Dr. Michael Süss	1 213 247	398 544
Gerhard Pegam	15 130	9 216
Dr. Jean Botti	–	19 731
Dr. Suzanne Thoma	–	–
Geoffery Merszei	19 065	11 521
David Metzger	32 169	24 665
Alexey V. Moskov	32 169	24 665
Total	**1 311 780**	**488 342**

Members of the Executive Committee:

	2019	2018
	Number of shares	**Number of shares**
Dr. Roland Fischer	149 675	22 604
Jürg Fedier	618 676	490 717
Dr. Helmut Rudigier	20 408	9 148
Anna Ryzhova	5 841	–
Total	**794 600**	**522 469**

Shares or options on shares for members of the Board of Directors, Executive Committee and Senior Management (4.6)

Shares or options on shares are used for share-based compensation of members of the Board of Directors compensated by OC Oerlikon Corporation AG, Pfäffikon as well as of the Executive Committee and Senior Management employed by other companies of the Group. The number of Restricted Stock Units (RSU) and Performance Share Awards (PSA) is calculated based on fair value at grant date. The allocation was as follows:

	2019		2018	
in CHF thousand	**Number of RSU and PSA**	**Amount**	Number of RSU and PSA	Amount
Allocated to authorized members	607 780	7 712	519 156	9 533

For year 2019 a total of 607 780 Restricted Stock Units (RSU) and Performance Share Awards (PSA) are allocated and the total granted value for share-based-programms amounts to CHF 7.7 million. Thereof, 76 697 allocated Restricted Stock Units (RSU) and a granted value of CHF 1.0 million relates to the Board of Directors. Another 277 605 allocated Restricted Stock Units (RSU) and Performance Share Awards (PSA) and a granted value of CHF 3.4 million is attributed to the Executive Committee.

For year 2018 a total of 519 156 Restricted Stock Units (RSU) and Performance Share Awards (PSA) are allocated and the total granted value for share-based-programms amounts to CHF 9.5 million. Thereof, 57 572 allocated Restricted Stock Units (RSU) and a granted value of CHF 0.9 million relates to the Board of Directors. Another 177 436 allocated Restricted Stock Units (RSU) and Performance Share Awards (PSA) and a granted value of CHF 3.3 million is attributed to the Executive Committee.

Significant events after the balance sheet date (4.7)

There are no other significant events after the balance sheet date which could impact the book value of the assets or liabilities or which should be disclosed here.

Investments

Company	Place of business	Currency	Share Capital 2019	Share Capital 2018	Capital and share of votes in % 2019	Capital and share of votes in % 2018
GrazianoFairfield AG (formerly: Oerlikon Drive Systems GmbH, Pfäffikon)	Freienbach/CH	CHF	–	10000000	–	100.00
InnoDisc AG	Freienbach/CH	CHF	100000	100000	100.00	100.00
OC Oerlikon Management AG, Pfäffikon	Freienbach/CH	CHF	2000000	2000000	100.00	100.00
OC Oerlikon Textile Holding AG, Pfäffikon	Freienbach/CH	CHF	112019600	112019600	100.00	100.00
Oerlikon Balzers Coating (Thailand) Co. Ltd.	Chonburi/TH	THB	80000000	80000000	99.99	99.99
Oerlikon Balzers Coating India Ltd.	Pune/IN	INR	70000000	70000000	78.40	78.40
Oerlikon Balzers Coating Korea Co. Ltd.	Pyongtaek/KR	KRW	6300000000	6300000000	89.10	89.10
Oerlikon Balzers Coating Luxembourg S.à.r.l.	Differdange-Niedercorn/LU	EUR	1000000	1000000	60.00	60.00
Oerlikon Balzers Coating Sweden AB	Stockholm/SE	SEK	11600000	11600000	100.00	100.00
Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi	Bursa/TR	TRY	2500000	2500000	99.99	99.99
Oerlikon Business Services Europe Sp. z.o.o.	Warsaw/PL	PLN	5000	5000	100.00	100.00
Oerlikon Deutschland Holding GmbH	Remscheid/DE	EUR	30680000	30680000	10.00	10.00
Oerlikon IT Solutions AG, Pfäffikon	Freienbach/CH	CHF	500000	500000	100.00	100.00
Oerlikon Surface Solutions AG, Pfäffikon	Freienbach/CH	CHF	10000000	10000000	100.00	100.00
Oerlikon USA Holding Inc.	Wilmington DE/USA	USD	40234000	40234000	100.00	100.00
Oerlikon Vermögens-Verwaltungs GmbH	Remscheid/DE	EUR	25000	25000	100.00	100.00
OOO Oerlikon Balzers Rus	Elektrostal/RU	RUB	1000000	1000000	100.00	100.00
OT Textile Verwaltungs GmbH	Freienbach/CH	CHF	–	20000	–	100.00
PT Oerlikon Balzers Artoda Indonesia	Bekasi/ID	IDR	18000000000	18000000000	42.00	42.00
Unaxis GmbH	Freienbach/CH	CHF	20000	20000	90.00	90.00

Refer to “Companies by Country” on pages 152 and 153 for a complete list of companies that are held directly and indirectly by OC Oerlikon Corporation AG.

Changes in Equity of OC Oerlikon Corporation AG, Pfäffikon

in CHF million	Share capital	Reserves from capital contributions	General legal retained earnings	Free reserves and statutory reserves	Available earnings	Treasury shares	Total equity
Balance at December 31, 2016	**339.8**	**818.0**	**70.6**	**293.9**	**562.8**	**–5.4**	**2079.7**
Changes in treasury shares	0.0	0.0	0.0	0.0	0.0	1.7	1.7
Dividend payment	0.0	–101.8	0.0	0.0	0.0	0.0	–101.8
Result for the year	0.0	0.0	0.0	0.0	78.2	0.0	78.2
Balance at December 31, 2017	**339.8**	**716.2**	**70.6**	**293.9**	**641.0**	**–3.7**	**2057.8**
Changes in treasury shares	0.0	0.0	0.0	0.0	0.9	–9.0	–8.1
Dividend payment	0.0	–118.8	0.0	0.0	0.0	0.0	–118.8
Result for the year	0.0	0.0	0.0	0.0	198.3	0.0	198.3
Balance at December 31, 2018	**339.8**	**597.4**	**70.6**	**293.9**	**840.2**	**–12.7**	**2129.2**
Changes in treasury shares	0.0	0.0	0.0	0.0	0.1	–50.2	–50.2
Dividend payment	0.0	–338.3	0.0	0.0	0.0	0.0	–338.3
Result for the year	0.0	0.0	0.0	0.0	111.0	0.0	111.0
Balance at December 31, 2019	**339.8**	**259.1**	**70.6**	**293.9**	**951.3**	**–62.9**	**1851.7**

Proposal of the Board of Directors

The available earnings amount to:

in CHF	**2019**
Retained earnings brought forward	840211679
Gain on Treasury Shares	79901
Result for the year	110963467
Available earnings	951255047

The Board of Directors proposes to the Annual General Meeting of Shareholders that the available earnings are allocated as follows:

Distribution of a dividend of CHF 1.00 (before withholding tax) on dividend bearing shares with a nominal value of CHF 1.00 each	339758576
Balance to be carried forward	611496471

The company will not pay dividend on treasury shares held by OC Oerlikon Corporation AG, Pfäffikon.

Pfäffikon SZ, February 28, 2020

On behalf of the Board of Directors
Chairman

Prof. Dr. Michael Süss

OC Oerlikon Corporation AG, Pfäffikon

Report of the statutory auditor to the General Meeting

on the financial statements 2019

pwc

Report of the statutory auditor

to the General Meeting of OC Oerlikon Corporation AG, Pfäffikon

Report on the audit of the financial statements

Opinion

We have audited the financial statements of OC Oerlikon Corporation AG, Pfäffikon, which comprise the income statement for the year ended 31 December 2019, the balance sheet as at 31 December 2019 and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 162 to 169) as at 31 December 2019 comply with Swiss law and the company's articles of incorporation.

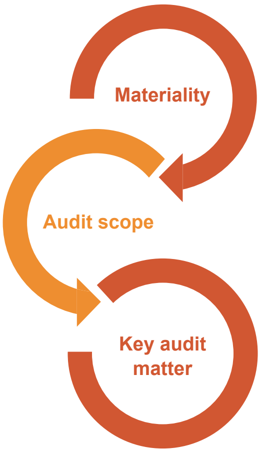
Basis for opinion

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 18,500,000

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:

- Valuation of investments in Group companies

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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.

On the basis of 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 18,500,000
How we determined it	1% of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because OC Oerlikon Corporation AG, Pfäffikon is a holding company that mainly holds investments in subsidiaries. The profit of the holding company fluctuates from year to year depending on whether investees pay dividends. Furthermore, net assets is considered a key element for the user of the financial statements and it is a generally accepted benchmark for determining materiality.

We agreed with the Audit Committee that we would report to them misstatements above CHF 515,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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.

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.

Valuation of investments in Group companies

Key audit matter	How our audit addressed the key audit matter
The valuation of investments in Group companies is considered a key audit matter due to the size of the investment balance (CHF 1,798 million), the significant estimates involved in the valuation process and the estimation of the future profitability of the individual directly and indirectly held investments.	We tested material movements in the investment balance by agreeing the underlying transactions to relevant supporting documentation, such as share purchase agreements, share certificates and bank statements. To identify indicators of impairment of individual investments, we compared the investment value with the shareholders' equity and financial performance of the respective subsidiaries. We re-performed the valuation assessment carried out by management. Our assessment included the evaluation of the investments' underlying net assets as well as, in some cases, the evaluation of their capitalized earnings value and the appropriateness of the discount rates applied. Overall, on the basis of the procedures performed, we concluded that management's assessments are based upon reasonable and consistently applied assumptions that support management's valuation conclusions.

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 available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

René Rausenberger
Audit expert
Auditor in charge

Dominik Hattrup
Audit expert

Zürich, 28 February 2020

Legal structure

Legal structure of consolidated companies as per December 31, 2019

OC Oerlikon Corporation AG, Pfäffikon, Freienbach/CH

- InnoDisc AG, Freienbach/CH
- OC Oerlikon Management AG, Pfäffikon, Freienbach/CH
- OC Oerlikon Textile Holding AG, Pfäffikon, Freienbach/CH
  - Oerlikon China Equity Ltd., Hong Kong/CN
  - Oerlikon Textile China Investments Ltd., Hong Kong/CN
    - Oerlikon (China) Technology Co. Ltd., Suzhou/CN
      - Oerlikon Metco Surface Technology (Shanghai) Co. Ltd., Shanghai/CN
    - Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN
  - Oerlikon Barmag Huitong (Yangzhou) Engineering Co., Ltd, Yangzhou/CN
  - Oerlikon Textile Systems Far East Ltd., Hong Kong/CN
  - OT Textile Verwaltungs GmbH, Kapfenberg/AT
  - W. Reiners Verwaltungs-GmbH, Remscheid/DE
    - Dr. Schippers Unterstützungskasse GmbH, Remscheid/DE
    - Oerlikon Textile GmbH & Co. KG, Remscheid/DE
      - AC-Automation GmbH & Co. KG, Bernkastel-Kues/DE
      - AC-Verwaltungs GmbH, Bernkastel-Kues/DE
      - Oerlikon Deutschland Holding GmbH, Remscheid/DE
        - Oerlikon Balzers Coating Benelux N.V., St.-Truiden/BE
        - Oerlikon Business Services GmbH, Remscheid/DE
        - Oerlikon Surface Solutions Holding GmbH, Kelsterbach/DE
          - AM Munich Research Institute GmbH, Feldkirchen/DE
          - D-Coat GmbH, Erkelenz/DE
          - Oerlikon AM Europe GmbH, Barleben/DE
          - Oerlikon AM GmbH, Feldkirchen/DE
          - Oerlikon Balzers Coating Germany GmbH, Bingen/DE
          - Oerlikon Friction Systems (Germany) GmbH, Bremen/DE
          - Oerlikon Metaplas GmbH, Salzgitter/DE
          - Oerlikon Metco Coatings GmbH, Salzgitter/DE
          - Oerlikon Metco Coating Services GmbH, Langenfeld/DE
          - Oerlikon Metco Europe GmbH, Kelsterbach/DE
          - Oerlikon Metco WOKA GmbH, Barchfeld/DE
      - Oerlikon Textile Far East Ltd., Hong Kong/CN
        - Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN
      - Oerlikon Textile India Pvt. Ltd., Mumbai/IN
- Oerlikon Balzers Coating India Pvt. Ltd., Pune/IN
  - Oerlikon Friction Systems (India) Ltd., Chennai/IN
- Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH
- Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR
- Oerlikon Balzers Coating Luxembourg S.à r.l., Differdange-Niedercorn/LU
- Oerlikon Balzers Coating Sweden AB, Stockholm/SE
  - Oerlikon Balzers Coating Finland Oy, Helsinki/FI
- Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR
- Oerlikon Business Services Europe Sp. z.o.o., Warsaw/PL
- Oerlikon IT Solutions AG, Pfäffikon, Freienbach/CH
- Oerlikon Surface Solutions AG, Pfäffikon, Freienbach/CH
  - AMT Solutions Holding AG, Freienbach/CH
    - AMT AG, Böttstein/CH
  - Oerlikon (Liechtenstein) Holding AG, Balzers/LI
    - OC Oerlikon Balzers AG, Balzers/LI
    - Oerlikon Balzers Coating AG, Balzers/LI
  - Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN
  - Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT
  - Oerlikon Balzers Coating Italy S.p.A., Brugherio/IT
  - Oerlikon Balzers Coating SA, Brügg, Brügg/CH
  - Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG
  - Oerlikon Balzers Coating Spain S.A.U, Antzuola/ES
  - Oerlikon Balzers Coating Poland Sp.z o.o., Polkowice Dolne/PL
  - Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX
  - Oerlikon Balzers Coating Malaysia Sdn. Bhd., Kuala Lumpur/MY
  - Oerlikon Balzers Coating Philippines, Inc., Muntinlupa/PH
  - Oerlikon Balzers Coating Slovakia s.r.o., Bratislava/SK

Legal structure of consolidated companies as per December 31, 2019

· Oerlikon Balzers Coating Taiwan Co. Ltd., Taipeh/TW
· Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK
· · Oerlikon Metco Coatings Ltd., Dukinfield/UK
· Oerlikon Balzers Coating Vietnam Co., Ltd., Bac Ninh/VN
· Oerlikon Balzers France SAS, Ferrières-en-Brie/FR
· Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR
· · Oerlikon Friction Systems do Brasil Ltda., Diadema, SP/BR
· Oerlikon Eldim (NL) B.V., Lomm/NL
· · Oerlikon Eldim (HU) Kft., Debrecen/HU
· Oerlikon Friction Systems (Italia) S.r.l., Caivano/IT
· Oerlikon Metco (Canada) Inc., Fort Saskatchewan, AB/CA
· Oerlikon Metco (Japan) Ltd., Tokyo/JP
· Oerlikon Metco (UK) Ltd., Cwmbran/UK
· Oerlikon Metco (Singapore) Pte. Ltd., Singapore/SG
· · Zigong Golden China Speciality Carbides Co. Ltd., Zigong/CN
· Oerlikon Metco AG, Wohlen, Wohlen/CH
· Oerlikon Metco Australia Pty Ltd., Bella Vista, NSW/AU
· Oerlikon Metco Rus LLC, Lyubertsy/RU
· Oerlikon Neomet Ltd., Stockport/UK
· Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP
· Sucotec AG, Langenthal/CH
– Oerlikon USA Holding Inc., Wilmington, DE/US
· Oerlikon AM Medical Inc., Shelton, CT/US
· Oerlikon AM US Inc., Wilmington, DE/US
· Oerlikon Balzers Coating USA Inc., Wilmington, DE/US
· Oerlikon Metco (US) Inc., Westbury NY/US
· Oerlikon Friction Systems (US) Inc., Dayton OH/US
· Oerlikon Management USA Inc., Pittsburgh, PA/US
· Oerlikon Textile Inc., Charlotte, NC/US
– Oerlikon Vermögens-Verwaltungs GmbH, Remscheid/DE
– OOO Oerlikon Balzers Rus, Elektrostal/RU
– Unaxis GmbH, Freienbach/CH
· Oerlikon Rus LLC, Moscow/RU

Glossary

General

AGM	Annual General Meeting of Shareholders
CAGR	Compound Annual Growth Rate is an annual growth rate over a period of years, where each year's growth is included in the following year to generate further growth.
CoNQ	Cost of non quality are the costs associated with not providing quality products or services.
CAPEX	Capital expenditure are funds used by a company to acquire, upgrade and maintain physical assets such as property, industrial buildings or equipment.
EBIT(DA)	Earnings before interest and tax (depreciation and amortization)
FTE	Full time equivalent; indicates the workload of an employed person. An FTE of 1.0 is equivalent to a full-time worker.
KPI	Key performance indicator is a measurable value that demonstrates how effectively a company is achieving key business objectives.
LOTO	Lockout/tagout is a safety procedure used in industry and research settings to ensure that dangerous machines are properly shut off and not able to be started up again prior to the completion of maintenance or repair work.
LTA	Lost time accident; accident causing an absence of personnel for one or more days or shifts.
MRO	Maintenance, Repair, Overhaul
OEM	Original Equipment Manufacturer
OOE	Oerlikon Operational Excellence
PMI	Post merger integration is a process of combining and rearranging businesses to materialize potential efficiencies and synergies that usually motivate mergers and acquisitions.
ROCE	Return on capital employed is a ratio used as a measurement between earnings and the amount invested into a project or company.
SMI	Swiss Market Index: Switzerland's blue-chip stock market index. It is made up of 20 of the largest and most liquid Swiss Performance Index (SPI) large- and mid-cap stocks.
SMIM	Swiss Market Index Mid: consists of 30 biggest mid-cap Swiss companies which are not already covered in the SMI.
TAFR	Total Accident Frequency Rate

Surface Solutions Segment

AM	Additive Manufacturing is the process of joining materials to make objects, usually layer by layer. A common subtype of AM is 3D printing.
BALIMED	Biocompatible, highly wear-resistant PVD coatings, designed specifically for medical applications.
BALINIT MILUBIA	An extremely hard coating that has a very low coefficient of friction. Due to the low coating temperature (< 100 °C) it can even be applied to components made from heat-sensitive materials, such as ceramic seal discs in taps, pneumatic valves, ceramic shafts and pump bearings.
BALINIT TISAFLEX	A coating that provides outstanding oxidation and wear resistance and high thermal stability for machining performed with demanding materials such as titanium, stainless steel and hardened steel based on nickel alloys.
BALINIT TURBINE PRO	The titanium aluminum nitride structure of these turbine coatings gives outstanding protection against abrasive wear, solid particle erosion and liquid droplet erosion, making it ideal for highly stressed precision components even under high thermal conditions.
BALIQ AUROS	Based on Oerlikon Balzers' S3p technology, this coating was developed specifically for threading tools to provide extreme wear resistance. Threading is the process of creating a screw thread and is often one of the last steps in manufacturing tools.
BALIQ CARBOS	An amorphous hydrogen-free carbon (a-C) coating that provides an exceptional combination of high hardness, low friction and low roughness, optimal for applications with extreme contact pressures and sliding velocities such as shafts and piston pins in cars or textile weavers.
BALITHERM PRIMEFORM	A surface treatment to improve demolding, optimize process reliability and enhance component quality of large-sized plastic injection molds as they are used in the automotive, furniture, packaging and medical technologies industries. Up to a 60% increase in productivity can be realized with this treatment.
CVD	Chemical vapor deposition is a deposition method used to produce high quality, high-performance thin-film coatings as the result of reactions between various gaseous phases and the heated surface of substrates.
Diamond coating	Due to ideal coating adhesion and its high dimensional accuracy, diamond-based coatings are ideal for machining even highly abrasive compound materials, aluminum alloys and ceramics.
DiscCover Jet	A brake disc solution merging thin-film and thermal spray technologies. The first solution launched uses mechanical activation with nitriding surface treatment, combined with HVOF spray technology and followed by atmospheric plasma spray for the top coat.
ePD	Embedded PVD for Design parts is an environmentally friendly coating technology for metallization of plastic.
eSync/S3	eSync is based on Oerlikon's Segmented Synchronizer System. This system enables customers to reduce the axial package by up to 11 mm in a synchronizer system, freeing up space for a reduction of transmission or for additional components.
HiPIMS	Highpower impulse magnetron sputtering is a method for physical vapor deposition of thin films, utilizing extremely high power densities in short pulses.
HVOF	High Velocity Oxygen Fuel: a thermal spray process using a mixture of fuel and oxygen, resulting in low porosity, wear and corrosion resistant coatings.

INUBIA	Oerlikon Balzers fully-integrated and automated solution for high-volume plastic metallisation providing ePD coatings in accordance with automotive specifications.
MTC	Munich Technology Conference on Additive Manufacturing
MultiCoat Pro	An advanced thermal spray system platform that can combine multiple thermal spray processes in one system platform, providing greater utilization rate, nearly unlimited versatility and unmatched process control.
Nadcap	National aerospace and defense contractors accreditation program; global cooperative accreditation program for aerospace engineering, defense and related industries.
primeGear	A customized and integrated service that improves the performance of cutting tool for production of gear components.
PVD	Physical vapor deposition is a method used to deposit thin films onto various workpiece surfaces through condensation of the desired thin film material vapourized in vacuum.
RotaPlasma HS1	The unique high-speed rotating plasma gun manipulator enhances the capabilities of a plasma gun by providing continuous rotation of the spray gun during spray operations. It is used to coat inner geometries of components where rotation of the component would be difficult or not possible, such as geometrically assymetrical components or those too large and heavy to rotate. RotaPlasma HS1 forms an integral part of the Oerlikon Metco SUMEBore coating solution and has been further developed to handle large-scale coating of cylinder bores in auto engines.
REACH	The EU Regulation for Registration, Evaluation, Authorization and Restriction of chemicals (REACH, EU Regulation 1907/2006/EG) aims to manage the risks that chemicals can pose to human health and the environment throughout the EU. REACH places a duty on companies which produce or import chemicals (as defined in the legislation) into the EU and to take appropriate measures to manage any identified risks.
S3p	Scalable pulsed power plasma technology is Oerlikon's proprietary technology and the only one that combines the advantages of arc evaporation and sputtering (HiPIMS) to enable smooth and very high coating density and hardness as well as excellent adhesion to the underlying surfaces.
SUMEBore	Oerlikon's thermal spray coating technology to protect cylinder bores and liner surfaces from wear and corrosion.
Surface One	The world's first thermal spray coating machine that can combine multiple thermal spray processes in a single system using a standardized design, improved usability and operator guidance, compact construction, mobility for relocation and exceptional safety features. The standardized design shortens the time for quotation, system construction and commissioning at the customer's facility.
UniCoatPro	The Thermal Spray System Platform combines simple operation and a small footprint with the latest technology and safety features, the ideal choice for spray shops of all sizes.

Manmade Fibers Segment

BCF	Bulked Continuous Filament is yarn used primarily for carpet production, usually polypropylene or polyester.
DTY	Drawn Textured Yarn is a type of polyester filament yarn produced by processing partially oriented yarn (POY) through a texturing process. This process disperses, curls and entangles the filaments composing the POY yarn, which gives DTY a fluffy appearance and gives it the properties of both natural and synthetic fiber.
eAFK Evo	The eAFK Evo texturing system offers significantly higher production speed, greater productivity and consistently high product quality, along with lower energy consumption and simpler operation.
FDY	Fully Drawn Yarn is a type of highly drawn polyester filament yarn that can be used to produce high strength fabrics and textiles. FDY is typically used to produce fabrics and textiles for high-end undergarments, high-end sportswear and home furnishings.
Manmade fibers	Chemical and synthetic fibers
PA6, nylon	Also known as Nylon 6, PA6 has high tensile strength and elasticity and is very resistant to abrasion and chemicals. Its design flexibility and light weight make it extremely useful in a broad range of applications, from engineering plastic, food packaging and textiles, to car parts, electrical components and cable protection.
POY	Partially oriented yarn is produced from the melting and extrusion (melt spinning) of the polyester chip or flake.
VacuFil	A vacuum filter that removes volatile contamination in spinning post-production.
WINGS	Winding Integrated Godet Solution is a family of winder technology by Manmade Fibers Segment.

This annual report is also available in German.
The English language version of Oerlikon's Annual Report is the binding version.

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