innovation has a name

oerlikon

shaping the portfolio

Annual Report **2012**

Key figures Oerlikon Group 2012

(in CHF million)

	2012	2011	Change (abs.)	Change (%)
Sales[1]	**2906**	**2731**	**+175**	**+6.4**
Order intake[1]	**2802**	**2878**	**–76**	**–2.6**
EBITDA[1]	**547**	**450**	**+97**	**+21.6**
EBIT[1]	**421**	**318**	**+103**	**+32.4**
Operating cash flow	**506**	**438**	**+68**	**+15.5**
Net income	**385**	**224**	**+161**	**+71.9**

Key figures Oerlikon Group

in CHF million	**January 1 to December 31 2012**	January 1 to December 31 2011
Order intake[1]	2 802	2 878
Order backlog[1]	834	971
Sales[1]	2 906	2 731
EBITDA[1]	547	450
– as % of sales	19%	16%
EBIT[1]	421	318
– as % of sales	14.5%	11.6%
Net income	385	224
– as % of equity attributable to shareholders of the parent	21%	14%
Cash flow from operating activities	506	438
Capital expenditure for property, plant and equipment and intangible assets[2]	181	167
Total assets	4 159	4 573
Equity attributable to shareholders of the parent	1 858	1 586
– as % of total assets	45%	35%
Net cash[3]	339	–86
Net Operating Assets[2,4]	1 575	2 205
Number of employees[1]	12 708	12 726
Personnel expense[1]	765	740
Research and development expenditure[1,5]	106	102

[1] 2012 continuing operations, 2011 restated.

[2] 2012 continuing operations, 2011 as reported.

[3] Net cash includes cash and cash equivalents and marketable securities less current and non-current debt.

[4] Net Operating Assets include current and non-current operating assets (including goodwill and brands and excluding cash and cash equivalents, financial assets, current and deferred tax receivables) less operating liabilities (excluding financial liabilities, current tax payables and deferred tax liabilities).

[5] Research and development expenditure includes expense recognized as intangible assets in the amount of CHF 15 million (previous year: CHF 16 million).

Key share-related figures[1]

	January 1 to December 31 2012	January 1 to December 31 2011
Year high in CHF	10.85	7.85
Year low in CHF	5.06	4.06
Year-end in CHF	10.35	5.03
Shares outstanding at year-end	325 964 498	323 124 010
Market capitalization at year-end in CHF million	3 374	1 625
EBIT per share in CHF	1.30	0.99
Earnings per share in CHF	1.18	0.68
Cash flow from operating activities per share in CHF	1.56	1.36
Equity per share in CHF[2]	5.74	4.91
Dividend per share in CHF	0.25[3]	0.20[4]

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

[2] Attributable to shareholders of the parent.

[3] Dividend proposed for 2012, to be paid in 2013.

[4] For financial year 2011, paid in 2012.

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Shareholders' letter

Dear Shareholders,

It gives me great pleasure to report on a very successful year for your company. 2012 was a transformational year for Oerlikon in which the portfolio was significantly streamlined, the balance sheet was refinanced, operational performance was very good, profitability improved and cash generation was strong.

The sale of our Solar Segment and the announced divestment of the Natural Fibers and Textile Components Business Units have recast the portfolio. These transactions reduce the cyclicality and simplify the Group.

The capital markets have rewarded our strategic and operational achievements with a share price increase of more than 100 %.

2012 also saw a structural transformation of the balance sheet. We have a significant cash position as a result of both divestments and operational performance, and have materially reduced the cost of financing for the company. The refinancing, completed in July, includes a new unsecured credit facility and, for the first time, a Swiss bond. The structure, which demonstrates renewed market confidence in the company, greatly increases flexibility and reduces financing costs by almost half.

The Board of Directors believes the company is well positioned to create sustainable value; the dividend policy introduced last year was a clear indication of this. I am pleased to announce that the Board will recommend a dividend of CHF 0.25 per share for 2012, an increase of 25 % over the last year, to the Annual General Meeting of Shareholders.

Looking forward, the achievements of 2012 have laid the foundation for the next phase in Oerlikon's history. Through disciplined use of cash we will stimulate profitable growth through R&D investment, operational excellence and by entering new markets and regions.

We continue to face economic uncertainties in many interrelated markets and industries. The Eurozone crisis appears to have calmed for the moment, but sovereign debt, sluggish growth and consumer confidence remain issues around the world. Given our focus on operational excellence, higher-margin growth markets and the diversity of our global footprint, which is extensive relative to Oerlikon's size, I believe the company is well positioned to manage these challenges and will successfully navigate through uncertain times.

On behalf of the Board, I would like to thank our shareholders, our employees, customers and business partners for the commitment and the support they have invested in Oerlikon.

March 4, 2013

Sincerely,

Tim Summers

Tim Summers
Chairman of the Board of Directors

Dear Shareholders,

While in 2012 our agenda to strategically transform the Oerlikon Group became obvious, we continued to deliver strong operational results. We increased profitability once again by generating EBIT of CHF 421 million representing an EBIT margin of 14.5 %. Despite a challenging global economic environment, we were able to increase sales in continuing business by more than 6 % to CHF 2.9 billion. While securing high-quality orders, our order intake totaled CHF 2.8 billion, close to the same level as the previous year. The strong operational performance and the cash proceeds from divestments resulted in a net liquidity for the Group of CHF 339 million. The continued strengthening of our financial position is also reflected in the equity ratio, which increased from 35 % to 45 %.

Nearly all Segments contributed to this positive performance. Key drivers were the Textile Segment – which will from now on focus solely on the manmade fiber business – and the Coating Segment. Both Segments are at Best-in-Class level relative to peers in their respective industries. The Drive Systems Segment once again made progress in terms of profitability, with further growth and earnings potential. The performance of the Vacuum Segment in a challenging market environment was not satisfactory and decisive actions have been taken. On a Group level, we also made significant strides in our effort to gain a Best-in-Class position against our peers.

The key factors in our strong performance were the systematic implementation of operational and strategic measures in the areas of:

- Innovation: Investments in research and development are paying off – take the WINGS technology used to produce man-made fibers as an example. Since the system's market introduction, we have sold more than 10 000 units and thus increased our market share in manmade fibers to over 45 %.
- Regional expansion: in 2012, we again moved ahead with our global positioning by building up new coating centers in Asia, putting our new Drive Systems plant in China into operation and opening our new corporate headquarters for China in Shanghai.
- Operational excellence: we continued to work on optimizing our operational processes and cost base; for example, supplier On Time Delivery has increased to more than 99 %.
- Portfolio shaping: in addition to the major transactions in the Solar and Textile Segments, the divestment of our stake in Pilatus Flugzeugwerke AG, the Melco business and property in Arbon, Switzerland, has enabled Oerlikon to fully focus on operations.

These achievements established a good starting position for 2013 and years to come. Despite macroeconomic challenges, we believe that Oerlikon still has further growth opportunities. Unrealized potential will be rigorously addressed in applications and industry fields we have not systemically approached in the past – specifically identified opportunities are under review in the Drive Systems, Vacuum and Coating Segments. We will also continue to exploit cost-saving opportunities in areas such as procurement and in manufacturing, through execution of operational excellence measures to further improve our underlying performance and profitability.

For these reasons, we are cautiously optimistic about the future and will meet these challenges and take advantage of these opportunities by continuing to systematically apply our strategy based on innovation, regional expansion, operational excellence and portfolio shaping.

I would like to express my deep gratitude to all of our dedicated and highly qualified employees at our about 160 locations around the world for their hard work and support. They are the reason for our success.

March 4, 2013

Best regards,

Dr. Michael Buscher
Chief Executive Officer

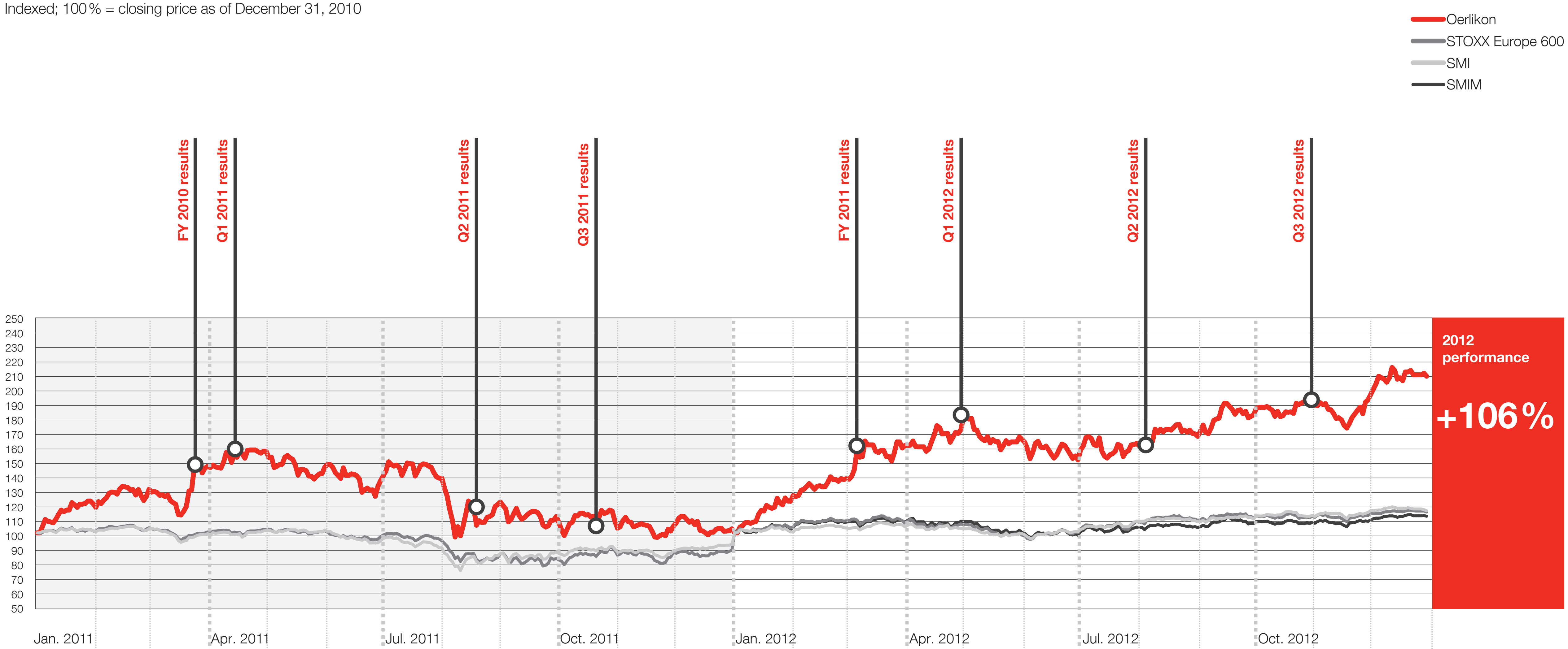
I. Profile

1.0 Information for investors

1. Oerlikon shares outperformed indices and peers in 2012, gaining 106 %.
2. Balance sheet transformed: positive net liquidity position.
3. The Board of Directors proposes dividend for a second consecutive time with a 25 % increase over the last year to CHF 0.25 per share.

Development of the Oerlikon share price

Indexed; 100 % = closing price as of December 31, 2010



Oerlikon corporate actions

- Lender approval to amend syndicated credit facility agreement
- Divestment of carding business in Textile Segment
- Capital Market Days 2011
- Signing of technology partnership with Sauber F1 Team
- Announcement of relocation of Textile Segment management to China
- Production expansion of Vacuum Segment in China
- Announcement of Solar divestment
- Sale of Arbon property
- Announcement of Italian footprint adjustment in Drive Systems
- Pilatus Flugzeugwerke AG divestment
- Dividend payment of CHF 0.20 per share
- Swiss bond issue
- Signing of new credit facility
- Opening Chinese headquarters in Shanghai
- Divestment of Melco in Textile Segment
- Refinancing completed
- Announcement of new Vacuum CEO
- Regulatory approval to divest Solar Segment
- Announcement of Natural Fibers and Textile Components divestment
- Sale of Solar Segment completed
- Announcement of new Drive Systems CEO

External factors

- Fukushima
- S&P decreases rating for Portugal and Greece
- Approval of Portuguese bailout (third country after Ireland and Greece)
- Greece parliament agrees on savings program
- Decisions at EU summit (lower interest rates for Ireland and Portugal, new bailout package for Greece)
- S&P decreases rating for the US
- SNB decision to implement floor for the EUR/CHF rate at 1.20
- Decisions at EU summit (haircut for Greece, increase of bailout volume)
- ECB announces measures to support bank lending and money market activity
- Initial three-year ECB tender
- Troika agrees on second bailout package for Greece
- ECB second loan
- S&P downgrades Spain
- Elections in Greece
- Spain announces to request for EU aid for banks
- The Eurogroup grants financial assistance to Spain's banking sector
- ECB announces unlimited bailout program
- Federal Court rules that Germany can proceed with its contribution to bailout program
- Chinese Communist Party elects new leadership
- US elections
- Decisions on US fiscal cliff

Analyst recommendations

	After FY 2010	After Q1 2011	After Q2 2011	After Q3 2011	After FY 2011	After Q1 2012	After Q2 2012	After Q3 2012	Year-end 2012
Buy	2	2	3	3	6	8	8	8	8
Hold	6	6	6	4	3	2	3	2	2
Sell	0	0	0	1	0	0	0	0	0

1.1 Oerlikon in the capital markets

Capital markets

Despite continued economic uncertainty, European capital markets delivered good performance in 2012; the Swiss Market Index (SMI) gained 15 % and the STOXX Europe 600 index rose 14 %.

From the beginning of 2012 stock market indices benefited from the considerable easing in the banking sector resulting from the three-year tender launched by the European Central Bank (ECB) in December 2011. Overall, the Swiss capital market performed well in the first quarter of 2012, rising 5 %. Both the SMI and the SIM Mid (SMIM) benefited from the minimum EUR/CHF exchange rate of 1.20 set by the Swiss National Bank (SNB).

Sentiment in the second quarter of 2012 was driven by the worsening of Spain's banking situation and speculation about the collapse of the European monetary union. Continuing uncertainty surrounding Greece and doubts as to the willingness of the European Union to inject capital led to record yields on government bonds, most notably in the peripheral Eurozone countries. This contributed to a general weakening of the equity markets (SMI –3 %).

Recapitalization of Spanish banks and the ECB commitment to maintain the monetary union restored investor confidence in the third quarter. The SMI surpassed the 6500 mark and gained 7 % between July and September. Despite concerns over a possible fiscal cliff and ensuing recession in the USA, the fourth quarter was positive for the European capital markets. The SMI posted its annual high of 6974 points on December 11 before closing the year at 6823 (+5 %).

Oerlikon share performance in 2012

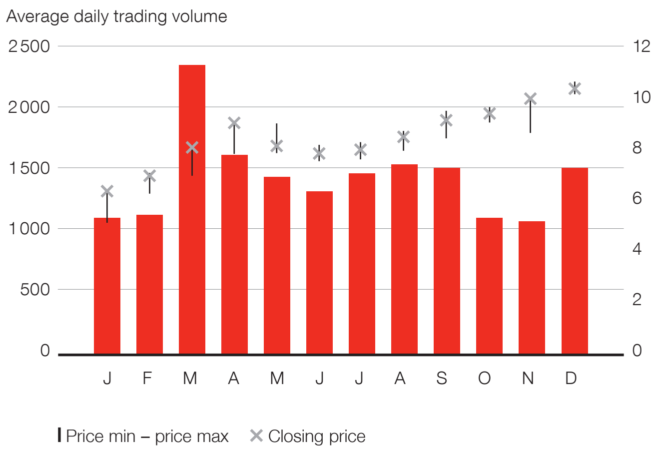
Despite volatility in the capital markets, Oerlikon shares gained 106 %, closing the year at CHF 10.35 (closing price 2011: CHF 5.03). Oerlikon was one of the top-three performers in the Swiss All Share Index and the top performer in the SMI Expanded Index, which consists of the 50 most highly capitalized stocks in the Swiss equity market. In the global industrial sector, represented by the Dow Jones Industrial and the STOXX 600 Industrial indices, Oerlikon was the top performer. Oerlikon shares were lowest in intraday trading on January 3 at CHF 5.06 and hit an annual high of CHF 10.85 in intraday trading on December 4.

Key events in 2012: The announced sale of the Solar Segment to Japan's Tokyo Electron (TEL) and publication of the higher-than-expected annual results for 2011 at the beginning of March 2012 contributed to a share price increase of 11 % within a month. In April the Annual General Meeting of Shareholders approved a dividend payment (CHF 0.20 per share) for the first time in nearly a decade.

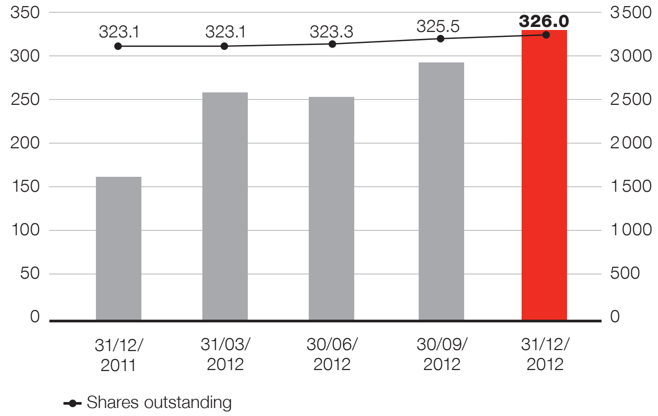
Following successful completion of the refinancing in July and publication of half-year results, which were accompanied by an upward revision of the annual guidance for 2012, the share price gained a further 19 % within six weeks. Conclusion of the Solar transaction in November 2012 and the announced sale of the Natural Fibers and Textile Components Business Units in December 2012 resulted in a further gain of 15 % in the fourth quarter.

The strong performance of Oerlikon's share price also is a clear sign of the regained belief and confidence of the financial market in our ability to consistently execute on our strategic and operational plans in order to deliver on our announced targets.

Price range and trading volume 2012 (SIX Swiss Exchange)
in thousand shares/in CHF



Market capitalization
in million shares/in CHF million



Key share-related figures[1]

		2012	2011	2010	2009	2008
Year-end	in CHF	10.35	5.03	4.90	31.68	69.00
Year high	in CHF	10.85	7.85	12.30	86.20	472.00
Year low	in CHF	5.06	4.06	3.69	20.82	66.50
Year average	in CHF	8.20	6.05	4.86	n/a	n/a
Average daily trading volume	in thousands	1463	1600	879	98	90
Average daily trading volume	in CHF thousands	11982	9596	4373	n/a	n/a
Shares outstanding at year-end	Number	325964498	323124010	323085471	14142437	14142437
Market capitalization at year-end	in CHF million	3374	1625	1583	448	976
Earnings per share (undiluted)	in CHF	1.18	0.68	0.01	–54.27	–17.69
Earnings per share (diluted)	in CHF	1.16	0.68	0.01	–54.27	–17.69
Price-earnings ratio		8.77	7.40	490.00	–0.58	–3.90
Payout ratio		29%[2]	29%	0%	0%	0%
Dividend per share	in CHF	0.25[3]	0.20[4]	0.00	0.00	0.00
Dividend yield		2%	4%	–	–	–
Equity per share[5]	in CHF	5.74	4.91	6.92	38.44	85.26
Cash flow from operating activities per share	in CHF	1.56	1.36	2.47	7.02	9.59

[1] Average number of shares with voting and dividend rights.
[2] Based on a normalized EPS of CHF 0.85.
[3] Dividend proposed for 2012, to be paid in 2013.
[4] For financial year 2011, paid in 2012.
[5] Attributable to shareholders of the parent.

Listing on the stock exchange

The registered shares of OC Oerlikon Corporation AG, Pfäffikon have been listed on the SIX Swiss Exchange since December 22, 1975, and are traded in the main segment.

Securities symbol	OERL
Securities number	81682
Security type	Registered share
ISIN International Stock Identification Number	CH0000816824
Settlement currency	CHF
Stock exchange	SIX Swiss Exchange
First trading day	22.12.1975
Bloomberg ticker symbol	OERL S
Reuters ticker symbol	OERL.S

Weighting of the Oerlikon share in indices

as of December 31, 2012, in %

	2012	2011
SMIM	2.0155	–
SMI Expanded	0.1892	–
SPI	0.1770	0.10104
SPI Extra	1.2644	0.66936
SPI ex SLI	1.8295	0.92962
STOXX Europe 600	0.0255	–
Swiss All Share	0.1763	0.10005
UBS 100 Index	0.1795	0.10261

By year-end, Oerlikon's total market capitalization increased to CHF 3374 million, a year-on-year gain of 108 %, based on Oerlikon's share performance and increased shares outstanding (2011 reporting date: CHF 1625 million).

Average daily trading volume on the 250 trading days in 2012 continued to be on a strong level of 1463396 shares (0.4 % of the issued shares; 2011: 1600078 shares).

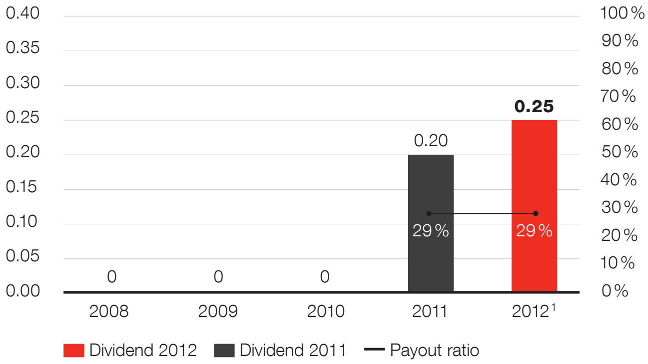
Shareholder returns

Oerlikon announced a new dividend policy in 2012 that allows for annual distribution to shareholders of up to 40 % of net profits, subject to the level of funds available.

Oerlikon generated earnings per share of CHF 1.18 in 2012. At the Annual General Meeting of Shareholders on April 30, 2013, the Board of Directors will propose a 25 % dividend increase to CHF 0.25 per share paid from capital contribution reserves, equivalent to an unchanged payout ratio of 29 % based on normalized earnings per share of CHF 0.85 (without the effects of the Solar divestment and property sale of Arbon, Switzerland).

Based on the year-end closing price of CHF 10.35, Oerlikon shares yielded 2.4 % in 2012.

Dividend
in CHF



[1] Proposed to the AGM; based on a normalized EPS of CHF 0.85.

Analyst recommendations

Eleven financial analysts covered Oerlikon in 2012 and published recommendations and performance estimates based on their analyses. Two financial institutions, Berenberg Bank and Société Générale, initiated coverage during the course of the year. MainFirst suspended coverage in 2012 following a change of analysts, but intends to resume coverage in 2013. Oerlikon provides analysts and investors with market consensus figures in order to meet the requirement for an independent and transparent assessment of performance. This consensus is based purely on analyst estimates and in no way reflects the opinion of Oerlikon.

Oerlikon's strong operating performance, comprehensive refinancing and portfolio shaping – the sale of the Solar Segment and the announced disposal of the Natural Fibers and Textile Components Business Segments in particular – were well received by the financial community. Consequently, all analysts revised their valuation and price targets upward during the course of the year. The analysts' average target price increased by 75 % from CHF 6.75 to CHF 11.79 during 2012.

As of December 31, 2012, eight out of ten analysts recommended the purchase of Oerlikon shares (buy/accumulate). There were two neutral (hold/neutral) and no negative (underperform/underweight) recommendations.

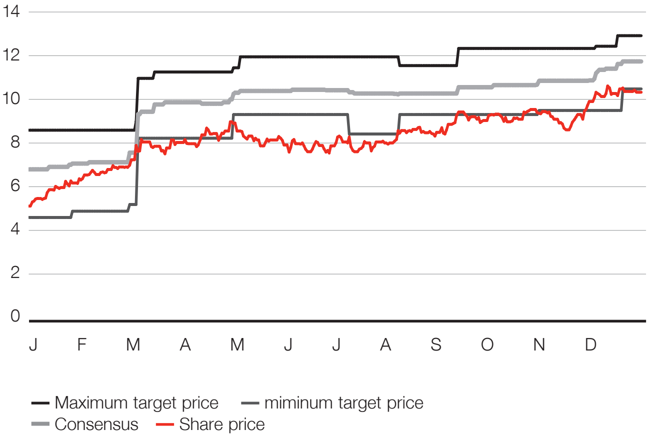
Oerlikon seeks to expand the number of institutions covering the company, particularly outside of Switzerland, in order to broaden the basis for consensus figures.

Analyst recommendations

Institution	Recommendation (2011 recommendation)	Target price in CHF (2011 target price in CHF)
as of December 31, 2012		
AlphaValue (F) Pierre-Yves Gauthier	Buy (Buy)	12.50 (8.57)
Bank am Bellevue AG (CH) Michael Studer	Hold (Hold)	10.50 (4.80)
Berenberg Bank (D) Benjamin Gläser	Buy (–)	11.00 (–)
Credit Suisse AG (CH) Patrick Laager	Outperform (Underperform)	12.40 (4.50)
Helvea SA (CH) Reto Amstalden	Accumulate (Accumulate)	11.20 (8.10)
Kepler Capital Markets (CH) Christoph Ladner	Buy (Hold)	13.00 (7.80)
MainFirst Schweiz AG (CH) Thomas Baumann (until Sept. 2012)	Suspended (Buy)	Suspended (6.50)
Société Générale (F) Jean-Baptiste Roussille	Hold (–)	11.00 (–)
UBS AG (CH) André Rudolf von Rohr	Buy (Buy)	12.00 (6.60)
Bank Vontobel AG (CH) Michael Foeth	Buy (Hold)	12.50 (7.10)
Zürcher Kantonalbank (CH) Armin Rechberger	Overweight (Underweight)	– (–)
Consensus		**11.79** **(6.75)**

Target price 2012

in CHF



Credit ratings and financing

Strong operational and financial performance improved Oerlikon's access to capital markets and facilitated optimization of financing and diversification of funding sources. In July 2012 Oerlikon successfully issued a four-year Swiss bond with a coupon of 4.25 % for CHF 300 million. The net proceeds from the transaction were used to refinance the previous credit facility, which was repaid two years ahead of schedule. As a result, the financing from Oerlikon's first comprehensive recapitalization in 2010 was paid back in full.

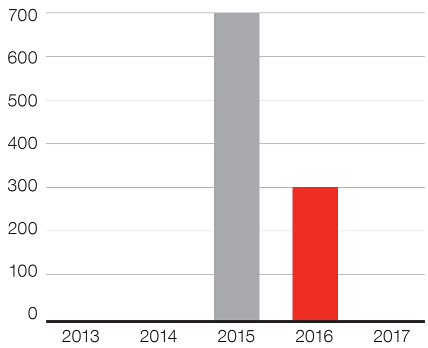
The bond, which was last rated BB+ by UBS AG in November 2012, was a precondition for entry into a new CHF 800 million syndicated loan agreement in July 2012. The new unsecured loan agreement, which reduces financing costs by nearly half, comprises 1) a tranche of CHF 700 million (Facility A), consisting of a CHF 450 million revolving credit facility and an ancillary tranche of CHF 250 million with a term of three years with two additional extension options of one year each, and 2) an optional credit tranche (term loan) of CHF 100 million with a term of 12 months (Facility B). As the performance of the bond issue exceeded expectations, Facility B was canceled. Facility A is intended for general corporate financing, whereby the flexible terms and conditions of the contract will allow the company to tap new growth potential. The initial margin of the new syndicated loan was 250 basis points above the LIBOR rate.

As of December 31, 2012, the Group had non-current loans and borrowings of CHF 304 million, attributable primarily to the Swiss bond. No liquidity was drawn from Facility A as of the reporting date. Cash and cash equivalents amounted to CHF 638 million. In total, the Group reported a net liquidity of CHF 339 million at December 31, 2012.

Financing instruments

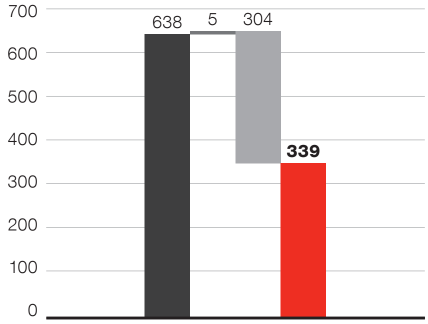
Facility A CHF 700 million
Swiss bond CHF 300 million

Maturity of financing instruments



Facility A CHF 700 million
(prolongation options until 2017)
Swiss bond CHF 300 million

Net liquidity
in CHF million, as of December 31, 2012



Cash and cash equivalents
Others
Non-current loans and borrowings
Net liquidity

1.2 Shareholder structure

Shareholder structure was essentially unchanged in 2012. Under the terms of the Federal Act on Stock Exchanges and Securities Trading, shareholders with holdings above a certain percentage of the share capital are required to disclose their holding. In 2012 the only disclosures were for minor changes in the holding of the Renova Group, which remains Oerlikon's main shareholder with year-end holdings of 47.92 % (2011: 47.98 %).

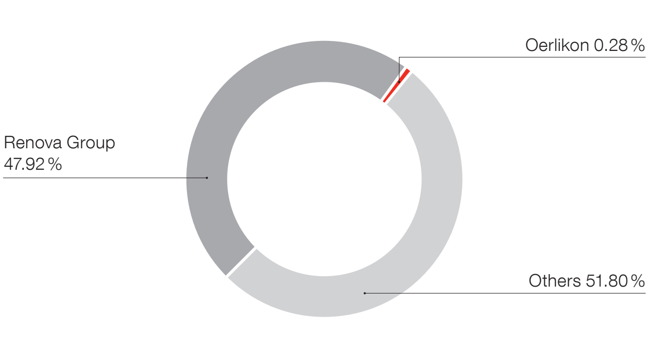
At the end of 2012, Oerlikon held 0.9 million treasury shares (0.28 % of the share capital), which are intended to be used, among other things, as incentive instruments for top management as part of the company's long-term compensation policy (2011: 0.6 million).

Excluding the holding of Renova Group and the treasury shares, the remaining 51.8 % of the shares were spread among institutional and private investors. The number of registered shareholders fell from 17 700 in 2011 to 15 600 in 2012.

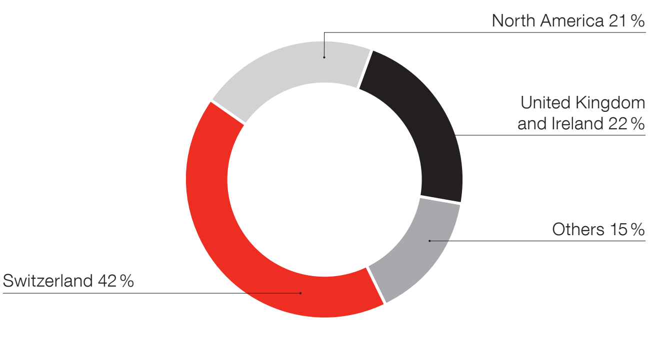
Oerlikon regularly commissions an analysis of the shareholder base in order to track the composition of non-registered shareholders in addition to registered shareholders. The latest study conducted in January 2013 revealed that slightly above 8 % of the share capital is held by private investors, the vast majority of whom are Swiss residents (2011: around 11 %). 92 % of the share capital belongs to a group of professional investors comprised of financial investors such as the Renova Group, institutional investors, as well as insurances and pension funds. The intensified dialog with the capital market and the strong performance of Oerlikon increased the interest and investment especially of institutional investors. In 2012, the proportion of shares held by this group nearly doubled to 32 % compared to 17 % a year ago. The regional distribution of institutional holdings also balanced in 2012. The majority of institutional holdings remains in Switzerland, representing 42 % of the institutional investors, but declined from 57 % a year ago. In contrast, the share from institutional investors from the United Kingdom and Ireland increased to 22 % compared to 12 % in 2011. A total of 21 % of the institutional shareholders reside in North America (2011: 19 %). Institutional investors located in the rest of the world increased slightly from 12 % to 15 %.

Subsequent to the reporting period, BlackRock Group, New York, disclosed that they hold 9 720 390 shares representing 2.98 % of the equities (325 964 498 shares issued).

Shareholder structure
as of December 31, 2012



Regional distribution of institutional investors
as of December 31, 2012



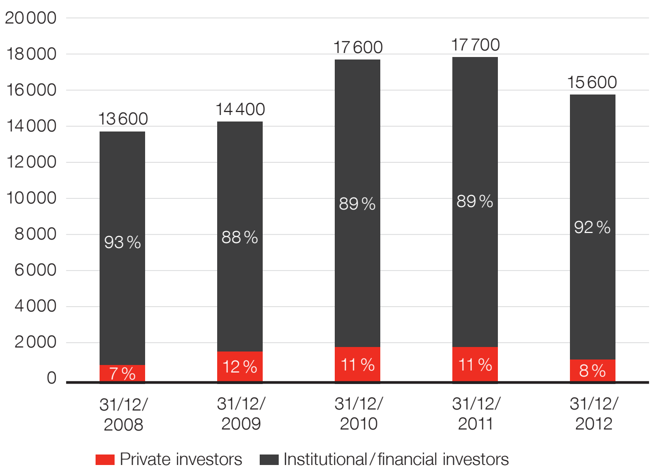
Shareholder structure

Shareholder	Dec. 2012 No. of shares	in %	Dec. 2011 No. of shares	in %	Dec. 2010 No. of shares	in %
Renova Group[1] (composed of Liwet Holding AG, Zurich, Switzerland, Renova Industries Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama)	156 210 954	47.92[2]	155 035 964	47.98	148 984 860	46.11
RB Capital East GmbH (previously: Victory Industriebeteiligung GmbH), Vienna, Austria	n/a	–	n/a	>3.00	11 272 528	3.49
OC Oerlikon Corporation AG, Pfäffikon	902 248	0.28	589 011	0.18	300 000	0.09
Others	168 851 296	51.80	167 499 035	51.84	162 528 083	50.31

[1] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow.
[2] Basis: shares issued (325 964 498).

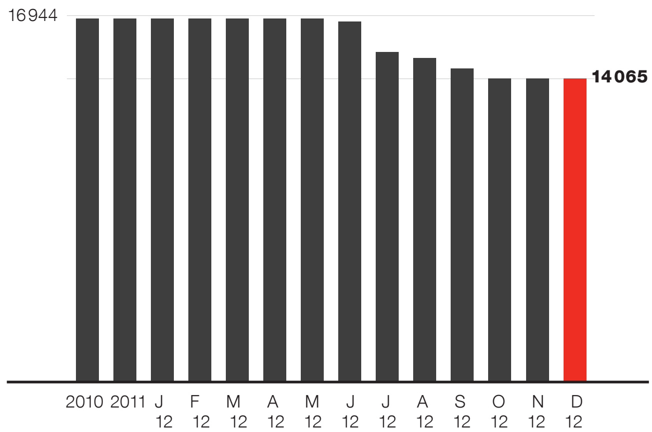
In the course of the 2010 refinancing process certain creditors were granted 16 944 182 options (warrants) with the right to purchase one OC Oerlikon Corporation AG, Pfäffikon registered share. The options expire on June 30, 2014. The exercise price after the dilution adjustment is CHF 5.86 and must be fully paid in cash. During the 2012 reporting period a total of 2 840 488 options were exercised. At December 31, 2012, there were 14 065 155 options outstanding.

Number of registered shareholders



Warrants (outstanding)

in thousand



1.3 Communication and information

Transparency in communication

Oerlikon provides its shareholders and the capital markets with transparent, comprehensive and timely information on facts and developments of relevance to them, and in a manner that is in keeping with the principle of equal treatment of all capital market participants. Apart from the detailed annual report and the half-year report, Oerlikon publishes key financial figures (sales, order intake, order backlog) for the first and third quarters of the financial year. In 2012 these quarterly reports were supplemented by profitability figures (EBIT) at Group and Segment level. In addition, press releases keep shareholders and the capital markets informed of significant changes and developments in the company.

As a company listed on the SIX Swiss Exchange, Oerlikon is subject to the obligation to disclose price-sensitive information (ad hoc publicity obligation).

IR activities in 2012

Oerlikon's CEO, CFO and the Investor Relations (IR) department are in regular contact with investors and analysts. In addition to the Annual General Meeting of Shareholders and quarterly analyst and media teleconferences, Oerlikon's CEO, CFO and the IR department spent a total of 40 days in 2012 attending investment conferences and on roadshows, 12 more days than in 2011. Dialogue with the capital markets was stepped up significantly in order to give shareholders and potential investors timely and transparent insight into the development of Oerlikon's business operations and implementation of strategy. Activities were intensified in North America, Asia and Europe. In 2012 the Executive Committee and IR department participated in a total of 220 individual discussions (2011: about 130), which demonstrates increased investor interest following systematic implementation of operational excellence measures, strategic initiatives and completion of the restructuring program.

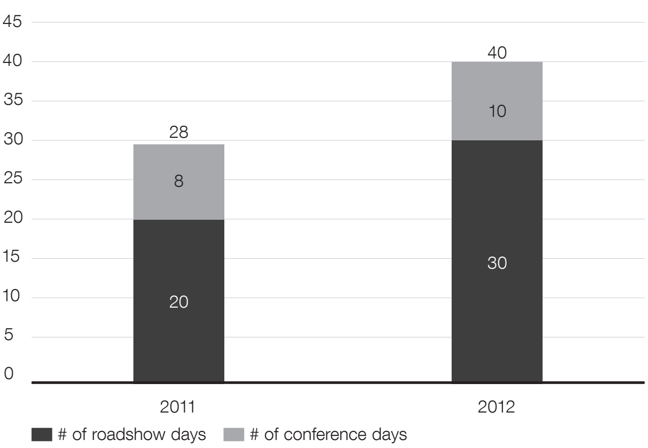
Annual General Meeting 2012

Over 350 shareholders representing 59.73 % of the voting capital attended the 39th Annual General Meeting of Shareholders in Lucerne on April 12, 2012.

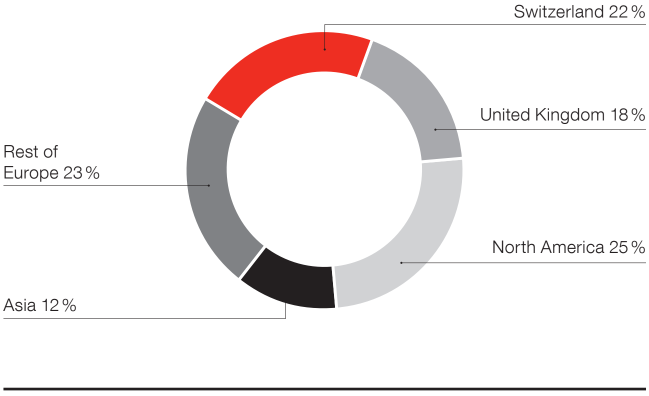
All proposals submitted by the Board of Directors were passed by a large majority. Items put to the vote included the proposal for payment of a dividend of CHF 0.20 per share and reelection of the members of the Board of Directors. Mr. Reyad Fezzani was elected instead of Dr. Urs Meyer, who did not seek re-election.

The 2013 Annual General Meeting of Shareholders will be held in the Culture and Convention Center (KKL) in Lucerne on April 30, 2013.

IR activities



Regional distribution of IR activities 2012



Financial calendar

March 5, 2013
Annual Results 2012 and Annual Report 2012

April 30, 2013
Annual General Meeting of Shareholders, Lucerne

May 7, 2013
Q1 Results 2013

August 6, 2013
Q2/HY 2013 and
Half-Year Report 2013

October 29, 2013
Q3 Results/9M 2013

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

Contact

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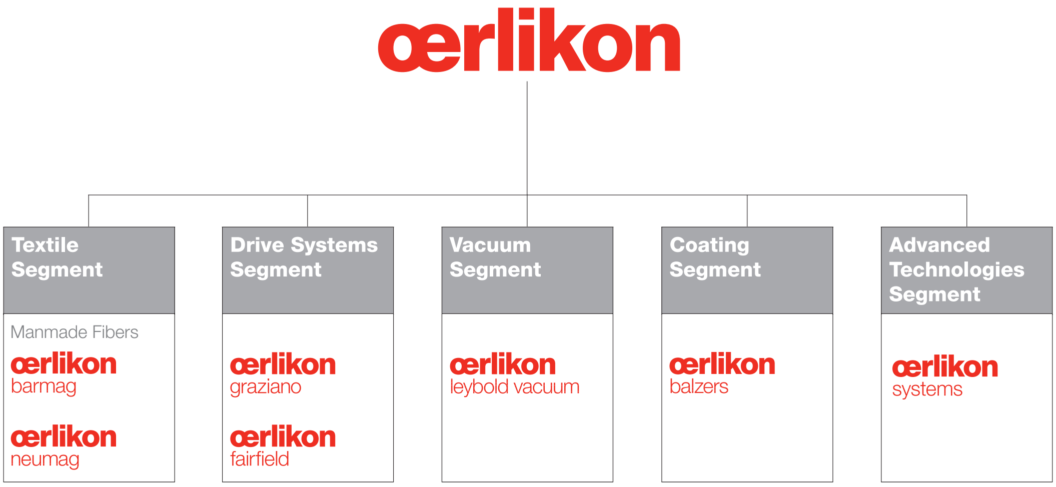
2.0 Oerlikon Group

1. Oerlikon creates innovative industrial solutions for a better life.

2. Innovation is at the very core of Oerlikon’s culture and the key differentiator for our customers as well as for the company itself.

3. With a regional footprint of about 160 sites in 34 countries, Oerlikon is a global player with a strong position in emerging markets such as China and India.



Innovative industrial solutions

Oerlikon is a highly innovative industrial group specializing in machine and plant engineering. The Group is active in five businesses: textile machines for manufacturing manmade fibers, drive and transmission systems and components, vacuum systems, thin-film coatings and nanotechnology. In 2012, around 12 700 employees at about 160 sites in 34 countries generated sales of CHF 2.9 billion.

The Oerlikon Group provides leading technology solutions that enable customers to generate competitive advantage. Both industrial and commercial customers use Oerlikon production technologies and components in the successful manufacture or application of high-tech products; whether in cars, computers, machine tools, technical clothing, oil platforms, tires or a host of other products, Oerlikon’s applications are omnipresent because they offer measurable added value. For example, almost 70 % of all agricultural vehicles in use today are equipped with Oerlikon synchronizers and power-shift clutch technology which considerably lower fuel consumption and increase durability.

Research and development (R&D) is at the heart of the company. Oerlikon invests around CHF 100 million every year in R&D and has more than 1 000 highly qualified developers and engineers around the world working on tomorrow’s innovations. We are continuously reinventing ourselves and using our technological expertise to develop completely new applications and access new markets: this is fundamental to Oerlikon’s success and positions the company for growth markets such as food, clothing, transportation systems, infrastructure, energy and electronics.

Group structure

The Oerlikon Group comprises five Segments: Textile, Drive Systems, Vacuum, Coating and Advanced Technologies. The primary areas of activity are production of textile machinery (Textile Segment), drive technology (Drive Systems Segment), protective coatings for precision tools and components (Coating Segment), systems for vacuum production and process gas extraction (Vacuum Segment) and production systems for semiconductor and nanotechnology applications (Advanced Technologies Segment). Each of the Segments holds a leading position in its respective market: No. 1 in coating solutions and the production of textile machinery for manmade fibers, and No. 2 in niche markets for drive systems and in the areas of vacuum and nanotechnology.

Sustainable value creation

"Oerlikon creates innovative industrial solutions for a better life." Following our Vision, Oerlikon continuously strives to generate added value for its stakeholders, including customers, shareholders and employees. The Group has enshrined this objective in its mission statement and corresponding Core Values.

Since the beginning of the company's turnaround in 2010, Oerlikon has focused on the successful, consistent implementation of:

- Innovation
- Regional expansion
- Operational excellence
- Portfolio shaping

From a strategic perspective, 2012 marked a key milestone in the optimization of the portfolio. With the sale of the Solar Segment and the announced sale of the Natural Fibers and Textile Components Business Units, Oerlikon has refocused the portfolio in markets with lower cyclicality.

The Group is increasing its focus on high-margin businesses with attractive growth potential. Alongside further operational improvements in the Group's core activities, emphasis will be placed on developing new areas of application, adding complementary or related technologies to the portfolio and regional expansion in order to generate sustainable, profitable growth, both organically and through acquisitions.

Textile Segment

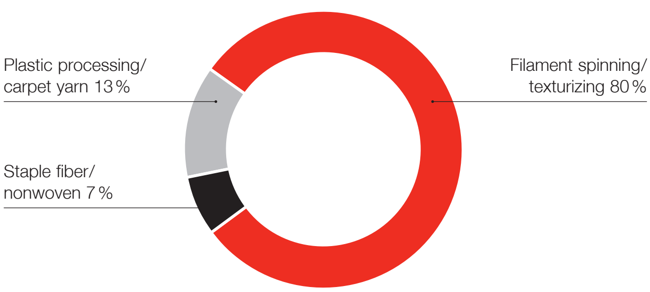
Oerlikon's Textile Segment is the market leader in machinery for the manmade fibers sector, a less cyclical and growing market in the global fiber industry. End usage of manmade fibers includes not only clothes like apparel, functional or sportswear, but also home textiles (carpets, curtains) as well as more and more technical applications in cars (tire cord, seat belts, interior), fibers for geotextiles or new materials (composite materials).

Focused on high-end solutions delivered to a blue-chip customer base, the Segment continuously sets new industry standards with innovations marketed under the Oerlikon Barmag and Oerlikon Neumag brands. The portfolio encompasses a comprehensive range of solutions including plant design for both manmade fibers and nonwoven production. The Segment has a strong global footprint with 10 sites in 4 countries, with production concentrated in Germany and China.

Oerlikon Barmag is the global market leader in spinning line production for manmade fibers such as polyester, polypropylene fibers and nylon as well as in texturizing machines. Oerlikon Barmag also manufactures associated components such as gear metering pumps. Yarn produced on Oerlikon Barmag machines is used in the production of automobiles, home textiles, sports equipment, artificial turf, roads and, of course, clothing.

Oerlikon Neumag delivers comprehensive solutions for key processes in the production of bulked continuous filament (BCF) carpet yarns, synthetic staple fibers and nonwoven fabrics. The nonwoven portfolio includes turnkey solutions for the production of spunlaid and airlaid webs.

Market segments Textile



Drive Systems Segment

The Drive Systems Segment is a leading provider of drive and transmission systems focused on the agricultural, construction and on-/off-highway vehicular markets. The Segment develops innovative solutions to demanding technical challenges of high-end customers such as Aston Martin, Audi, Caterpillar, CNH, Lamborghini or McLaren. Marketed under the Oerlikon Graziano and Oerlikon Fairfield brands, the portfolio includes applications for agricultural vehicles, high-performance sports cars and solutions for the construction, energy and mining industries.

The Drive Systems Segment is a truly global manufacturer with 5200 employees at nine sites across the world which deliver products including cutting-edge dual clutch and continuously variable transmissions, synchronizers, power-shift units, axles, Torque-Hub® planetary transmissions and other precision transmissions, components and systems to a variety of markets.

The Drive Systems Segment stands out as a provider with a global production network, broad geographical coverage and a high-tech and comprehensive product range for various markets and applications:

- Solutions for tractors, combine harvesters, harvesting equipment and feed mixers for the agricultural sector.
- Solutions for work platforms and cranes, wheel loaders, road pavers and compaction technology, trench diggers, graders, compact chain loaders and other track-driven auxiliaries for the construction sector.
- Solutions for high-performance sports cars, electric hybrid vehicles, commercial vehicles, urban buses and ground support equipment in the on-/off-highway sector as well as heavy haul trucks, locomotives and railcar maintenance vehicles.
- Solutions for mining machinery, transport vehicles and cranes, borehole services and production plants for the energy market.

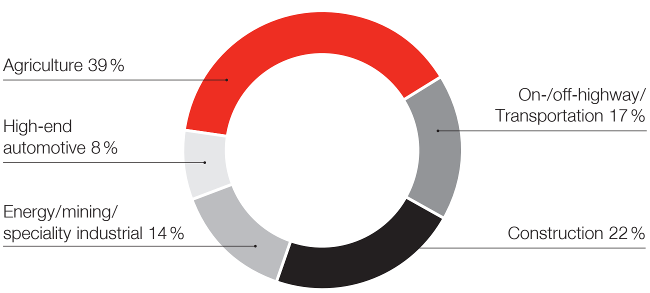
Vacuum Segment

The Vacuum Segment offers a broad spectrum of innovative fore- and high-vacuum pumps, components, vacuum solutions and services under the brand of Oerlikon Leybold Vacuum. The Segment's products are used in analysis, manufacturing and research by more than 18000 customers primarily involved in the process industry, the solar and coating sectors and in research and development. The Segment delivers both standard products and individual customer solutions characterized by a high level of efficiency, quality and flexibility. A global sales and service network complements the Segment's engineering and consulting competence.

This expertise, for example, enabled the delivery of vacuum technology for the world's largest vacuum chamber at the Karlsruhe Research Center in Germany. The biggest particle accelerator in the world – CERN, in Geneva, Switzerland – is also equipped with vacuum pumps from Oerlikon. As an enabling technology, our vacuum solutions are used to produce cell phones, displays, TV sets, semiconductors, coated glass, solar cells and panels, steel and many more applications.

The Segment differentiates itself by offering a comprehensive product portfolio; from fore-vacuum pumps and standardized vacuum systems to consulting services and customized vacuum solutions. Vacuum gauges, leak-detection instruments, flanges, valves and fittings round off the product range, enabling the Segment, as a solutions provider, to cover the entire value chain in the vacuum business.

Market segments Drive Systems



Market segments Vacuum

Coating Segment

The Coating Segment, known on the market as Oerlikon Balzers, is the leading global provider of thin-film coatings, which significantly improve the performance and longevity of precision components and tools. Oerlikon coatings are used in a broad range of applications in the automotive and machine industry, in food and packaging, medical technology and increasingly in aerospace. For example, modern diesel fuel injection pumps could not withstand the operating parameters without coatings from Oerlikon Balzers. Well-known companies such as Audi, Bosch, Continental, Delfi, Kennametal, Sandvik, Siemens, VW and ZF count among Oerlikon's customers.

The Segment develops the coatings and the coating systems themselves and is a pioneer in the associated coating procedures. More than 90 % of the Segment's sales come from the coating service within the company's centers; less than 10 % is generated by the sale of systems and related process technologies to major customers, such as precision tool manufacturers, who integrate these directly into their production processes. The Segment currently has a network of 90 coating centers spread over 33 countries and over 20000 customers around the world. The Segment processes more than 200 million precision tools and components every year, ranging from items as small as watch pins up to dies for entire car bodies.

The largest area of application for physical vapor deposition (PVD) hard material coatings is precision tools for metal cutting (drills and cutters), forming tools, followed by plastics processing and metal die casting. A relatively new but rapidly growing area of focus is the coating of precision components in order to reduce friction and improve durability. Other industries in which PVD hard material coatings are used include general machinery industries, the aircraft industry, motor racing and the medical and hygiene technology industry. PVD coatings are also being increasingly used in the luxury goods industry (watches, cell phones) – for aesthetics and practicality.

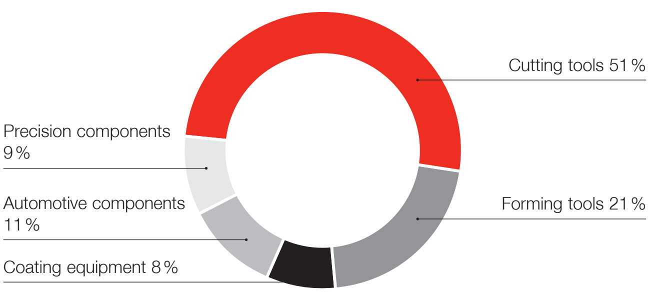
Advanced Technologies Segment

The Advanced Technologies Segment focuses on production systems for advanced nanotechnology and semiconductor applications. The Segment's core expertise in thin-film coating technology allows it to provide nanotechnology solutions for touch panels, photovoltaics, thermoelectric generators as well as for energy storage, saving, conversion and transmission. Applications in the semiconductor market include advanced packaging, power devices, read/write heads for hard disks, LEDs and Micro-Electro-Mechanical Systems (MEMS). These solutions facilitate the production of chips, devices and components used in consumer electronics and various industrial sectors, including the IT, telecommunications and automotive industries. As one example, around 30 % of the cell phones produced worldwide use chips processed on Oerlikon machines. Customers include ABB, Bosch, Infineon, Osram and Seagate.

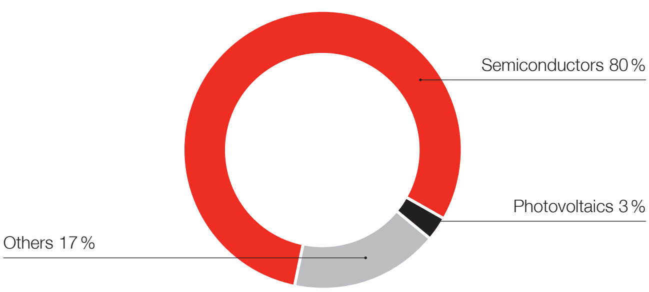
New innovative production solutions in plant engineering are developed at the technology center in Balzers, Liechtenstein. Thanks to its close relationship with leading chip manufacturers, the Advanced Technologies Segment is ideally prepared to develop manufacturing processes that will streamline the production of future generations of high-performance chips. The customer base is primarily concentrated in Asia. The Advanced Technologies Segment also has a global infrastructure. From its 18 sales, service and spare parts centers, it provides customer support and conducts training courses.

Future growth markets for the Segment include:
- Mobile communication: special equipment to produce ultra-compact semiconductors (advanced packaging) for applications such as smartphones or tablet computers.
- MEMS and nanotechnology: various sensors, actuators, microfluid and thin-film read heads.
- Cleantech: solid-state lighting (LEDs), applications to increase energy efficiency (power semiconductors, thermoelectric converters).

Market segments Coating



Market segments Advanced Technologies



2.1 Positioned in global growth markets

End markets and value chain

As a high-tech engineering Group providing machinery and services, Oerlikon is at the beginning of the value chain in the six end markets shown below – but when developing new solutions and products, Oerlikon analyzes the entire value chain. Top-down analysis of market trends guides our R&D teams to develop solutions in anticipation of customer needs rather than as a reaction to them. Bottom-up analysis guides the design of plant and machinery such that the direct or indirect impact on further processing are factored in, right up to and including the functionality of end products.

Input material (seeds, fertilizers, etc.)	Agricultural equipment/machinery	Food producers	Processors and packers	Distributors and retailers	Food consumers
Raw material producers (cotton, polymers, etc.)	Production equipment/machinery suppliers	Yarn and fabric producers	Designers, fashion houses	Distributors and retailers	Clothes consumers
Material producers (steel, resins, etc.)	Production equipment/machinery suppliers	Component and sub-system producers	Equipment manufacturers	Distributors and retailers	Transportation users
	Raw material producers	Equipment/machinery suppliers	Infrastructure builders	Infrastructure operators and brokers	Infrastructure users
Fossil fuel and other minerals producers	Energy conversion equipment producers	Energy generation and storage	Net/grid operators	Distributors and retailers	Energy consumers
Raw material producers (silicon, rare earth, etc.)	Production equipment/machinery suppliers	Component and sub-system producers	End-product producers	Distributors and retailers	Electronics users

Oerlikon products

Food – better supply with high-quality food

The demand for food in a world of 7 billion people and a growing population means that producers must increase efficiency in an environmentally friendly manner to further increase quality and shelf life and ensure stable prices. Oerlikon is present during harvest via transmissions fitted in agricultural machinery (Drive Systems), in packaging through coatings applied to forming tools to produce plastic containers of all kinds (Coating) and in preservation through vacuum systems which make freeze-drying and/or sealing packages possible (Vacuum). The Drive Systems Segment, for example, provides solutions offering 20–30 % fuel savings to the agricultural market.

Clothing – more ecological, less expensive and better functionality

The market for manmade fibers is forecast to grow disproportionately at a rate of up to 5 % over the coming years, as new features – dirt repellence, UV protection, enhanced durability, etc. – are embedded into clothing fibers. Customers of the Textile Segment machinery will have to produce more yarn with better features more efficiently to stay competitive. Oerlikon is successfully tackling this challenge with the “e-save” line of faster, more compact machines which consume less energy and fewer raw materials and produce less waste. “e-save” equipment delivers energy savings of up to 30 % compared to standard products.

Transportation – greater mobility with lower fuel consumption

A growing population as well as globalization and urbanization are driving demand for mobility and transportation capacity. The transport and automotive industry is served by practically all Oerlikon Segments at different points along the value chain. Drive Systems markets components, transmissions and complete drive systems to automotive, city bus and rail manufacturers. These products help reduce consumption of fossil fuel vehicles and increase the efficiency of new alternative drives. The Coating Segment provides special solutions for coating of precision components in car engines such as diesel injection systems or piston pins, which significantly improves the lifespan of components.

The Textile Segment satisfies growing demand in the automobile industry for textile products such as upholstery, tire cord, seat belts and airbags. The Textile Segment also provides solutions for manufacturing lightweight carbon-fiber components.

Modern vehicles are becoming increasingly intelligent, with features such as sensor-controlled assistants and navigation systems. The Advanced Technologies Segment solutions for high-performance vehicle electronic chips, touch screens and LEDs support this trend.

Infrastructure – more efficient and energy-conscious construction

Urbanization is accelerating, particularly in emerging markets. This demographic change is leading to increased demand for housing and infrastructure. Current estimates suggest that some 1 billion people will live in China's cities by mid-century.

The Drive Systems, Textile and Vacuum Segments are active in the field of large infrastructure. Drive Systems offers solutions for construction machinery and commercial vehicles such as excavators, wheel loaders, trucks and road graders. The Textile Segment provides machinery to manufacture geotextiles which are fabrics, nonwoven materials and composites increasingly used in road construction and erosion protection. The Vacuum Segment supplies glass manufacturers and operators of large-scale coating systems with robust and high-performance vacuum systems for coated architectural glass, which is used to protect building interiors from UV rays and minimize heat and cooling loss.

Energy – renewable energies as a source of hope

The growth in the global population and the increasing rate of urbanization and industrialization are leading to a continuous increase in energy consumption. According to the International Energy Agency (IEA), between 1945 and 2010 global energy consumption increased from 500 to around 20000 terawatt-hours per year in an almost linear fashion, a trend which is expected to continue. Although fossil fuels such as coal, oil and gas continue to account for the largest share of power production, CO_2-free power generation using renewable energies is of growing importance around the world. The European Renewable Energy Council (EREC) has placed EU member states under a binding obligation to cover one-fifth of their energy requirements using renewable sources by 2020. The Drive Systems Segment participates in a wide range of product applications that support global energy development, from components for wind turbines to complex applications which support more traditional fossil fuel production with oil, gas and coal. The Vacuum Segment supplies solutions for the production of solar cells and modules. With its Solaris system, the Advanced Technologies Segment possesses an efficient solution for coating crystalline solar cells.

Electronics – mobile electronics revitalize demand for chips

Faster processing power, expansion of broadband technology and higher memory capacities are advancing the digital revolution at an increasing pace. A growing urban population with disposable income, particularly in the BRIC countries (Brazil, Russia, India and China), has expanded the market for a wide range of electronic products such as smartphones and tablet computers. According to current forecasts, more than 2 billion people will own at least one smartphone by 2015. In industrialized countries, new products such as intelligent TV devices and set-top boxes for digital television are revitalizing the demand for microchips.

Portable devices such as smartphones, MP3 players and navigation systems require highly compact electronic components. The chips found in these devices must provide maximum functionality and performance with minimal dimensions. As a leading provider of systems and processes for producing ultra-compact microchips, the Advanced Technologies Segment is well positioned to capitalize on these trends. The Vacuum Segment also benefits from growth in the semiconductor industry as it supplies chip manufacturers with high-performance and robust vacuum systems for clean rooms.

2.2 Innovation

R&D as a driver of future growth

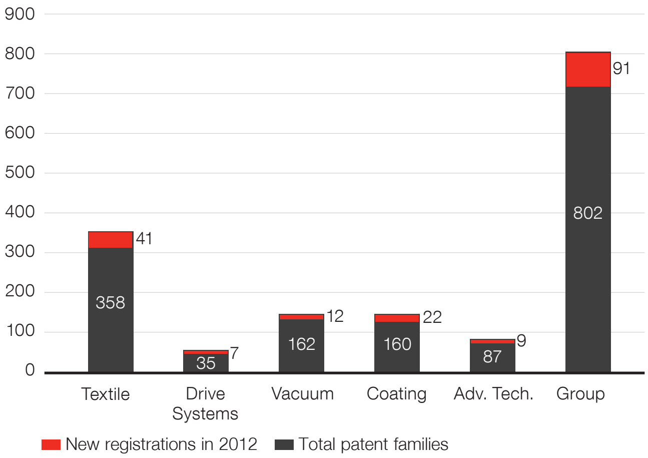
Focus on added value for customers

Markets are constantly changing, posing ever new challenges for Oerlikon and its customers. Oerlikon meets these challenges by focusing on the customer. More efficient production of man-made fibers, improved engine and transmission components that reduce fuel consumption, and more advanced tools that extend durability and reduce wear and tear on materials – these are just a few examples of how Oerlikon is adding value to a global and diverse set of customers through continuous development of higher-quality, higher-performance solutions.

Innovation is the key to success here. Oerlikon leverages more than 160 years of technology leadership to deliver the following core benefits:

- Reduced cost of ownership: optimizing customers' operating costs through more efficient products and solutions.
- Higher quality: innovative gearboxes allow for faster gear times, while new production technologies for manmade fibers increase yarn quality.
- Increased clean technology: delivering measurable improvements in the environmental performance of production processes by lowering energy consumption, reducing use of material, emissions and waste.
- New markets and applications: many Oerlikon technologies allow our customers to enter new markets, e.g. with manmade fibers such as geotextiles, artificial turf or composite materials.

Patents 2012



Strategic importance of R&D at Oerlikon

Research and development (R&D) is fundamental to Oerlikon's continued success. Expenditures on R&D totaled CHF 106 million in 2012, about 4 % of sales, and has remained at a high level for many years. More than 1 000 engineers and scientists were employed by the Group worldwide.

In 2012 R&D efforts by Oerlikon led to substantial renewal of the Group's intellectual property (IP). More than 10 % of its patents were newly registered last year, laying ground for future growth with new products and applications. The main patents belong to the WINGS FDY or BCF machines of the Textile Segment, S3p™ or ePD™ technology of Oerlikon Balzers or patents for the Dryvac®, Sogevac® and Turbovac® vacuum pumps.

Textile Segment innovations

The Textile Segment's brands Oerlikon Barmag and Oerlikon Neumag presented a broad and innovative portfolio of products in the manmade fibers sector at Asia's biggest textile trade fair, ITMA Asia 2012 in Shanghai. The Oerlikon Barmag spinning line Winding INtegrated Godet Solution (WINGS) continues to set new standards in the spinning process. WINGS delivers energy savings of up to 30% compared to conventional spinning machines. The user-friendly design, sophisticated threading guidance system and simplified threading procedures deliver space savings of up to 30%, and a single operator can now thread yarn in just a quarter of the time needed previously.

Oerlikon Neumag is a leading producer of state-of-the-art bulked continuous filament (BCF) carpet yarn systems. The BCF best seller in 2011, the S+ with three-thread grain line, has been available for the promising raw material polyester BCF since 2012. The BCF S+ for polyester is a perfect replacement for polyester spun yarn because of its cost-efficient production.

Drive Systems Segment innovations

Oerlikon Graziano and VOCIS hold a leading position in the market for vehicle transmission technologies. The Segment has developed innovative dual clutch transmissions (DCT) and automated manual transmissions (AMT) – the most commonly used technologies in high-performance cars – for high-profile customers. The McLaren MP4-12C sports car uses a DCT developed by Oerlikon and the Lamborghini Aventador uses our 7-speed AMT, which set a world record with shift times of just 50 milliseconds.

Oerlikon Fairfield also delivered innovative solutions for the mining and energy equipment sector in 2012. During the course of the year, Oerlikon Fairfield developed a special cutter drive for tunneling and mining which has three patentable features. It also designed the S350, a new transmission systems for ship cranes and service platforms in the offshore energy sector.

Vacuum Segment innovations

The Vacuum Segment enhanced its offering for steel degassing applications, a key step in the refining process, by tailoring a solution based on standard components. These technologically optimized, power saving systems have already been installed at major customer facilities in Germany and India. These customized solutions consist of an innovative and flexible range of high-performance fore-vacuum pumps which are the most compact mechanical solutions on the market and allow for customer energy savings of up to 30%.

Oerlikon Leybold Vacuum also supported one of the most important scientific discoveries of our time: the Higgs boson, the last undiscovered elementary particle. The Segment supplied technology used for the creation of the vacuum required for the Large Hadron Collider (LHC) and ATLAS projects and continues to support the European Organization for Nuclear Research (CERN) with special vacuum technology.

Coating Segment innovations

Dense, hard and highly adhesive coatings with a controlled microstructure are extremely important for the coating of tools in order to increase productivity. For many years physical vapor deposition (PVD) using the arc evaporation technology has proven able to deliver these properties. For a decade researchers tried to combine this technology with the sputtering process to achieve extremely smooth surfaces.

Oerlikon Balzers has managed to overcome all of the limitations of the previous approaches and expanded the parameter range in several dimensions independently of one another. This technology, referred to as "Scalable Pulsed Power Plasma" or S3p™ for short, enables extremely smooth yet dense and hard coatings to be manufactured efficiently for the first time. The application potential for this technology is not limited to tool coating; there are a large number of fields in which it can be used. The technology is protected by multiple patent applications and is ready for production. Positive test results, keen customer interest and international scientific community response to S3p™ technology demonstrate that the Coating Segment has bolstered its position as technology leader even further.

Advanced Technologies Segment innovations

The Advanced Technologies Segment's coating technologies have not only helped it to become a leading equipment provider for ultracompact semiconductor elements for applications such as cell phones, navigation systems and consumer electronics; thanks to state-of-the-art LED technologies, semiconductors are also taking the lighting market by storm, an area in which Oerlikon production solutions play a key role in technological and market developments.

In one reflection of this,Oerlikon Systems created a new process (NanoSmooth™) that augments the light output of LEDs and increases productivity in the production process. NanoSmooth™ clears the way for using other materials, in particular the inexpensive raw material silicon, making the production of LEDs even more cost-efficient.

2.3 Strengthening global presence

Global player

Oerlikon fosters intensive and long-term partnerships with its customers. The cooperation goes beyond the actual development and manufacture of products and extends to support during plant commissioning and service, support and training on-site. To this end, Oerlikon has built a global infrastructure with a network of about 160 locations in 34 countries. Oerlikon uses its regional capabilities in a targeted manner to benefit the entire Group. This means that along the entire value chain of a product – from research and development to sales and customer support – the capabilities required are available and nearby.

Expansion in the growth markets of China and India

China: The company employs around 2600 employees at 17 sites in China. The fact that Oerlikon already generates 25 % of its total sales in China is the result of developments over decades. The Textile Segment has been represented in China for around 50 years. Oerlikon's new Chinese headquarters in Shanghai were opened in 2012, bringing the Segments together under one roof and allowing for local marketing in closer proximity to customers.

The Oerlikon China Technology Suzhou site is one of the Group's largest facilities worldwide. In addition to the Textile Segment, the 70000-square-meter office and production complex houses the Coating Segment and, since more recently, Drive Systems. The "shared service" concept at Suzhou is instrumental in driving growth at the campus through centralized, cross-Segment provision of services of various nonoperational functions, such as IT, financing, administration and HR development.

Drive Systems completed construction work at the factory in Suzhou and started assembly in the first quarter of 2012. The new production site, the Segment's first in China, will provide drive systems, transmission components and solutions tailored to the needs of local customers. This is of particular significance because China is now the world's biggest on-/off-highway manufacturer.

During 2011 the Vacuum Segment expanded its activities in China, increasing capacity at the factory in Tianjin. Focus here was placed on deepening solution know-how in the area of complex vacuum systems, which are increasingly in demand from Chinese industry. The site also serves as a production hub for the manufacture of competitive and more cost-efficient standard systems.

In 2012 the Coating Segment continued to implement its global expansion strategy with the opening of its 10th coating center in China. While the company operated 41 centers in 17 countries back in 2000, it now has 90 centers in 33 countries. The Asian market has played a key role in this strong growth. Of the 90 centers, 31 are located in Asia.

The Chinese government's efforts to protect intellectual property rights have allowed Oerlikon to strengthen R&D activities in the country. Oerlikon aims to expand R&D capacity and accelerate the regional adaptation of products and solutions to better meet specific customer requirements in the region. Whereas lower production costs were once the primary draw of emerging markets, local demand is now the most attractive element in the equation. The demand for high-quality systems and processes is growing continuously in China, which has decisive benefits for Oerlikon as a "local" technology leader.

Oerlikon is also benefiting from growth in Chinese domestic sales. An ever-larger share of textile production is used to satisfy domestic rather than export demand. As such, Oerlikon has evolved from a pure exporter to a company regionally anchored in China and operating in the local market with products and solutions tailored to the needs of domestic customers.

India: In 2012 Oerlikon expanded its already strong presence in India, southern Asia's largest growth market. This enormous market offers the company diverse opportunities to advance and broaden business activities. Even following a downward revision of the expectations for 2012, the Indian economy continues to grow at rates far higher than global GDP. Over the long term, the Indian economy is forecast to grow at a rate six times faster than OECD countries.

This momentum is primarily due to high and rapidly growing domestic demand, which is also the investment focus of the Textile, Drive Systems and Coating Segments. During the past three years the Group has generated up to 8 % of its total sales in India and is developing a strategy to expand its domestic market share and further improve cost structures. Drive Systems is currently studying the feasibility of a shared service concept similar to the one which the Segment has already successfully implemented in China. Drive Systems has also invested substantially in expanding its capacities in India, and continued in this vein in 2012. The focus is on developing innovative bespoke products with the objective of further strengthening domestic sales and tapping into new domestic markets. The increased production volumes in India have reduced product costs, making a profitable and growing export business with other emerging markets such as Turkey and Brazil possible for the first time.

The 2012 appointment of the new Drive Systems Segment CEO based in Delhi underscores the importance of the Indian market, in which the Segment operates two major production plants and has more than 2 500 employees. The Coating Segment is also continuing its growth in India with the provision of services for the growing domestic automotive industry.

Europe: Although Oerlikon has materially expanded its business in such markets as China and India, Europe remains the solid foundation of the company's activities. About 51 % (6 439) of all employees work there, and the majority of Oerlikon's production sites are located on the Continent. Because most products are made in Europe at the moment, the region generates the highest share of sales by location: around 60 %.

Europe is also the home of Oerlikon's primary research and development capability. For example, the new generation of PPD™ (pulsed plasma diffusion) coating technology introduced in 2012 was jointly developed by Oerlikon Balzers in Schopfheim, Germany and Liechtenstein. This technology is a replacement of the hard-chrome plating process for coating forming and punching tools. In Remscheid, Germany, Oerlikon Barmag operates the world's most advanced technical center for the development of manmade fibers. More than 100 engineers and technicians create a wide range of applications that ensure the Textile Segment's technology leadership in production and finishing.

Through systematic investments, the company is working to ensure that its European locations remain competitive over the long term in a changing global marketplace. The Vacuum Segment in Cologne, for example, is currently building a new logistics center that will materially improve production processes and make products even more cost effective. Also in Germany, Oerlikon Barmag has prepared itself for the future through implementation of an array of operational excellence programs. In 2012, the Drive Systems Segment realigned its European manufacturing footprint to further improve operational performance.

Europe will likely also generate growth. There is untapped potential for all Oerlikon Segments in Russia, for example, where the company's sales have remained immaterial in recent years. To capitalize on Russia's continuing transformation into an increasingly innovation-focused economy, Oerlikon coordinated a comprehensive cross-segment Russia strategy in 2012.

The Americas: Oerlikon is well represented in the Americas, particularly in the United States. Oerlikon Fairfield's headquarters are located in Indiana, which deliver solutions to the North American domestic market for off-highway vehicles, agricultural equipment and construction machinery. Oerlikon Fairfield's customers include Caterpillar and John Deere. Oerlikon Balzers has nine strategically located coating centers in the United States and is a key service provider for the US automotive industry. Oerlikon Barmag and Oerlikon Neumag have operations in the United States to serve the major producers of manmade fibers and carpeting. Vacuum Segment customers in the US include a number of research institutions including the National Ignition Facility (NIF) located at the Lawrence Livermore National Laboratory in California, where the very highest level of nuclear research is conducted.

Oerlikon has yet to realize its potential in South America, particularly Brazil. Market research suggests Brazil will enjoy annual GDP growth rates of up to 5 % for some years to come. Economic momentum is being produced by the expansion of the energy, infrastructure and transport sectors and major upcoming events such as the World Cup soccer tournament in 2014 and the Olympic Games in 2016. The expansion of Brazil's middle class has fueled domestic demand. Today, Oerlikon only generates slightly above 1 % of Group sales in Brazil, South America's largest economy, primarily in the Coating, Textile and Drive Systems Segments.

2.4 Operational excellence

Continuous improvement for sustained operational performance

Optimization potential along the entire value chain

First-class operational performance is critical for Oerlikon to meet financial targets. In an environment characterized by accelerating change, Oerlikon continuously evaluates individual process steps in its search for ways to improve reliability, efficiency and effectiveness – from product development to delivery to customer service. Oerlikon uses Business Performance Management as an instrument for measuring time, quality, cost and other factors. Oerlikon actively promotes networking and the sharing of information and ideas across divisions and Segments. By systematically adopting best practices, the Group is continuously improving operational performance.

Oerlikon's operational efficiency agenda has three core areas of focus, in which substantial room for improvement in existing capabilities and capacities exists:

- Production: improvements in economic and environmental effectiveness and capacity utilization.
- Procurement: consolidation of suppliers including improvements in quality and ordering processes and efficiency improvements in supply chain management.
- IT: global standardization and utilization of infrastructure and processes as a basis for the aforementioned improvements.

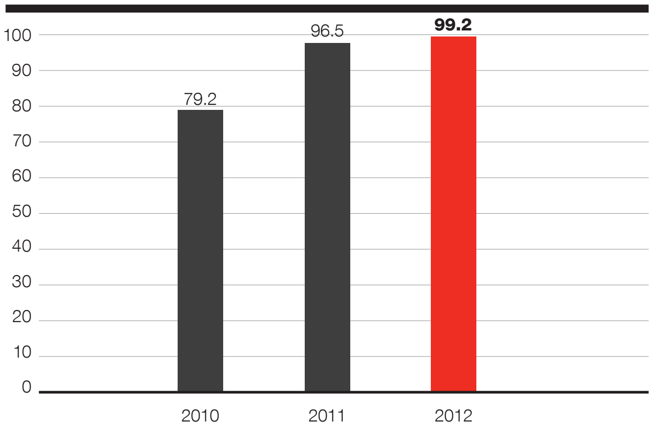
The product development process at Oerlikon follows a similar pattern in all five Segments. To improve operational efficiency on an ongoing basis, Oerlikon measures the results of the individual process steps and feeds them back to the previous level in the chain. By conducting a balanced evaluation based on the criteria quality, response time, cost and consumption of materials, Oerlikon is able to achieve a sustainable improvements to all process steps.

35 % shorter production time

During 2012 Oerlikon once again made significant improvements in production processes. For example, the production time of a product line in the Vacuum Segment was reduced by some 35 %. This was made possible by comprehensive review and adjustment of the manufacturing process by the employees themselves, who identified unnecessary or inefficient work steps which in some cases were a function of workstation design. Following a complete layout redesign, processes were shortened, work and material flow improved, and space requirements were cut in half.

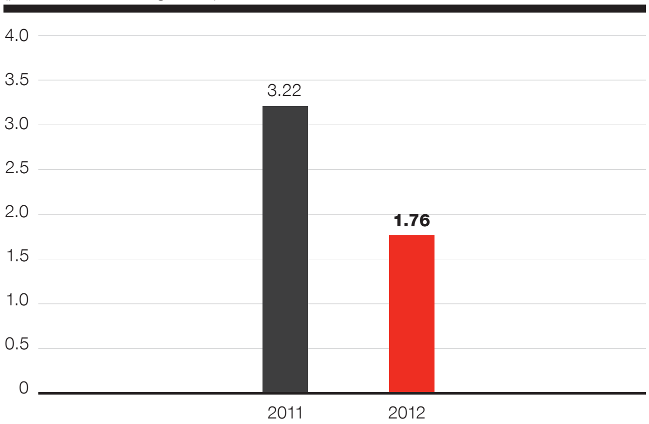
This increased operational performance is based on value-stream mapping, a process in which members of a team rigorously assess existing work steps of the entire production chain before optimizing them independently with a subsequent synchronization. This process, which has been rolled out at various sites in Europe and Asia, has led to significant improvements across the portfolio.

Supplier On Time Delivery (at year end)
in %



Best-in-Class: 99.0 %

Lost time accidents rate
(per 200 000 working hours)



Best-in-Class: 0.4

60 % shorter lead times

At one site in the Vacuum Segment, the individuals responsible for a given process step in supply chain management now actively request the components necessary for assembly from the team entrusted with the previous step (pull instead of push). In 2012 this reduced lead times by 60 % in this area, reduced inventories by 75 % and cut the lot size by 50 %. At the same time actual material consumption was also reduced. The success achieved in these process optimizations will be rolled out to other product lines and manufacturing sites.

99 % supplier On Time Delivery

The significant effort in 2011 to improve supplier On Time Delivery carried over into 2012, and schedules have been successfully maintained. The Advanced Technologies Segment was the first in the Group to increase this figure to 99 % using networked planning and precise checks.

Reduction in procurement costs

Oerlikon launched the world-class procurement (WCP) project in 2012, a process for step-changing the Group's procurement effectiveness. About 16 000 suppliers sell some CHF 2 billion of goods and services to Oerlikon each year. The numbers of suppliers shall be reduced and the procurement of services will be consolidated across the Group. Group-wide purchasers, called Category Managers, responsible for one product category were appointed for this purpose in 2012. Oerlikon is also shifting procurement to Asia in an effort to gain more favorable conditions and shorten supply distances by maintaining the same quality level. Oerlikon's goal is to generate significant run-rate cost savings as a result of these measures.

Unified IT infrastructure and processes

In 2012 Oerlikon launched spirIT, a project to better coordinate IT at Group level. The first step was to identify the strengths and weaknesses of IT services in the Segments and deploy the strengths identified across the Group to harmonize existing instruments, processes and technologies. The project will make a contribution to achieving sustained improvements in operating efficiency across individual Business Units and Segments.

Benchmarking

Oerlikon aspires to Best-in-Class performance and benchmarks itself against leading companies on a continuous basis. Peer groups against which underlying operational performance is measured have been defined for the Group and for each Segment. Oerlikon compares itself to these peers on a variety of key performance metrics including RONA, EBIT margin and order intake. This benchmarking process plays an important role in steering the operational management of the company and is fundamental to management incentive pay.

Peer Groups for benchmarking

Group (Swiss Peers)	Group (International Peers)	Textile Segment	Drive Systems Segment	Vacuum Segment	Coating Segment	Advanced Technologies Segment
ABB	General Electric	Jingwei	American Axle	Atlas-Copco	Bodycote	Applied Materials
Sulzer	Siemens	Lakshmi	Brembo	Gardner Denver	Kennametal	Lam Research
Georg Fischer	GEA		Carraro	INFICON	Praxair	Singulus
	Sumitomo		Dana	Ingersoll-Rand	Sandvik	Ulvac
	ThyssenKrupp		Bharat Gears	Pfeiffer Vacuum		
			BorgWarner			

II. Operations

3.0 Oerlikon Group operational review

1. Oerlikon consolidated its success in 2012 and increased profitability to an EBIT margin of 14.5 % including a one-time effect from the sale of property in Arbon, Switzerland (FY 2011: 11.6 %) – a new all-time high.

2. The divestments of the Solar and the announced sale of the Natural Fibers and Textile Components Business Units mark the start of the next phase of Oerlikon's strategic realignment with the aim of balancing the portfolio and focusing on growth businesses.

3. Outlook 2013: Oerlikon forecasts underlying operational profitability at around the previous year's level, temporarily impacted by divestments in the Textile Segment. Order intake and sales are expected to be at the previous year's level, despite a challenging environment.

Key figures Oerlikon Group[1]

in CHF million	**2012**	2011	Δ %
Order intake	2 802	2 878	–2.6
Order backlog	834	971	–14.1
Sales (to third parties)	2 906	2 731	6.4
EBIT	421	318	32.4
EBIT margin	14.5 %	11.6 %	–

[1] 2012 continuing operations, 2011 restated.

Market presence of the Oerlikon Group

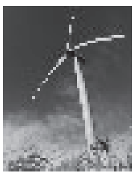
End applications based on Oerlikon technologies

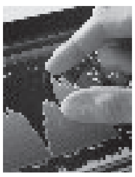

Agriculture


Technical clothing


Automotive


Glass coatings


Wind turbines


Touch screens


Surgical instruments

Oerlikon made further operational improvements and started a process of strategic transformation in 2012. In operational terms, the Group continued the positive business development achieved over the past two years and increased the EBIT margin to 14.5 % including a one-time effect by the sale of property in Arbon, Switzerland (FY 2011: 11.6 %) – a new record in the company's recent history. This meant that Oerlikon reached another important milestone on the road to carving out its targeted Best-in-Class positions in all areas.

The record operating result was bolstered by the ongoing implementation of the Group's strategy based on the following core elements – innovation, regional expansion, operational excellence and portfolio shaping. The Textile, Drive Systems and Coating Segments were the main drivers behind this continued upward trend; Asia and, once again, China, in particular, were among the regions posting the strongest growth. The Group's return on capital employed (ROCE) of 19.7 % (2011 as reported: 14.9 %) indicates that Oerlikon has created substantial added value. The share price more than doubled, making it the best-performing industrial equity in 2012 – globally. A dividend of CHF 0.20 per share was paid out to shareholders in 2012 for the first time in nearly 10 years, a signal of the business model's sustainability. For this reporting year, the Board of Directors is proposing to the Annual General Meeting of Shareholders a 25 % increase in the dividend payout of CHF 0.25 per share. The successful refinancing and diversification of sources of financing, through which the loan from the 2010 recapitalization was repaid two years ahead of maturity, are also testament to the company's improved operational strength and the financial markets' restored trust in Oerlikon.

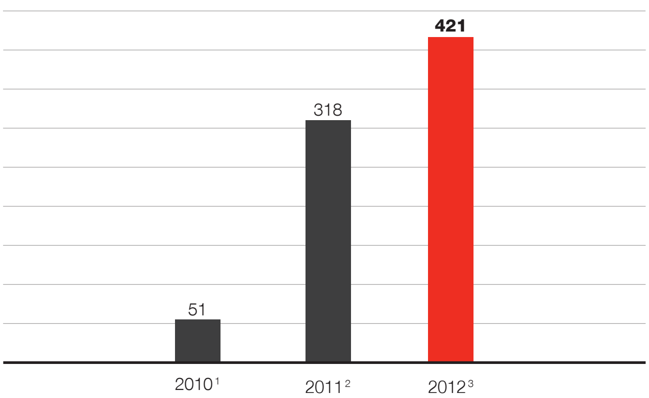
2012 was the year in which Oerlikon took a number of strategic steps to balance and optimize the portfolio. The completed divestment of the Solar Segment and targeted sale of the Natural Fibers and Textile Components Business Units, which are reported as "discontinued operations", are key milestones in the process of strategic realignment. These transactions and the successful refinancing of the company have established a firm foundation that will allow Oerlikon to better manage the portfolio and concentrate on high-margin business areas with attractive growth potential. The next phase of the Group's strategic realignment is therefore already under way: alongside continuous operational improvements in core businesses, emphasis will be placed on developing new areas of application and new geographies, and on adding more complementary and adjacent technologies to the portfolio to generate sustainable, profitable growth, both organically and through acquisitions.

Key Group 2012 figures at a glance

Data relating to the divested Solar Segment and for the Natural Fibers and Textile Components Business Units are reported separately as discontinued operations and are not included below. Certain 2011 figures are restated.

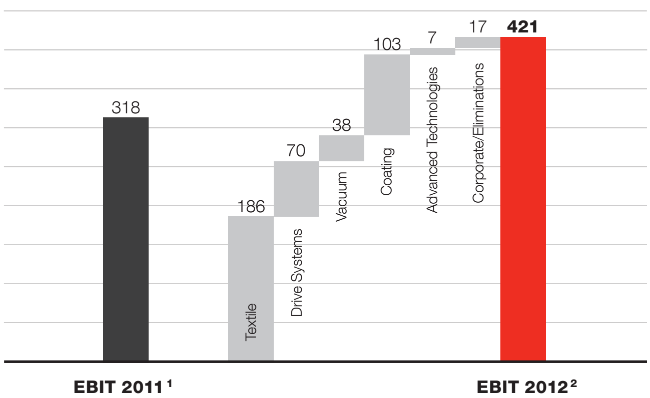
- Sales were up 6.4 % to CHF 2 906 million, compared with CHF 2 731 million in FY 2011, driven largely by Textile and Coating Segment growth.
- The EBIT margin reached an all-time high of 14.5 %: EBIT improved to CHF 421 million from CHF 318 million in FY 2011.
- EBITDA increased significantly to CHF 547 million (FY 2011: CHF 450 million), which is equivalent to an EBITDA margin of 18.8 %.
- The Group's net income rose to CHF 385 million (FY 2011: CHF 224 million).

EBIT
in CHF million



[1] As reported. [2] Restated. [3] Continuing operations.

EBIT by Segment
in CHF million



[1] Restated. [2] Continuing operations.

- While high-quality orders were secure, order intake fell as expected by 2.6 % to CHF 2 802 million (FY 2011: CHF 2 878 million) as markets demand began to normalize.
- Order backlog fell by 14.1 %, coming in at CHF 834 million (FY 2011: CHF 971 million).
- Headcount was stable at 12 708 employees worldwide (FY 2011: 12 726).
- Oerlikon continues to generate added value: ROCE climbed to 19.7 %, compared with 14.9 % in FY 2011 (as reported).
- The Board of Directors will propose a dividend payout of CHF 0.25 per share (FY 2011: CHF 0.20) to the Annual General Meeting of Shareholders.

Currency impact for the full financial year 2012 was minor. Adjusted for currency effects, sales would have reached CHF 2 875 million, reflecting a growth rate of 5.3 %. Currency impact on the profitability was also negligible (0.3 %).

Improved performance in the Segments

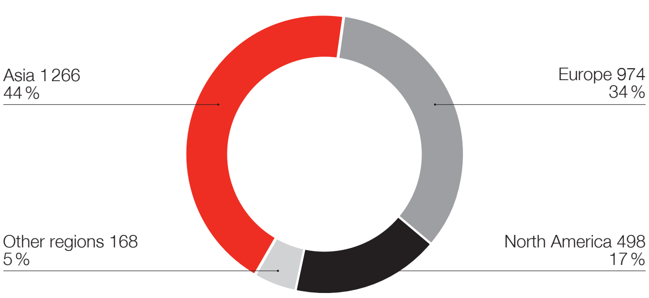
The Textile Segment increased an already high level of sales by 21.3 % to CHF 1 103 million. In terms of profitability, the EBIT margin for the Segment stood at 17.0 % and EBIT was CHF 186 million (FY 2011: CHF 73 million), which is equivalent to an improvement of over 100 % and therefore a new record. This result was supported by robust demand for innovative products in the high-performing Manmade Fibers Business Unit coupled with a one-off effect resulting from the sale of a property in Arbon, Switzerland. Excluding this one-time effect, the EBIT margin increased from 8.0 % in 2011 to 13.4 % in 2012. As expected, order intake rose slightly to CHF 1 039 million (FY 2011: CHF 1 014 million). Also as forecasted, order backlog normalized and fell to CHF 602 million (FY 2011: CHF 673 million); the order book provides substantial visibility into 2014 with first orders already received for 2015.

The Drive Systems Segment saw stable sales in an increasingly challenging market, reporting volumes of CHF 826 million versus CHF 821 million in the previous year (up 0.6 %). Despite only slight volume growth, the Segment increased its profitability by a considerable 42.9 %, delivering an EBIT of CHF 70 million (FY 2011: CHF 49 million), resulting in an EBIT margin of 8.5 % (FY 2011: 6.0 %). Optimization measures such as the consolidation of the Italian manufacturing footprint and partial outsourcing of production to India have begun to positively influence results, as has the Segment's expanded domestic market production in China. Increasingly difficult market conditions toward the end of the year led to a decline in order intake of 14.1 % to CHF 766 million and a corresponding decline in order backlog to CHF 134 million (FY 2011: CHF 213 million) – significantly below the previous year's level.

In 2012 the Vacuum Segment was unable to sustain the level of performance achieved in 2011: sales fell by 8.8 % to CHF 373 million (FY 2011: CHF 409 million) as a result of the market environment in key areas. EBIT dropped by 35.6 % to CHF 38 million, which is equivalent to a margin of 10.2 % (FY 2011: 13.9 %). This was primarily attributable to lower sales volumes in the European markets and in the industrial applications sector worldwide. Order intake decreased by 5.8 % to CHF 377 million, while order backlog declined by 5.2 % to CHF 73 million. A strategic realignment under the new Segment CEO is already under way.

The Coating Segment delivered strong performance in 2012, surpassing the CHF 500 million mark in sales for the second time in its history. Sales were up 3.5 % to CHF 501 million, and EBIT increased by 6.2 % over the prior-year figure to CHF 103 million (FY 2011: CHF 97 million), which translates into an EBIT margin of 20.5 %. The ongoing process of regional expansion supported this result with new coating centers in China, Malaysia and India, together with significant expansion of existing capacities at sites such as Suzhou, China. As at the end of 2012, the Coating Segment operated 90 centers in 33 countries (FY 2011: 87 centers). The Segment also continued to draw upon its leading technologies to tap into new areas of application, such as the aircraft industry.

Sales 2012 by market region [1]
in CHF million



[1] To third parties, continuing operations.

The Advanced Technologies Segment reported a slight decrease in sales to CHF 103 million (FY 2011: CHF 108 million) and lower EBIT of CHF 7 million (FY 2011: CHF 11 million) including restructuring costs of around CHF 1 million, which is equivalent to a margin of 6.6 %. With soft demand in the semiconductor market, customers in all market segments reported lower machine capacity utilization, which resulted in postponement of projects. The Segment also withdrew from the area of optical storage media in 2012 after streamlining its product portfolio. Order intake increased, up by 35.2 % from CHF 88 million to CHF 119 million, as did order backlog, which increased more than threefold to CHF 25 million due to the low level in 2011 of CHF 8 million.

Expansion in growth markets

The growth markets, and Asia in particular, once again made a positive contribution to Oerlikon's business performance in 2012. However, also in terms of regional split the divestments led to a more balanced global setup. Asia grew by 14 % and recorded sales of CHF 1 266 million, accounting now for 44 % of the Group's total sales. Sales in Europe grew by 4 % to CHF 974 million, accounting for 34 % of total Group sales, while North America recorded sales of CHF 498 million, representing a decrease of 9 % and accounting for 17 % of Group sales. The share of other regions in Group sales was 5 % (FY 2011: 5 %).

In order to meet the needs of local customers even more effectively, the Group strengthened its focus on Asia, currently the most important growth region. The new China Group Headquarters was opened in Shanghai, bringing all Segments under one roof for the first time. Drive Systems is expanding the new factory in Suzhou, China, and has increased capacity in India at its existing sites. The new Segment CEO of Drive Systems is located in India. The Vacuum Segment moved production of more products to the site in Tianjin, China, to secure significant cost benefits. As mentioned above, Coating opened additional coating centers in China, Malaysia and India and expanded existing capacities at various sites, such as Suzhou, China.

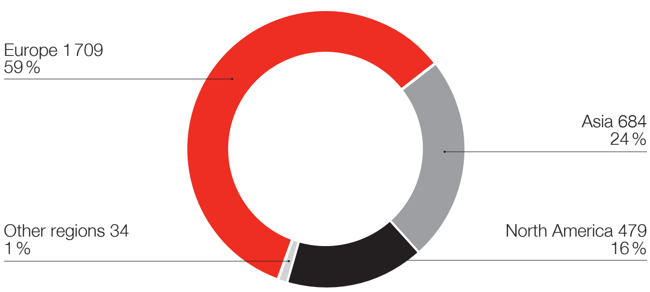
Oerlikon has appointed Country Representatives in the emerging economies and global key markets such as the Americas, Russia, India and China in order to assess new growth opportunities. These Representatives help to evaluate and capitalize on growth opportunities in their regions and across the various Segments.

Portfolio optimization

Oerlikon announced two fundamental, strategic portfolio rebalancing decisions in 2012: exit from the Solar business through the sale of the Solar Segment and exit from the natural fibers business through the announced divestment of the Natural Fibers and Textile Components Business Units.

Oerlikon announced the sale of the Solar business to Tokyo Electron Ltd. (TEL) on March 2, 2012, and completed the transaction on November 26, 2012. The transaction was structured as a cash deal, in which TEL acquired 100 % of the shares in the Solar Segment, and was concluded within the parameters of the original agreement, leading to a net inflow of CHF 231 million in cash for the Oerlikon Group. The sale substantially reduced the complexity of the Oerlikon portfolio and paved the way for an enhanced focus on core high-growth and high-margin corporate divisions.

Sales 2012 by production region[1]
in CHF million



[1] To third parties, continuing operations.

The sale of the Natural Fibers and Textile Components Business Units to China's Jinsheng Group for an enterprise value of around CHF 650 million was announced on December 3, 2012. The transaction, which is subject to merger control approvals, is expected to close in the second quarter of 2013. This move significantly reduces Oerlikon's exposure to the textile business as a whole and effectively removes the company from the most cyclical part thereof, natural fibers. Focusing exclusively on the high-performing, less cyclical manmade fibers market reduces the textile share of sales from 53 % (adjusted 2011) to 38 % of Oerlikon Group sales. The manmade fiber area is the fastest growing in the textile business and Oerlikon, a market leader with cutting edge technology, is ideally positioned to benefit disproportionally from this growth.

In addition to these major transactions, Oerlikon took a number of smaller portfolio streamlining actions in 2012. In March, the company sold its property in Arbon, Switzerland, with a positive effect to the EBIT of about CHF 39 million. In April, Oerlikon announced withdrawal from the optical disc business. The Group also divested its 13.97 % minority stake in Swiss aircraft manufacturer Pilatus Flugzeugwerke AG. Oerlikon Graziano reduced the number of Italian manufacturing sites from seven to five following the sale of the Poretta and Garessio plants.

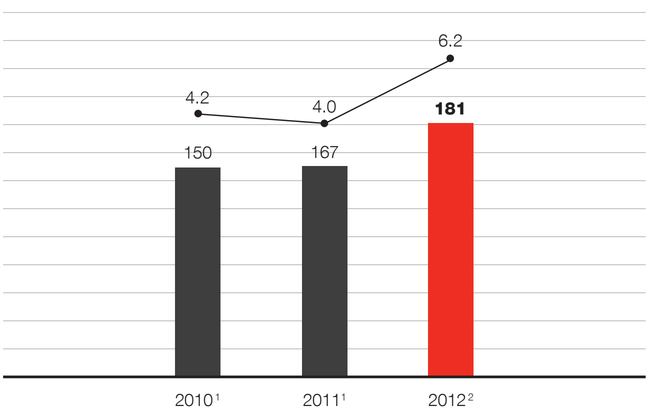
Successful refinancing

Transformation in 2012 was not limited to the portfolio; the Group also comprehensively refinanced the balance sheet in the first half of the year with a new syndicated credit facility and the issue of a Swiss bond. The unsecured syndicated loan of CHF 700 million (Facility A) was agreed with an international syndicate of 13 banks. The four-year, 4.25 % coupon Swiss bond of CHF 300 million was placed successfully in June. The new financing package reduces annual costs by a substantial CHF 40 million, provides greater scope and flexibility for financing at improved conditions, requires no collateral and diversifies the company's sources of capital. Oerlikon successfully completed the refinancing on July 20, 2012, with repayment of the old credit facility.

Strengthened financial position

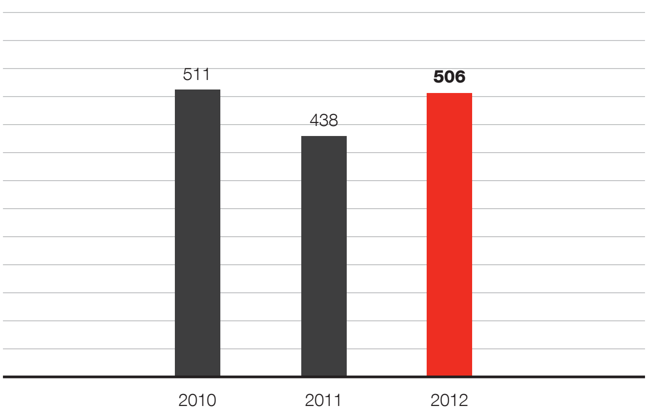
Oerlikon recorded net financing costs of CHF 87 million for full-year 2012 (FY 2011: CHF 95 million). Tax expense amounted to CHF 111 million (FY 2011: CHF 64 million) as a result of the higher pretax profit and the one-off tax effects of the refinancing, which led to a higher tax rate of 33 %. Accordingly, the result for continuing operations stood at CHF 223 million (FY 2011: CHF 159 million). Group net income for 2012 including the result from discontinued operations amounted to CHF 385 million (FY 2011: CHF 224 million). The Group's performance led to a return on capital employed (ROCE) of 19.7 % as of year-end 2012, versus a ROCE of 14.9 % at year-end 2011 (as reported).

Capital expenditure
in CHF million



[1] As reported. [2] Continuing operations. In % of sales.

Operating cash flow
in CHF million



Strong equity ratio of 45 %, strong cash flow

Strong operating performance in 2012 and the various portfolio adjustments further strengthened Oerlikon's balance sheet. As at the reporting date, the Group had equity capital attributable to shareholders of CHF 1 858 million, putting the equity ratio at 45 % compared with 35 % at year-end 2011.

Disciplined investment and use of cash continues to top Oerlikon's agenda. Capital expenditure (Capex) amounted to CHF 181 million, an increase of 20 % to the prior-year level (continuing operations). The Capex to depreciation ratio was again above 1 indicating return to growth over medium to long term. Focus areas were the Asian growth markets China and India, followed by North America, notably in the Drive Systems and Coating businesses.

The main investment activities were:
- Textile: production capacity expansion in Germany due to high customer demand for manmade fiber out of Asia.
- Drive Systems: expansion of manufacturing footprint and production capacity in China and India to meet local demand and shift to lower cost region.
- Vacuum: new logistics center in Cologne and further expansion of Tianjin plant (China).
- Coating: continuous expansion of the worldwide footprint by adding new coating centers, expanding capacity of existing ones and rollout of new technologies.

Cash flow from operating activities grew by 15.5 % to CHF 506 million (FY 2011: CHF 438 million). Net working capital (defined as trade receivables + inventories – trade payables – current customer advances) amounted to CHF 125 million, which corresponds to 4.3 % of sales. The inflow of funds from divestment of non-operating assets and of the Solar business resulted in a cash flow from investing activities in the amount of CHF 136 million. The dividend payment for 2011 and the refinancing of the Group resulted in a cash flow from financing activities of CHF –718 million. As a consequence, Oerlikon recorded net liquidity of CHF 339 million for the first time in six years.

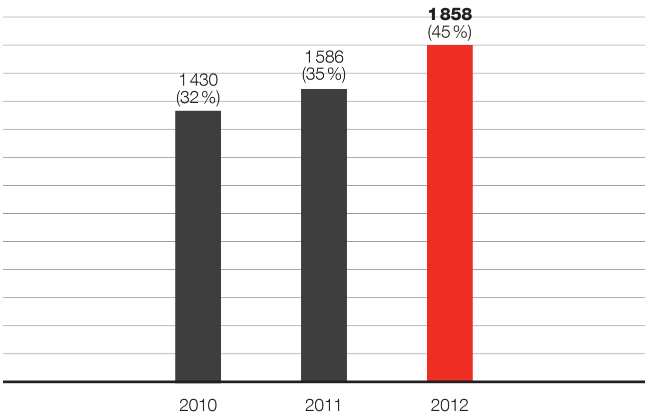
Innovation

Oerlikon continued to strengthen prospects for the future through extensive investment in research and development (R&D). R&D expenditures in 2012 remained unchanged at around 4 % of total sales or a total of CHF 106 million (FY 2011: CHF 102 million).

Successful R&D efforts across the Group resulted in new products and/or solutions in 2012:

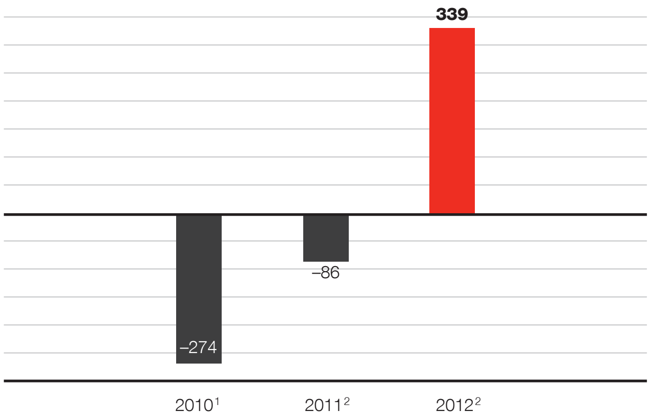
The market launch of the WINGS technology for fully drawn yarn (FDY) was a tremendous success for the Textile Segment. By year-end, Oerlikon had sold more than 10 000 examples of this revolutionary spinning technology and upped its market share in the chemical fibers industry to over 45 %. The WINGS product line stands out from the competition by providing customers energy savings of up to 30 % and footprint reductions of 30 %.

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



[1] Attributable to shareholders of the parent.

Net debt/-liquidity
in CHF million



[1] As reported. [2] Continuing operations.

The Drive Systems Segment presented a new generation of gear synchronizers for the latest 9- and 14-speed premium heavy goods vehicle gearboxes; these herald a new standard in terms of fuel savings and ease of shifting. The increased manual gear shifting speed and the shorter torque interruptions delivered by these synchronizers improve engine performance by 10 % and reduce fuel consumption by up to 5 %.

The Vacuum Segment successfully entered the application market for steel degassing through development of a bespoke solution based on standard components. This solution is already being used by major customers in Germany and India. The customer-specific systems consist of an innovative and very flexible selection of high-performance fore-vacuum pumps and represent the most compact mechanical solution on the market today, with energy savings of up to 30 %.

The Coating Segment launched the second generation of its PPD™ (pulsed plasma diffusion) equipment for hardening the surface of large tools such as bodywork molds for the automotive industry. This new PPD™ generation is up to 40 % more efficient, and unlike industry-standard hard chrome plating, uses no toxic materials. Oerlikon's PPD™ procedure offers customers a decisive advantage in terms of quality, cost-effectiveness and environmental friendliness.

In the Advanced Technologies Segment, the first Solaris nanotechnology solution system was sold to Asia for the development of electronic paper. The first Hexagon facility, a solution designed for the mass production of ultracompact semiconductors (advanced packaging), is now in full production mode at a large customer for manufacturing smartphones, tablets and wireless applications in general.

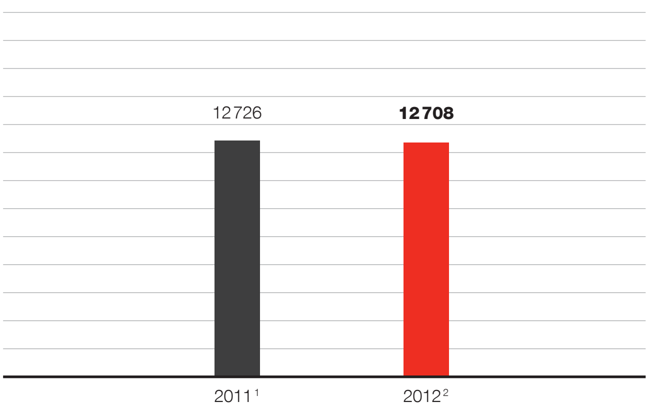
Operational excellence

Fundamental to sustainable growth of Group profitability is underlying operational performance, which has been improved by major enhancements to processes through ongoing operational excellence programs. The consistent implementation of these initiatives has enhanced process efficiency and stability to a marked degree; supplier On Time Delivery (OTD), for example, has increased to over 99 % Group-wide for the first time since recording began in 2010. In 2012 Oerlikon launched world-class-procurement (WCP), a process to improve global procurement, and spirIT, a global IT rationalization and modernization initiative.

The company has made substantial improvements to operating processes in all Segments:

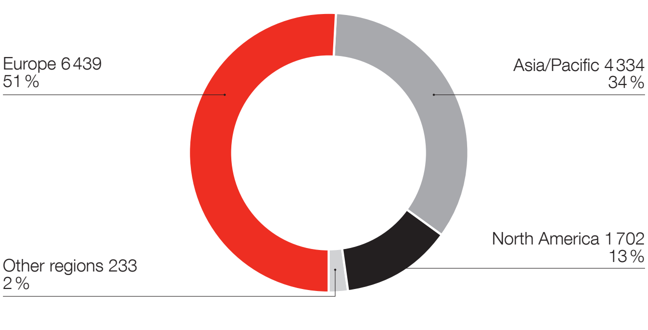
- In the Textile Segment, production of winders was increased from 250 to 600 units a month thanks to a revised manufacturing process.
- The Drive Systems Segment introduced various improvements such as an optimized product mix, relocation of production to more cost-effective regions, and productivity-enhancing measures along the entire value chain, which contributed significantly to the Segment's 43 % profitability increase.

Employees



[1] Adjusted. [2] Continuing operations.

Employees 2012 by region[1]



[1] Continuing operations.

- The Vacuum Segment focused on improving logistics in 2012 and took a major step toward making operating processes more efficient by starting the construction of a new logistics center in Cologne, Germany. In addition to optimizing site logistics, the design allows for significant capacity for future growth.
- The Advanced Technologies Segment was the first Group Segment to achieve 99 % On Time Delivery (OTD) from its over 400 suppliers. The Segment's own OTD performance for customer deliveries increased to 100 % as a result of the newly introduced processes.

Increased dividend

In 2012, Oerlikon paid a dividend to its shareholders for the first time since 2004 (paid for fiscal year 2003), in the amount of CHF 0.20 per share. Because of the increased Group net income, which was significantly improved by non-recurring items, the Board of Directors of Oerlikon will propose an increased dividend of CHF 0.25 per share to the Annual General Meeting of Shareholders following a stable and progressive payout approach.

Outlook for 2013

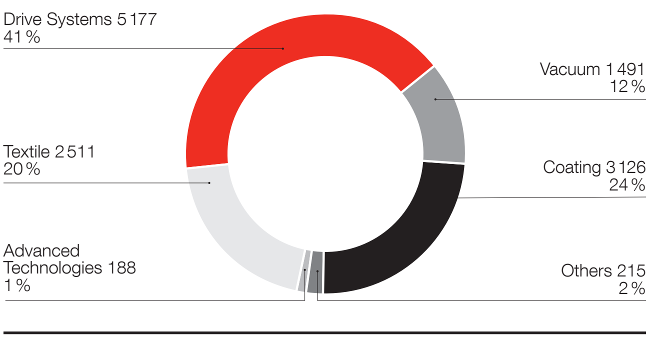
The global economic environment remains uncertain and challenging, which will also continue to affect Oerlikon's markets. Growth is likely to be weak in the first half of 2013 with upside potential going forward.

For continuing operations, the Oerlikon Group forecasts the following for 2013:

- Order intake at around the previous year's level with performance in the first half offset at least by better performance in the second half of the year.
- Sales at around the previous year's level.
- Underlying operational profitability to be around the previous year's level, temporarily impacted by the divestments in the Textile Segment.

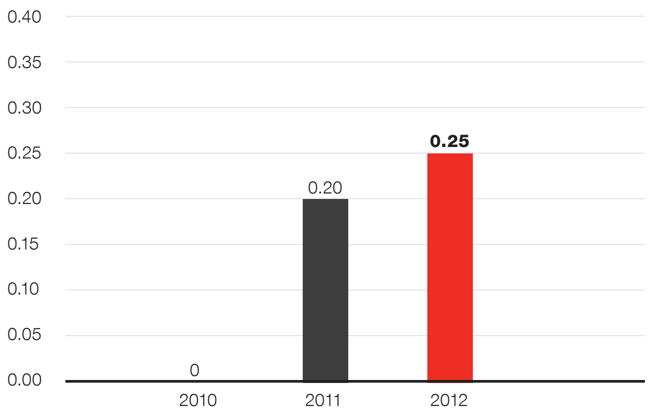
2012 saw the establishment of an excellent foundation for further developing the Group in operational and strategic terms. The Group will continue to focus on innovation, regional expansion, operational excellence and portfolio shaping to strengthen and expand the basis for sustainable increases in profitability.

Employees 2012 by Segment[1]



[1] Continuing operations.

Dividend per share
in CHF



3.1 Textile Segment

1. Strategic refocus on growth in the high-performing manmade fiber business; sale of the Natural Fibers and Textile Components Business Units announced.
2. Segment profitability at record levels; EBIT margin (including one-time effects) of 17.0 % achieved.
3. Strong sales growth driven by new and innovative “e-save” products.

Key figures [1]

in CHF million	2012	2011	Δ %
Order intake	1 039	1 014	2.5
Order backlog	602	673	–10.5
Sales (to third parties)	1 103	909	21.3
EBIT [2]	186	73	>100
EBIT margin [2]	17.0 %	8.0 %	–

[1] 2012 continuing operations, 2011 restated.
[2] 2012 EBIT includes a one-time effect of CHF 39 million from the sale of property in Arbon, Switzerland. Excluding this one-time effect, EBIT would have been CHF 147 million, giving it a margin of 13.4 %.

Best-in-Class

Oerlikon’s Textile Segment: 17.0 % EBIT margin (FY 2012);
followed by Lakshmi Machine Works Ltd.: 7.8 % EBIT margin (FY 2012)

Market presence of Textile Segment

Food Clothing Transportation Infrastructure Energy Electronics Others

End applications based on Oerlikon technologies

Technical clothing Fashion Carpeting Tire cord Artificial turf New materials Geotextiles

Manmade Fibers

oerlikon barmag oerlikon neumag

Business performance

Oerlikon announced on December 3, 2012, that it plans to divest the Natural Fibers and Textile Components Business Units, a move that represents a realignment of the Segment strategy. The results of the Business Units to be divested are reported under discontinued operations. The key figures for the Manmade Fibers Business Unit (continuing operations) are reported in this section along with FY 2011 restated data to allow like-for-like comparison.

The Textile Segment saw another increase in profitability compared with the prior year, posting a record EBIT margin of 17.0 % (FY 2011: 8.0 %). Driven by good sales growth, an innovative product mix and the successful execution of operational excellence programs, EBIT was CHF 186 million. In addition to the planned divestment of the Natural Fibers and Textile Components Business Units, the Segment made tactical adjustments to the portfolio during 2012. Textile sold the Melco business to US-based Mizar Holding Company Inc. at the beginning of the third quarter. In May, the 200 000-square-meter property in Arbon, Switzerland, was sold to HRS Investment AG, Frauenfeld, resulting in a non-recurring EBIT of about CHF 39 million. Excluding this one-time effect, EBIT would have been CHF 147 million, giving it a underlying margin of 13.4 %.

The Segment boosted 2012 sales by 21.3 % to CHF 1 103 million. The market for manmade fiber equipment continued to post strong growth, and there was high order intake for six quarters in succession. The order book provides substantial visibility into fiscal year 2014; the Segment has already received first orders for fiscal year 2015. For the period under review, order intake was CHF 1 039 million (FY 2011: CHF 1 014 million) and order backlog was CHF 602 million (FY 2011: CHF 673 million).

The “e-save” products introduced at the 2011 ITMA in Europe, the world’s largest textile trade fair, have been very successful and account for a large portion of the increase in sales as market demand for more energy-efficient solutions increases. The “e-save” label continues to set industry standards. It has become well established with a wide range of areas of application, enabling customers to produce more efficiently, save energy and raw materials, and use more economical and ecological manufacturing methods.

The Segment posted the strongest growth for the year in China – the Segment’s most important market – as sales expanded by 31 %. In total, the Asian market represented 76 % of Segment sales. Sales in Europe increased by 41 %, followed by India with 21 % sales growth.

Key topics

Innovation and energy-efficient products
The Segment’s success story continued with the energy-efficient products introduced under the “e-save” label. These products allow customers to save up to 50 % on energy use and up to 75 % in space. The spinning line “Winding INtegrated Godet Solution (WINGS)” for partially oriented yarn (POY), for example, continues to set new standards in the spinning process, integrating the godets and winding unit into one system for the first time. WINGS delivers energy savings of up to 30 % compared to conventional spinning machines. The user-friendly design, sophisticated threading guidance system and simplified threading procedures deliver space savings of up to 30 %, and a single operator can now thread yarn in just a quarter of the time needed previously. This significant savings in human capital is a critical advantage as labor costs increase worldwide, particularly in markets such as China, India and Turkey.

Ongoing focus on Asia
The core markets in Asia continued to grow at double-digit rates in 2012. The region is the most important one for the Segment, accounting for more than 75 % of total sales. In order to meet the needs of customers at local level even more effectively, the Group has strengthened its focus there. The new Oerlikon Headquarters for China were opened in Shanghai, bringing all Segments under one roof for the first time.

Outlook

In 2013, the Textile Segment expects continued high order intake and sales with some market softening. Due to the anticipated temporary effect caused by the announced disposal of the Natural Fibers and Textile Components Business Units, the Segment anticipates a lower reported profitability compared to 2012, with a stable underlying operating margin.

3.2 Drive Systems Segment

1. Significant increase of 43 % in profitability due to improved product mix and ongoing cost improvements.
2. Stable sales despite weaker markets.
3. New products for future growth: first prototype of a revolutionary clutchless multispeed transmission for electric vehicles.

Key figures

in CHF million	**2012**	2011	Δ %
Order intake	766	892	–14.1
Order backlog	134	213	–37.1
Sales (to third parties)	826	821	0.6
EBIT	70	49	42.9
EBIT margin	8.5 %	6.0 %	–

Best-in-Class

BorgWarner: 10.5 % operating margin (FY 2012)

Market presence of Drive Systems Segment

Food Clothing Transportation Infrastructure Energy Electronics Others

End applications based on Oerlikon technologies


Construction


Agricultural equipment


Sports cars


Electric cars


Airport equipment


Energy


Off-highway

oerlikon graziano oerlikon fairfield

Business performance

The Segment experienced a strong increase in profitability for the year as EBIT increased by 42.9 % to CHF 70 million (FY 2011: CHF 49 million). The increase in EBIT margin to 8.5 % (FY 2011: 6.0 %) is due to a focus on operational excellence measures such as streamlining of the European production network. The sale of two facilities brings the number of plants in Italy to five. Product overhaul across the entire Segment, stronger focus on the sale of solutions and an improved product mix resulting from increased demand in the mining and energy markets also boosted profitability.

Global key markets slowed down during the second half of the year. The demand for agricultural machinery, the Segment's largest market, declined due to the droughts in North America, India and China. Demand also slowed in Europe and Brazil due to weakening of the agriculture market. The trend in the construction industry was hampered by weak European demand caused by the debt crisis and lower spending on infrastructure projects in China and India. In the Americas, a short-term oversupply of natural gas and US policy regarding coal have reduced equipment demands for mining and gas exploration. Long-term global prospects in these markets remain favorable, however, with new processes for extracting oil and natural gas driving commercial opportunities for special equipment. The automotive industry also experienced a global drop in demand.

In this challenging environment, the Segment was able to record stable sales compared with the prior year, monetizing order backlog at the beginning of the year. Sales amounted to CHF 826 million (2011: CHF 821 million); and order backlog fell by 37.1 % to CHF 134 million. The softening of demand in the second half of the year caused the order intake for the Segment to fall by 14.1 % compared with the prior year. Order intake was CHF 766 million (FY 2011: CHF 892 million).

To secure future growth, Drive Systems continued to develop and introduce new products with a focus on transmission solutions for electric and hybrid drives. A first prototype of a revolutionary clutchless multispeed transmission for electric vehicles improves efficiency by up to 15 % – meaning less power consumption and a higher range. The concept is scalable from city cars to light commercial vehicles. Also a next generation of synchronizers for heavy-duty trucks was introduced, which supports ease of shifting and saves fuel by up to 5 %.

Key topics

Operational excellence
The Segment engaged an operational excellence program to reach manufacturing excellence at its plant in Rivoli, focusing on safety, On Time Delivery, quality, productivity and the efficient use of equipment. It was rolled out in May 2011 with the introduction of eight technical pillars and involves all the employees at the plant. The first measurable results have included a 60 % reduction in the accident rate and a 10 % drop in the costs incurred for insufficient quality in production. In July 2012 the program was expanded to include two other plants in the EMEA region. Rollout of the program in the United States, China and India will begin in 2013.

Expansion in Asia
To keep growing and better serve its customers in Asia, especially in China and India, Drive Systems has expanded its existing production facilities at Greater Noida in India. The plant footprint was expanded by 30 %, a modern grinding shop was built, the packing area was redesigned, and a purpose-built warehouse for efficient material handling was constructed. In addition, the existing area for heat treatment was equipped with a modern carburizing furnace. The Segment is also expanding capacity and capability at its Belgaum plant, India with completion expected in June. Furthermore, the new Segment CEO is located in Delhi, India.

At the beginning of 2012, Drive Systems expanded its manufacturing capacities by opening a plant in Suzhou, China, to take better advantage of business opportunities in the region. This plant will primarily manufacture specialized drive system solutions for the growing Chinese market. Additional technical equipment was installed over the course of the year, which has enabled more extensive manufacturing of drive systems. In addition, a new heat treatment plant is set to start operations in early 2013.

Outlook

The Drive Systems Segment expects an overall challenging market environment especially in the first half of 2013. Order intake is forecasted to grow based on upside potential in the second half of the year, while sales for the full year are expected to decline slightly. The recognized headwinds in key markets such as mining and energy will transiently impact profitability. However, the Segment will consequently continue to execute its strategy for mid-term margin improvement by operational excellence initiatives and regional expansion.

3.3 Vacuum Segment

1. Sales and profitability lower in a slowing market environment.

2. New Segment CEO to focus on growth and cost structure.

3. Ongoing expansion as technology leader for high-performance vacuum solutions and enhanced performance in after-sales services.

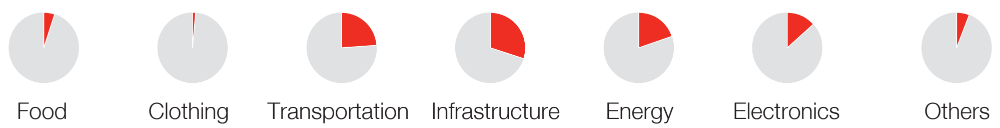
Key figures

in CHF million	**2012**	2011	Δ %
Order intake	377	400	–5.8
Order backlog	73	77	–5.2
Sales (to third parties)	373	409	–8.8
EBIT	38	59	–35.6
EBIT margin	10.2 %	13.9 %	–

Best-in-Class

INFICON: 15.8 % operating margin (Q3 2012)

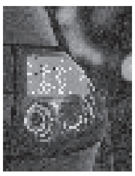
Market presence of Vacuum Segment



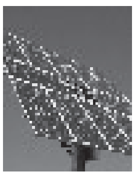
End applications based on Oerlikon technologies


Process industry


Research & Development


LEDs/ lighting


Glass coating


Solar cells and modules


Steel production


Sunglasses

œrlikon leybold vacuum

Business performance

The Segment had a lower order intake and backlog in 2012 and recorded a drop in sales compared with the strong results in 2011, when sales were extraordinarily high due to restocking following the financial crisis. Sales in 2012 were CHF 373 million, or 8.8 % below the previous year's level (FY 2011: CHF 409 million), due to overall weaker market demand. The Segment posted an order intake of CHF 377 million compared with CHF 400 million in 2011, and order backlog at the end of 2012 was CHF 73 million (FY 2011: CHF 77 million). Demand in the process and solar industries, the most important markets for the Segment, slowed considerably over the course of the year. Sales were weak in Asia, Europe and North America. Sales in China in particular was negatively affected by a weaker lighting market and general postponing of projects in, for example, solar technology and the OLED/LED business. Sales of pumps for the global coating industry stabilized but at a lower level, and numerous major projects were postponed in this sector. In contrast, there was a gain in market share for vacuum pumps for analytical applications.

Various growth initiatives were launched during the year; these focused on new sectors and applications, such as secondary metallurgy. For example, in 2012 the Segment received several orders for a new vacuum solution for steel degassing in Germany, Italy, China and India. Thanks to a new procedure, the energy needed for this process step has been reduced by up to 30 %.

Profitability fell in these difficult market conditions due to lower sales: the Segment recorded EBIT of CHF 38 million and a margin of 10.2 % (FY 2011: CHF 59 million, 13.9 %). Nevertheless, the Segment made targeted investments in new product launches, logistics and regional expansion with a focus on Asia in order to be ready for the next growth phase. Topping the Segment agenda are cost structure and strategy redesign.

To improve profitability, the Segment invested in additional operational excellence measures so that its processes can run more efficiently. Following an extensive analysis of internal logistics processes, the construction of a new logistics center began at Vacuum's primary facility in Cologne, Germany. This will commence operations in fall 2013.

Key topics

Realignment of the Segment
Sustainable growth, a stronger technological and market position and an improved, flexible cost structure – these are the priorities. The following initiatives will help to increase profitability even in unfavorable market conditions:

- Standardization, modularization and homologation of the existing product portfolio, along with shifting the manufacture of standard products to China, will create ongoing cost benefits for the Segment.
- The Segment is continuing to focus on reducing complexity and executing operational excellence measures: initiatives in world-class procurement (WCP), low-cost sourcing and lean manufacturing to continuously improve the cost base.
- The introduction of innovative new products in existing markets and modular solutions for new applications on the basis of the existing product portfolio will be the drivers of sustainable and profitable growth.
- Expansion of local engineering, services and solution competencies in order to serve specific customer needs: the Vacuum Segment has seen an increase in the need for product and service solutions. Consequently, Oerlikon Leybold Vacuum has participated in several countries in 2012, including the growth markets of China and India.

Outlook

The Vacuum Segment forecasts rising order intake and sales despite an increasingly challenging market environment, and improved margins.

3.4 Coating Segment

1. Coating posted the highest profitability in the Group and the highest in the Segment's own history despite a difficult market environment.
2. Regional expansion key to growth and ongoing; now 90 coating centers in 33 countries.
3. Innovation sparks further growth: global market and technology leader with new coating technologies such as ePD™, S3p™ and PPD™.

Key figures

in CHF million	**2012**	2011	Δ %
Order intake	501	484	3.5
Order backlog	–	–	–
Sales (to third parties)	501	484	3.5
EBIT	103	97	6.2
EBIT margin	20.5 %	20.1 %	–

Best-in-Class

Sandvik Machining Solutions: 22.0 % operating margin (FY 2012)

Market presence of Coating Segment

Food | Clothing | Transportation | Infrastructure | Energy | Electronics | Others

End applications based on Oerlikon technologies


Cars

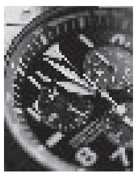

PET


Aerospace components


Plastic metallization


Precision tools


Gearboxes


Watchmaking

oerlikon
balzers

Business performance

With an EBIT margin of 20.5% the Segment continued to increase its already high level of profitability. Increased sales from new, innovative products and the continued successful implementation of operational excellence programs were the main contributors to this positive trend. These results mean that the Coating Segment is operating closed to Best-in-Class level.

In 2012 Coating sales rose by 3.5% to CHF 501 million (FY 2011: CHF 484 million), driven primarily by new, innovative products. The pace of growth in the market slowed over the course of the year; this was particularly evident in the automotive industry, which negatively impacted the Segment's tools and components business in Europe. The precision components business continued to grow in Europe, thanks to stronger market penetration in the general engineering industries. Regionally, Germany, the United States and Japan had especially strong growth rates.

The Segment further penetrated the market in 2012, particularly in Asia, where 31 coating centers are already in service. With the new plant in Malaysia, new coating centers in India and China, the company continues to expand its global presence in new regions. The Segment currently operates 90 coating centers worldwide and has expanded its capacities in the components business, primarily in Germany, the United States, France and Thailand.

Success of new coating solutions for automotive components – especially in the area of fuel-saving injection systems – has led to important new projects. One major German customer for these high-quality systems selected the Coating Segment for its expansion in Thailand. Following the successful introduction of the high standards of quality and innovation from Germany in the local coating center in Thailand, the next step in expanding capacity to serve the growing demand in Asia has begun.

Industrialization of the recently launched S3p™ technology for extremely smooth coatings and ePD™, a clean alternative process for the metallization of plastic parts, is proceeding as planned. Furthermore, a new generation of the PPD™ technology for hardening surfaces of forming tools was introduced to the market with significantly improved performance parameters.

Key points

Regional expansion
Proximity to customers and rapid, reliable completion of orders are critical in the coating business; a coating center can in general only serve a radius of some 200 kilometers. Expansion of the global network will therefore remain a Segment priority, especially in the emerging markets.

Innovation
Following a pilot in Germany, the first ePD™ (embedded PVD) technology center in the world was opened at the Suzhou location, China. In contrast to traditional procedures, the low-emissions, eco-friendly ePD™ technology for the metallization of plastic parts does not use any environmentally damaging materials such as chromium VI. ePD™ offers innovative functional features such as radar-transparent metallization for distance sensor systems, lightweight construction and a greater variety of design possibilities. Testing by major car manufacturers is underway and certification for use in high-volume production is expected in 2013.

Outlook

The Coating Segment expects modest sales growth in 2013 and a continued high level of profitability.

3.5 Advanced Technologies Segment

1. Solid profitability after streamlining of the portfolio.

2. Much higher order intake thanks to leading technology position and successful innovations for mobile communication devices; sales slightly below previous year’s level.

3. The Segment’s innovative solutions form the basis for further growth on the markets for telecommunication, LEDs and power devices.

Key figures

in CHF million	2012	2011	Δ %
Order intake	119	88	35.2
Order backlog	25	8	>100
Sales (to third parties)	103	108	–4.6
EBIT	7	11	–36.4
EBIT margin	6.6 %	10.3 %	–

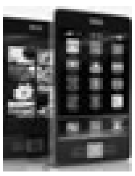
Best-in-Class

Applied Materials: 11.5 % EBIT margin (FY 2012)[1]

Market presence of Advanced Technologies Segment

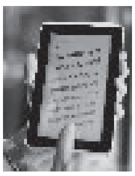
End applications based on Oerlikon technologies

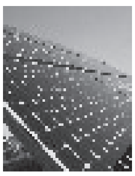

MP3 players

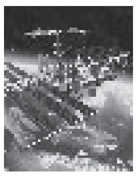

Cell phones Cameras


Tablet computers


Automotive electronics


Touch screens


Solar cells


Telecoms

[1] Source: Bloomberg

œrlikon
systems

Business performance

The positive trend in the Segment's core markets continued in 2012, although the global market for semiconductor equipment fell by approximately 12 % as compared to the previous year. Despite this difficult market environment, sales of the Advanced Technologies Segment were only slightly below 2011 and reached CHF 103 million (FY 2011: CHF 108 million). Order intake was up by 35.2 % compared with 2011 to CHF 119 million (FY 2011: CHF 88 million). Successful qualification of Advanced Technologies solutions to address the rising demand for mobile devices (smartphones, tablets and notebooks) and energy-efficient solutions (LEDs, power devices) were the main drivers of Segment order intake growth.

Leading semiconductor companies without own manufacturing capabilities posted strong growth with their solutions for mobile communication. All major contract manufacturers for semiconductors benefited from this growth, and this in turn provided a significant boost to the Segment's equipment business. The negative trend in the semiconductor industry in the second half of the year was primarily due to the low demand for PCs, preceded by downward pressure in the storage business. Weakness in the automotive industry caused a softening in the market for power devices, but the solid state lighting (LED) market was showing recovery by mid year. Investments in new technologies (mobile devices, MEMS, LED) became particularly important in this consolidation phase.

Regionally, overall demand fell in Europe and North America, which was nearly compensated by 25 % growth in the Asian market.

The Segment underwent a restructuring in 2012, as the optical storage disc business was discontinued due to the declining market conditions. EBIT of CHF 7 million includes restructuring costs of CHF 1 million from this simplification of the Advanced Technologies product portfolio. The Segment posted an EBIT margin of 6.6 % in 2012, which compares to 10.3 % in 2011.

The Segment also stepped up its R&D activities in 2012 and boosted its partnerships with key customers in strategic markets for semiconductors and nanotechnology, thereby establishing the foundation for sustainable and solid profitability.

Key topics

Innovations to enter new markets
As part of the opening up of new markets, the first Solaris system for the development of electronic paper was sold to Asia in 2012. The first Hexagon deposition equipment, an advanced solution for the high-volume production of electronic components, is now being used by a major customer in Asia. It produces semiconductor components that are primarily used in smartphones, tablets and for wireless applications. The wafer throughput achieved is much higher than for comparable systems.

Advanced Technologies' coating technologies have helped it to not only become a leading equipment provider for ultra-compact semiconductor elements for such applications as cell phones, navigation systems and consumer electronics; thanks to state-of-the-art LED technologies, semiconductors are also taking the lighting market by storm, an area in which Oerlikon production solutions play a key role in technological and market developments.

In one reflection of this, the Segment created a new process (NanoSmooth™) that augments the light output of LEDs and increases productivity in the production process. NanoSmooth™ clears the way for using other materials, in particular the inexpensive raw material silicon, making the production of LEDs even more cost-efficient.

Outlook

The Advanced Technologies Segment expects further improvement of order intake and strong sales growth on an increased order backlog. Substantial investments in growth opportunities are forecast to affect the profitability in 2013.

III. Governance

4.0 Sustainability

1. Oerlikon is taking steps to improve its sustainability monitoring and reporting on Group level.
2. Innovative products of Oerlikon contribute to energy efficiency and environmental protection.
3. With our focus on safety, accidents were substantially reduced.

Responsible operations

Sustainability is a key element in Oerlikon's daily business operations and a major competitive factor – the more sustainably the company acts, the more attractive it becomes for investors, customers, job applicants and employees. Sustainability covers a wide field of topics, the most important of them being occupational health and safety and environment. Oerlikon has decided to focus first on achieving Best-in-Class status in occupational safety while at the same time assuring full compliance with the relevant norms for health and environment at all sites. Oerlikon's current sustainability recording, monitoring and reporting standards have improved but do not yet meet the company's aspirations. Oerlikon is not yet able, for example, to carry out a complete environmental audit of its operations, because the necessary data have not yet been collected across the Group. The company is taking steps to improve in this and other areas.

Focus on safety

The Board of Directors and management have approved a new vision for Occupational Health & Safety at Oerlikon: "Zero Harm to People". This ambitious vision is grounded in the belief that all occupational accidents, illnesses and diseases are preventable. To achieve this vision, Oerlikon has put in motion the "safety wheel", consisting of four parts: working systematically, enabling all managers and staff by extensive training, measuring for learning and making safety desirable for everyone. An HSE unit was set up at corporate level at the beginning of 2012 to help implement the mentioned safety wheel.

The systematic working part was tackled by developing a new and uniform safety policy and will be followed in 2013 by an equally common and uniform Safety Management System. For the enabling part, two major training programs for all management levels were set up, piloted and then started, which is essential since every line manager is also a safety officer of the company. All top and senior managers will be trained until the end of 2013; all other managers at the latest by the end of 2014. The main metric for safety collected during 2012 was the Lost Time Accident Frequency Rate (LTAFR), which measures the accidents causing the loss of at least one working day per 200 000 hours worked. The new focus on safety together with management training has already shown substantial progress: Oerlikon reduced the LTAFR from 3.22 in 2011 to 1.76 in 2012. Main contributors were Balzers and Graziano Italy. Both organizations achieved a 50 % reduction in the number of LTAs. Safety goals were also introduced as part of the short-term incentive (STI) system.

In the coming two years, the same systematic approach will be extended to the issues of occupational health and of environment. Currently both issues are managed at the Segment level, with the Segments having the obligation to ensure that all Oerlikon sites are always compliant with the relevant legal obligations. All sites are currently very active in the recycling of production waste, which is turned into secondary raw material for other industries, some having even achieved a rate of 100 % for recycling. It is also noteworthy that energy-saving measures have become standard procedure at all sites.

Product innovations contribute to environmental protection

Oerlikon generates added value for customers by offering innovative, energy-efficient products across all markets. Many Oerlikon products are designed to directly or indirectly improve the customers' environmental friendliness by reducing consumption of energy, raw materials and waste or by increasing the efficiency of customer operations in terms of space requirements and application of alternative energies. Oerlikon's products provide value not only for customers, but also to society. This is illustrated by selected examples from the segments:

For several years the Textile Segment has been setting industry benchmarks with compact, economical and energy-efficient "e-save" products. For example, the spinning line "Winding INtegrated Godet Solution (WINGS)" for partially oriented yarn delivers energy savings of up to 30 % compared to conventional spinning machines. The sophisticated threading guidance system and simplified threading procedures deliver space savings of up to 30 % per square meter, and a single operator can now thread yarn in just a quarter of the time needed previously. Oerlikon sold the 10 000th WINGS technology-equipped machine at the end of 2012.

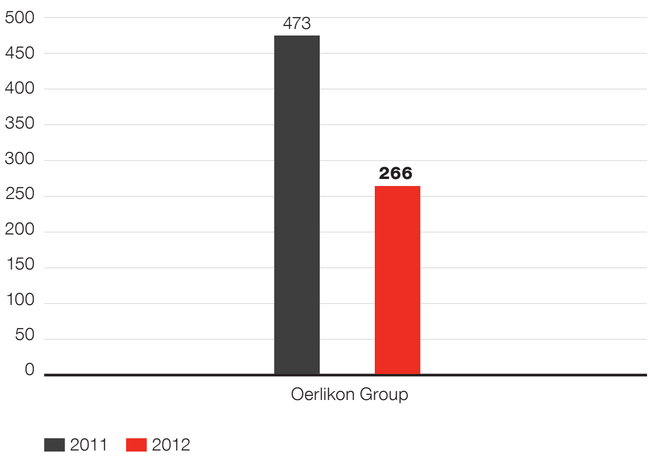
In the Drive Systems Segment, Oerlikon develops synchronizers for agricultural and other off-road vehicles that deliver 20 to 30 % fuel savings. This innovative drive technology not only makes shifting gear faster and simpler, contributing to lower fuel consumption, but also lowers CO_2 emissions.

In 2012 the Vacuum Segment launched innovative solutions for steel degassing, a step in the refining process that removes gases released from the molten metal. Oerlikon Leybold Vacuum developed a flexible vacuum solution using standard pumps to replace the methods generally used. The new solution features intelligent control to produce an efficient and highly flexible system that delivers energy savings of up to 90 % compared with conventional degassing methods. The new vacuum solution is already in use in steelworks in Germany, Italy, India and China.

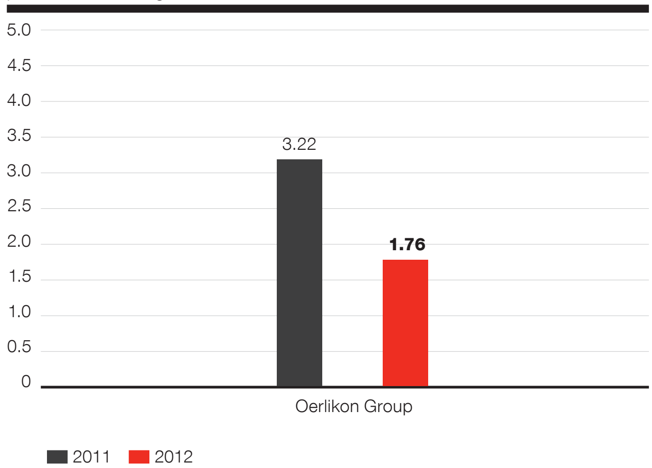
In 2012 the Coating Segment launched an environmentally friendly technology for the surface treatment of large forming tools used primarily in the automobile industry. Unlike existing technologies, it does not use environmentally unfriendly heavy metals. This next generation of PPD™ (pulsed-plasma diffusion) coating technology can be used on forming tools to protect against abrasion and increase efficiency in industrial production. Chrome plating, which PPD™ technology can replace, is still the most widely used coating technology today, despite using toxic and environmentally unfriendly substances. Oerlikon Balzers' environmentally friendly alternative to chrome plating uses no hazardous chemicals.

Thermogenerators produced by the Advanced Technologies Segment enable energy savings of up to a substantial 10 %. The innovative application makes use of thermovoltaics to directly generate electrical energy from temperature fluctuations. As a result, waste heat – the heat energy that is not used by a machine – is converted back into electricity, which in turn can be used to partially drive the machine. Nanotechnology supplied by the Advanced Technologies Segment is required to manufacture these thermogenerators.

Lost time accidents (absolute number)



Lost time accidents (rate)
per 200 000 working hours



5.0 Compliance

1. Some 300 managers were trained in the principles of antitrust law in 2012.

2. The Integrity Due Diligence process for business partners presented in 2011 was rolled out in 2012. Oerlikon was obliged to end its relationship with one business partner as a result of the assessment.

3. Twelve potential cases were received through the compliance issue reporting process in 2012 – five fewer than in the previous year.

Compliance at Oerlikon goes well beyond legal and internal company directives; Integrity is one of the four core values on which the company's corporate culture is founded, and Oerlikon places great importance on adhering to the highest ethical standards.

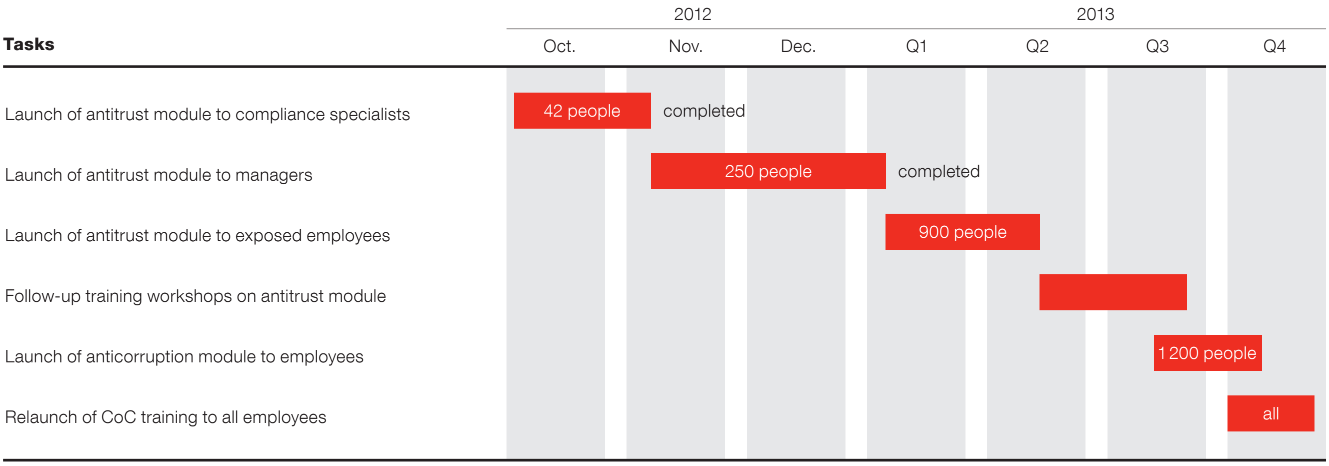
In 2011 Oerlikon introduced its Integrity Due Diligence (IDD) process, which is designed to assess business partners, among others, in relation to their compliance with anticorruption legislation. The process was rolled out in 2012, and the responsible persons in each Business Unit were given training to broaden their understanding of the process, content and application.

Business partners were assessed using the IDD process: Oerlikon verified and researched the beneficial owner of each, the business partners reputation, how long it had been operating, its track record, etc. As of publication of this report, Oerlikon terminated a relationship with one business partner on the basis of IDD process findings. The process will continue to be applied.

The compliance issue reporting process resulted in 12 potential compliance infringements in 2012, compared with 17 in 2011. Each of these has been or is being thoroughly investigated. If infringement is confirmed, the aim is not only to punish misconduct, but also to identify possible shortcomings in processes and organizational structures and to introduce appropriate improvements.

In 2012, the company took disciplinary measures (termination for cause) against compliance infringements in one case; another is still under investigation. This represents a marked reduction in the number of serious cases compared to 2011 and demonstrates that employees are becoming increasingly aware of the issues governed by the Code of Conduct.

Compliance eLearning program



In 2012 Oerlikon launched a compliance eLearning program for managers and employees. Some 300 staff at management level received training in the rollout module, addressing issues relating to antitrust law. In addition to learning about cartels and market mechanisms, the program includes rules of behavior with competitors.

In order to raise employee awareness of compliance as early as possible, new employees receive training on the Code of Conduct. The comprehensive guidelines stipulate how employees should behave in day-to-day business. In this way, the company integrates sustainability and social responsibility into its overall business operations.

Trade Control

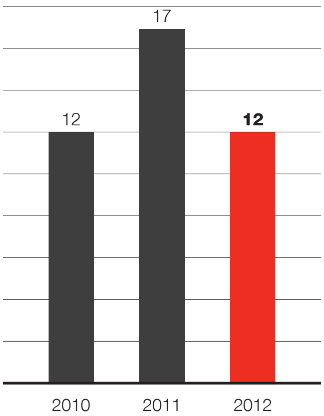
In 2012, roughly 100 Trade Control Officers in Europe, China, India and the United States completed a new round of expert training sessions on all applicable regulations, taking and passing a demanding written test at the conclusion. These employees in turn conduct training sessions within their respective units. An additional eLearning module was certified as a way to reach all affected employees. The module will be launched in summer of 2013 and then systematically rolled out. An internationally unique coding system was implemented to measure the organization's performance. All Segments adhere to strict best-practice guidelines; the largely standardized internal control programs have been hailed as exemplary by authorities.

At Oerlikon, implementation of export control regulations goes beyond legal requirements. In summer 2012, an updated policy statement was published in which management declared its commitment to a strict adherence to all laws and regulations as well as to our "zero tolerance" policy concerning violations of any kind.

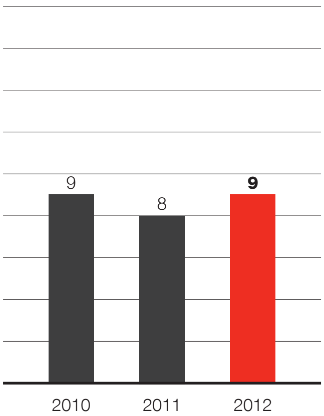
In addition, Oerlikon is aware of the responsibility it shoulders as an international company active in the high-tech industry; although few of our products exhibit dual-use capabilities that would subject them to export restrictions, we nevertheless, after suitable internal consensus is reached, refrain from engaging in business if we have reason to believe that our provision of a product or service could lead to an unacceptable end use.

In order to maintain this high standard and to continue expanding it, we will carry on with applying the elements determined in the internal control program: training, clearly defined roles and responsibilities, and execution of internal audits and assessments.

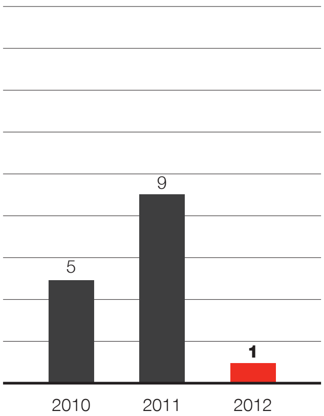
Compliance cases[1]



Formal compliance investigations



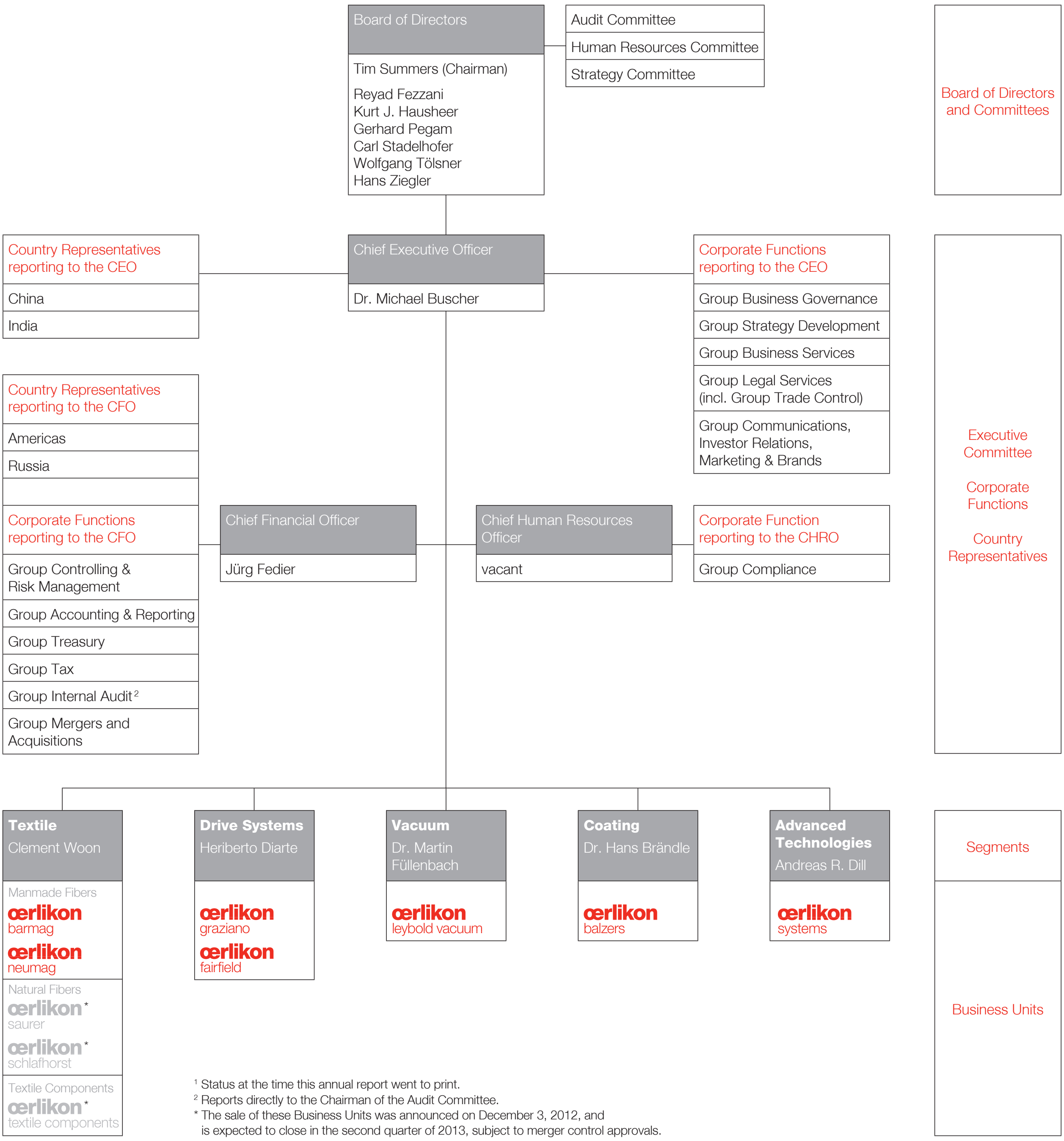
Compliance cases with dismissals



[1] All cases are closed; judicial proceedings may still go on.

6.0 Corporate Governance

Group structure[1]



[1] Status at the time this annual report went to print.
[2] Reports directly to the Chairman of the Audit Committee.
* The sale of these Business Units was announced on December 3, 2012, and is expected to close in the second quarter of 2013, subject to merger control approvals.

Committed to international standards

Oerlikon is committed to the principles of good corporate governance as defined by Economiesuisse in the Swiss Code of Best Practice for Corporate Governance of March 25, 2002 (as amended on September 6, 2007). Through this commitment Oerlikon aims to 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, the Directive on Information relating to Corporate Governance (DCG), enacted by the SIX Swiss Exchange on July 1, 2002, and revised on March 29, 2006, and on October 29, 2008, requires issuers of securities to make available to investors certain key information pertaining to corporate governance.

In this annual report the corporate governance information is once again presented in a separate section, as prescribed by DCG. The framework of the directive has been adopted, however the section "Compensations, shareholdings and loans" has been phased out in a separate chapter (7.0 Remuneration report). References to other portions of this annual report are included in certain instances in an effort to avoid redundancies and enhance readability. All statements in this section 6.0 Corporate Governance are as of the balance sheet date, except where – in case of material change 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 www.oerlikon.com/en/investor-relations/investor-relations-new-governance/.

Group structure and shareholders

Operational Group structure

The Board of Directors is responsible for the strategic management of the Group. Pursuant to Art. 22 Para. 3 of the Articles of Association, the Board of Directors has delegated corporate management to the CEO. Operational responsibility lies with the individual Segments, each of which is overseen by its own Segment CEO. The Board of Directors, the CEO, the Executive Committee and the Business Units are supported by centralized Corporate Functions. A graphical presentation of the operational Group structure can be found on page 60.

Listed Group companies

OC Oerlikon Corporation AG, Pfäffikon is listed on the SIX Swiss Exchange (symbol: OERL; securities number: 81682; ISIN: CH0000816824). On December 31, 2012, the company's market capitalization totaled CHF 3374 million. For further information on OC Oerlikon Corporation AG, Pfäffikon see page 155 et seq.

OC Oerlikon Corporation AG, Pfäffikon holds indirectly 83.9% of Fairfield Atlas Limited, Kolhapur/IN. Fairfield Atlas Limited is listed on the Bombay Stock Exchange (symbol: FAIRFIEL; ISIN: INE922C01013). On December 31, 2012, the market capitalization of Fairfield Atlas Limited totaled INR 3 800 million.

Non-listed Group companies

OC Oerlikon Corporation AG, Pfäffikon, as parent company of the Group, 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 pages 163 et seq. in their legal ownership structure, and on page 150 et seq. they are listed by country together with each company's share capital, percentage of shares owned and number of employees.

Significant shareholders

	Shareholdings[1]	
	No. of shares	in percent[2]
Renova Group[3] (composed of Liwet Holding AG, Zurich, Switzerland, Renova Industries Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama[4])	156 210 954[4]	47.92
Chase Nominees Ltd., London	18 170 486[5]	5.57
BlackRock Group, New York[7]	9 720 390[6]	2.98

[1] Source: disclosure notifications pursuant to Art. 20 of the Swiss Stock Exchange Law and share register.
[2] Basis: shares issued (325 964 498).
[3] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow.
[4] Source: disclosure notification pursuant to Art. 20 of the Swiss Stock Exchange Law by Renova Group (published by SIX Exchange Regulation on September 6, 2012).
[5] Source: share register as at December 31, 2012.
[6] Source: disclosure notification pursuant to Art. 20 of the Swiss Stock Exchange Law by BlackRock Group (published by SIX Exchange Regulation on February 8, 2013).
[7] The respective shares are indirectly held by various companies belonging to the BlackRock Group, as set out in the disclosure notification pursuant to Art. 20 of the Swiss Stock Exchange Law published on February 8, 2013.

The disclosure notifications pursuant to Art. 20 of the Swiss Stock Exchange Law, which 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/obligations/disclosure/major_shareholders_en.html).

Cross-shareholdings

There are no cross-shareholdings.

Capital structure

Capital

The share capital of OC Oerlikon Corporation AG, Pfäffikon amounts to CHF 325 964 498, composed of 325 964 498 registered shares, each with a par value of CHF 1. The company also has conditional capital in the amount of CHF 40 million for convertible and warrant bonds, etc., CHF 7.2 million for employee stock option plans, and CHF 14 134 431 for option rights granted to the financial creditors (as defined below).

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 shall be increased by a maximum aggregate amount of CHF 40 million through the issuance of a maximum of 40 million registered shares with a par value of CHF 1 per share, 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, units thereof or equity interests, or 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 terms 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, 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 each, through 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 the market price will be permissible; futher details shall be determined by the Board of Directors.

Conditional capital for warrants: Pursuant to Art. 11c of the Articles of Association, the company's share capital may be increased by the issue of a maximum of 14 134 431 to be fully paid-in registered shares of a par value of CHF 1 each, i.e., in the par value of a total of a maximum amount of CHF 14 134 431, by the exercise of option rights that are granted to the financial creditors of the company under the Facility Agreement of June 7, 2007, with the amendments of June 26, 2007, of August 17, 2007, of March 5, 2008, and of June 8, 2009, ("Financial Creditors") for loans granted to the company or one of its Group companies. The allocation of these options was a conditio sine qua non of the urgently needed restructuring measures of the company. The preemptive right of the shareholders is therefore completely excluded with regard to the entire conditional capital. The option rights granted to the Financial Creditors have a maximum term until June 30, 2014, from the issue date and may be exercised at the earliest 90 days after the issue date.

In connection with a dividend of CHF 0.20 resolved on April 12, 2012, the terms of the warrants not yet exercised have been adjusted in a dilution adjustment notice as follows:
– exercise price (to be fully paid in cash): CHF 5.86 (pre-dividend: CHF 6.00), and
– exercise ratio: 1.02451 (pre-dividend: 1) per warrant.
This adjustment came into effect on April 16, 2012, the ex-dividend date. The respective owners of option rights may subscribe for new shares. The preemptive rights of the shareholders with regard to the entire conditional capital are entirely excluded.

Changes in capital

During 2012, as a result of the exercise of 2 840 488 option rights, which were granted to the financial creditors of the company under the Facility Agreement of June 7, 2007, with the amendments of June 26, 2007, of August 17, 2007, of March 5, 2008, and of June 8, 2009, for loans granted to the company or one of its Group companies, the share capital of OC Oerlikon Corporation AG, Pfäffikon has been increased from CHF 323 124 010 to CHF 325 964 498 by the issuance of 2 840 488 fully paid-in registered shares of a par value of CHF 1. On May 11, 2011, as a result of the exercise of 38 539 option rights, which were granted to the financial creditors of the company under the same Facility Agreement (with the respective amendments), the share capital of OC Oerlikon Corporation AG, Pfäffikon has been increased from CHF 323 085 471 to CHF 323 124 010 by the issuance of 38 539 fully paid-in registered shares of a par value of CHF 1.

For the capital changes in 2010 and before, see the chapter “Changes in capital” on page 56 (section 6.0 Corporate Governance) of the Annual Report 2011.

Detailed information on changes in the equity capital of OC Oerlikon Corporation AG, Pfäffikon over the last three years can be found in the holding company’s equity capital statement on page 161 of the Annual Report.

Shares and participation certificates

The equity securities of OC Oerlikon Corporation AG, Pfäffikon consist exclusively of 325 964 498 fully paid-in registered shares with a par value of CHF 1, 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 dematerialized securities within the meaning of the Swiss Code of Obligations and as book-entry securities in terms of the Book-Entry 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 shareholders’ approval, convert the dematerialized 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 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, 2012, there were no convertible bonds or warrant bonds outstanding.

In conjunction with stock option plans, employees held a total of 37 128 options (see page 141, Note 23) on December 31, 2012, each of which entitles the holder to subscribe for one registered share in OC Oerlikon Corporation AG, Pfäffikon. These options will be covered by shares acquired in the open market, such that their exercise will not result in any change in share capital. The aggregate par value of the shares purchasable via option rights granted to employees is CHF 37 128.

In conjunction with the option rights granted to the Financial Creditors, Financial Creditors held a total of 14 065 155 options on December 31, 2012, each of which entitles the holder to subscribe for 1.02451 registered shares in OC Oerlikon Corporation AG, Pfäffikon. The option rights granted to the Financial Creditors have a maximum term until June 30, 2014. The exercise price is CHF 5.86 and must be fully paid in cash. The options are covered by shares pursuant to Art. 11c of the Articles of Association, or by shares purchased on the open market. The aggregate par value of the shares purchasable via option rights granted to the Financial Creditors is CHF 14 409 892.

Stability and competence
The Oerlikon Board of Directors


1 2 3

1 **Gerhard Pegam**
1962, Austrian citizen
Member of the Board of Directors,
Member of the Strategy Committee

Professional background and education

Gerhard Pegam was elected to the Board of Directors at the 2010 Annual General Meeting. 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 the 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 Micro Tech AG and Schaffner Holding AG.

2 **Carl Stadelhofer**
1953, Swiss citizen
Member of the Board of Directors,
Member of the Human Resources Committee

Professional background and education

Carl Stadelhofer was elected to the Board of Directors at the 2008 Annual General Meeting. Since 2004, he has been Chief Legal Counsel of the Renova Group, based in Switzerland. Since 1990, he has been a Senior Partner and since 2011 a Senior Counsel of Klein Attorneys (formerly RKS Rinderknecht Klein & Stadelhofer) in Zurich, Switzerland, specialized in banking and finance law, as well as the resource and commodity business, including M&A. Carl Stadelhofer is admitted to the Bar of the Canton of Zurich, Switzerland. He graduated from the University of Berne, Switzerland, with a degree in Law.

Other activities and vested interests

Carl Stadelhofer is Chairman of Renova Industries Ltd., Renova Holding Ltd., LogObject AG and Calle Services Management Ltd., as well as President of Fondation Merac, Fondation Acteria and Fondation Smartpeace. He is Vice Chairman of Renova Management AG, as well as Vice President of the Fondation Jean-Pascal Imsand. Furthermore, he is a Board Member of Conrad Electronic, Stadelhofer Enterprises, Terraco Holding, Valamur Enterprise Ltd., Widex Hörgeräte and Wincap, and Actuary of the International Brachet Foundation.

3 **Reyad Fezzani**
1966, British citizen
Member of the Board of Directors,
Member of the Audit Committee

Professional background and education

Reyad Fezzani was elected to the Board of Directors at the 2012 Annual General Meeting. Since 2011, he has been Chairman and Chief Executive of Regenerate Power LLC, a California-based Energy Company, and since mid 2011, he has been Chairman and Managing Partner of Energy Finance Company, a distributed generation financier and asset manager. Prior to this, from 2008 to 2010, he was Chairman of Tata-BP India and President of BP's renewable energy business based in California, USA. From 2006 to 2008, he was Chief Executive of BP's Global Chemicals business based in China, with operations across Asia and manufacturing sites in China, Taiwan, Korea, Indonesia, Malaysia, the Americas and Europe. Between 1989 and 2005, he held various commercial and operational posts with BP in the USA and Europe, including Executive Assistant to the Group Chief Executive of BP, UK, Vice President Strategic Planning, President BP US Fuels in the USA, and Head of European Oil Supply & Trading. Reyad Fezzani holds a Master's Degree in Chemical Engineering and Chemical Technology from Imperial College, London. He is a Chartered Engineer, and a Fellow of the Institute of Chemical Engineers, and of the Institute of Materials, Minerals and Mining.

Other activities and vested interests

Reyad Fezzani is a Board Member of the technology companies Enkitech Inc. and QBotix Inc, an Advisory Board Member of Paradigm Change Capital Partners LLP, an Operating Partner of Potomac Asset Management Company Inc., and a Supervisory Board Member of Renova US Holdings Ltd.

4 **Kurt J. Hausheer**
1947, Swiss citizen
Member of the Board of Directors,
Chairman of the Audit Committee

Professional background and education

Kurt J. Hausheer was elected to the Board of Directors at the 2008 Annual General Meeting. Since 2008, he has been the owner of Hausheer Consulting, Switzerland. From 1998 until his retirement in 2008, he served as Managing Partner of the Advisory Practice (M&A and Business Consulting) at PricewaterhouseCoopers (PwC), Switzerland, between 1996 and 2008 additionally as a Member of the Management Board and the Board of Directors of PwC/STG-Coopers & Lybrand AG, Switzerland. Between 1969 and 1998, he held several positions in the Audit and Consulting practices of PwC and the predecessor companies in Switzerland and the USA. Kurt J. Hausheer is a Certified Public Accountant (CPA), and completed management programs at IMD, Switzerland, INSEAD, France, and Harvard University, USA.

Other activities and vested interests

None

5 **Tim Summers**
1967, British citizen
Chairman of the Board of Directors,
Chairman of the Human Resources Committee,
Chairman of the Strategy Committee

Professional background and education
Tim Summers was elected to the Board of Directors at the 2011 Annual General Meeting and was thereafter appointed Chairman. From 2010 to 2011, he acted as non-executive Chairman of KCA Deutag, Switzerland. Between 2006 and 2009, he served as Chief Operating Officer and from 2008 until 2009 additionally as interim CEO of TNK BP, Russia. Between 2007 and 2009, he was Director of Slavneft in Russia. Between 1989 and 2006, he filled several positions with BP. Tim Summers holds a Bachelor's Degree in Chemical Engineering from the University of Manchester, UK.

Other activities and vested interests
Tim Summers is Chairman of Venetos Management AG (a company of the Renova Group) and Managing Director of Renova Management AG.

6 **Wolfgang Tölsner**
1948, German citizen
Member of the Board of Directors,
Member of the Audit Committee

Professional background and education
Wolfgang Tölsner was elected to the Board of Directors at the 2010 Annual General Meeting. Since 2009, he has been an independent management consultant. Between 2004 and 2009, he served as Global COO of Bombardier Transportation, as a Member of the Board of Bombardier Germany, as Deputy Chairman of the Board of Bombardier Austria and as Chairman of the Board of Bombardier Poland. From 2001 to 2004, he acted as President of the Global Division Locomotives & Freight, Switzerland, and as a Member of the Board of Directors of Bombardier Switzerland and Italy. Between 1986 and 2001, he filled several leading management positions with predecessor companies of Bombardier Transportation and ABB. Wolfgang Tölsner holds a diploma in Electrical Engineering (Dipl.-Ing.) from the TU Hannover, Germany.

Other activities and vested interests
Wolfgang Tölsner is a Board Member of Bochumer Verein Verkehrstechnik GmbH.

7 **Hans Ziegler**
1952, Swiss citizen
Member of the Board of Directors,
Member of the Human Resources Committee,
Member of the Strategy Committee

Professional background and education
Hans Ziegler was elected to the Board of Directors at the 2008 Annual General Meeting. Between 2009 and 2010, he additionally acted as Delegate and CEO ad interim. Since 1996, he has been owner of a consultancy operating in Switzerland and abroad, specializing in corporate restructuring, turnaround management and repositioning. Between 1974 and 1995, he held management positions with the Globus Group, the Usego Trimerco Group, Alcon Pharmaceuticals, Ericsson and SBG. Hans Ziegler earned a degree as Business Economist (KSZ) from Kaderschule Zürich, Switzerland, and completed postgraduate courses in Business Administration and Information Technology at TCU in Dallas-Fort Worth, USA.

Other activities and vested interests
Hans Ziegler is Chairman of Swisslog Holding AG and of Charles Vögele Holding AG.

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 Tim Summers (Chairman), Reyad Fezzani (Board Member since April 12, 2012), Kurt J. Hausheer, Gerhard Pegam, Carl Stadelhofer, Wolfgang Tölsner, Hans Ziegler and Dr. Urs A. Meyer (Board Member until April 12, 2012), whose statutory term of office expired on April 12, 2012. With the exception of Dr. Urs A. Meyer, who did not run for reelection, they were all elected or reelected, respectively, by the Annual General Meeting of Shareholders on April 12, 2012 for a term of office of one year.

In the three financial years preceding the reporting period, the non-executive members of the Board of Directors were not involved in the executive management of OC Oerlikon Corporation AG, Pfäffikon or any other Group company, with the exception of Hans Ziegler, who acted as CEO ad interim from August 25, 2009, until May 18, 2010. They also do not have any significant business connections with companies of the Oerlikon Group.

Composition of the Board of Directors

Name (nationality)	Domicile	Position	Age	Joined	Term expires	Executive/ non-executive
Tim Summers (GB)	CH	Chairman	45	2011	2013	Non-executive
Reyad Fezzani (GB)	USA	Member since April 12, 2012	47	2012	2013	Non-executive
Kurt J. Hausheer (CH)	CH	Member	65	2008	2013	Non-executive
Gerhard Pegam (AT)	DE	Member	51	2010	2013	Non-executive
Carl Stadelhofer (CH)	CH	Member	59	2008	2013	Non-executive
Wolfgang Tölsner (DE)	DE	Member	64	2010	2013	Non-executive
Hans Ziegler (CH)	CH	Member	60	2008	2013	Non-executive
Dr. Urs A. Meyer (CH)	CH	Member until April 12, 2012	48	2008	–	Non-executive

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 66 et seq.

Elections and terms of office

Board members are elected annually by the General Meeting of Shareholders for a term of one year. They are eligible for reelection; a “year” means the period from one ordinary General Meeting of Shareholders to the next. In the event of elections for replacement or elections of additional members during the year, the period until the next ordinary General Meeting of Shareholders shall be deemed to constitute a year. Each member of the Board of Directors shall be elected individually. Eligible are only persons who have not completed their 70th year of age on the election date. The General Meeting 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.

Internal organizational structure

The Board of Directors is the ultimate supervisory body of the Oerlikon Group. It is responsible for the overall management, oversight and control of 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 consists of at least three but not more than seven members, the majority of whom are independent from and not performing any executive management duties within the Oerlikon Group whilst in office, not having significant business relations with the Oerlikon Group, and have not been a member of the Executive Committee or a member of the executive management of an Oerlikon Group company in the preceding three years.

The Board of Directors is self-constituting. It shall appoint from amongst its members the Chairman and may appoint a member to act as the Chairman in the event of incapacity or absence of the Chairman, and the members of the Board Committees.

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 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 with the general public.

The Chairman shall convene, prepare and chair Board meetings, may convene meetings of the Board Committees and shall coordinate the work of the Board of Directors and the Board Committees. 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 amongst 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 Competences or the relevant committee's rules and regulations, they shall 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.

Currently there are three permanent Committees of the Board of Directors, namely the Audit Committee (AC), 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 Committee (AC)	Human Resources Committee (HRC)	Strategy Committee (SC)
Tim Summers (GB)		Chairman	Chairman
Reyad Fezzani (GB)	Member since April 12, 2012		
Kurt J. Hausheer (CH)	Chairman		
Gerhard Pegam (AT)			Member
Carl Stadelhofer (CH)		Member	
Wolfgang Tölsner (DE)	Member		
Hans Ziegler (CH)		Member	Member
Dr. Urs A. Meyer (CH)	Member until April 12, 2012		

Audit Committee (AC)

As a rule, the AC shall be composed of at least three members of the Board of Directors. Members of the AC are not eligible if they perform any executive management duties within the Oerlikon Group whilst in office, or have significant business relations with OC Oerlikon Corporation AG, Pfäffikon 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 AC members, including its Chairman, must be experienced in the fields of finance and accounting and be familiar with internal and external auditing. As a separate advisory group, independent from the CEO, the AC shall advise the Board of Directors and exclusively follow the Board of Directors' instructions.

The AC monitors Group-wide with a view to providing a basis for assessment to the Board of Directors

- in relation to external audits: the relevance of the audit work plan and the price/performance ratio;
- in relation to internal audits: the relevance of the engagement of internal auditors and the professional performance of the auditors;
- in relation to the accounting and internal control systems: the relevance of the accounting system, financial strategy and planning, as well as financial risk control;
- in relation to annual and interim reports: the preparation of Oerlikon's financial statements and consolidated financial statements, annual business report, specific interim financial statements for publication, and the financial reports on operating results and cash flows of the Oerlikon Group; and
- in relation to corporate governance and compliance: the reasonableness of Oerlikon's corporate governance and compliance, the relevant guidelines and organization, particularly as instruments to ensure Group-wide compliance with relevant applicable laws and regulations.

The AC decides about the appointment and dismissal of the Head of Group Internal Audit. Furthermore, the AC approves the issuance of material comfort letters and material sureties securing Group companies by the CEO.

Human Resources Committee (HRC)

As a rule, the HRC shall be 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 whilst in office, or have significant business relations with OC Oerlikon Corporation AG, Pfäffikon 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 HRC supports the Board of Directors with regard to human resources related matters, in particular

- the compensation policies for the members of the Board of Directors, the Executive Committee, the Executive Leadership Team and the Group-wide managerial and non-managerial staff;
- the succession planning related to members of the Board of Directors and the Executive Committee;
- the performance management of the members of the Board of Directors and the Executive Committee;
- the appointment of the Chairman of the Board of Directors;
- the appointment of Board members to the Committees; and
- the appointment and dismissal of the Executive Committee members.

The HRC approves the appointment and dismissal of Segment CEOs by the CEO as well as the Executive Committee's group-wide compensation policies for non-managerial staff and the Annual Pay Plan for the Group (including general salary increases). Furthermore, the individual compensation packages of the Board of Directors and the members of the Executive Committee are set by the HRC, subject to approval of the Board of Directors.

Strategy Committee (SC)

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

The SC monitors that Oerlikon's strategy is properly established, implemented and complied with by the CEO 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 has currently no authority to decide matters in lieu of the Board of Directors.

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, or more often if necessary. As a rule, the members of the Executive Committee are also invited to attend the Board meetings. Each Board member and the CEO may request the Chairman to convene a Board meeting by stating the reasons for such a request.

In 2012, six physical Board meetings and six telephone conferences were held, lasting on average around three hours and 15 minutes. All meetings were attended by all Board members.

The members of the Committees, 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 term of office as a Director. Those Board members who are not a member of a committee have the right to attend committee meetings with consultative vote. As a rule, the CFO and the Head of Group Internal Audit should attend the meetings of the AC, 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, representatives of the external auditors or Heads of Corporate Functions) may be invited, if required.

The AC and the SC meet at the invitation of their Chairmen at least four times a year, or more often if necessary. The HRC meets at the invitation of its Chairman at least three times a year, or more often if necessary.

In 2012, there were seven meetings of the AC, lasting on average around four hours. The members of the AC participated in these meetings along with members of the Executive Committee and representatives of the Corporate Functions concerned (in particular Group Accounting & Reporting and Group Internal Audit). The external auditors (KPMG AG) took part in four AC meetings. The HRC held six meetings in 2012 lasting on average two hours and 45 minutes, the SC held seven meetings lasting on average around four hours. In addition to the official meetings of the Board Committees, numerous workgroup meetings comprised of different participants were held.

Definition of areas of responsibility

Pursuant to Art. 716b CO 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 management of the corporation, the determination of the strategic direction and of the organization of the Group, the structuring of the accounting system, the financial controls and the financial planning, the appointment and removal of the persons entrusted with the management and representation of the corporation as well as the ultimate supervision of those individuals entrusted with the management of the corporation. According to the company's Organizational and Governance Rules it is also incumbent upon the Board of Directors to decide on the acquisition, divestiture, establishment, restructuring or liquidation of strategy-relevant companies or businesses, and on business transactions whose financial value exceeds certain amounts.

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 such decisions are not expressly reserved to 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 case of an Executive Committee member dissenting with a decision of the CEO, such member may immediately request the CEO to submit such 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 the Oerlikon website: www.oerlikon.com/en/investor-relations/corporate-governance/investor-relations-new-statutes/.

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: The CEO reports at Board of Directors' meetings on its day-to-day operations, operating results and important business matters. Extraordinary occurrences (if any) must be immediately notified 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 employees 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, Segment CEOs, 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 of the key performance indicators. The Board of Directors may demand access to the relevant details at any time. Furthermore, Group Accounting and Reporting ensures compliance with International Financial Reporting Standards (IFRS).

Controlling: With regard to strategic controlling, the key instruments are strategic analyses prepared by the Business Units, as well as an annually revised 3-Year Business Plan. In terms of operational controlling, the Board of Directors receives the annual financial plan (budget) as well as periodic financial forecasts. Additionally, the Board of Directors and the Executive Committee receive a monthly actual/target analysis of the key performance indicators to assist in the assessment of the Business Units' performance. Furthermore, the Executive Committee holds quarterly strategic business outlook and financial review meetings.

Risk management: A key component of the risk management system is the half-yearly generation of risk maps 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 is performed via the Group Risk Report, displaying the relevant risks and defined risk mitigation actions from a Group-wide perspective. The Group Risk Report is prepared half-yearly and is discussed in the Executive Committee and finally in the Board of Directors (Audit Committee, entire Board). On this basis, the Board of Directors is monitoring the risk profile of the Group and the risk mitigation actions. For further information regarding risk management, see page 96 et seq. (section 8.0 Risk management), page 134 et seq. (Notes 19–21 to the consolidated financial statements) and page 159 (Note 21, to the financial statements of OC Oerlikon Corporation AG, Pfäffikon).

Compliance: There is a Group-wide compliance function in order to ensure the compliance with legal, regulatory and internal regulations as well as the Group's ethical standards, in particular by preventive measures, training, information and consulting. In this context, in 2009, a new Code of Conduct (including a whistle-blowing policy) was introduced. To further strengthen the compliance within Oerlikon, an external web- and telephone-based whistle-blowing hotline was set up in 2011. Furthermore, in 2011, emphasis was put on preventing corruption and on the introduction of a process for business partner due diligence, which was rolled out in 2012. Additionally, in order to increase awareness in the fields of antitrust law and correct interaction with competitors, a compliance eLearning program in this respect was introduced in 2012. For further information regarding Compliance, see page 58 et seq. (section 5.0 Compliance).

Internal audit: Group 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, control and governance processes. The Head of Group Internal Audit reports functionally to the Chairman of the Audit Committee of the Board of Directors and administratively to the CFO. The Audit Committee approves the budget, the resources and the internal audit plan for the following year every fall. Group Internal Audit closely coordinates their plans and activities with the external auditor. Group Internal Audit projects are selected on the basis of a Group-wide risk assessment in coordination with Group Risk Management and a selection of the strategic initiatives from the 3YBPs. The annual audit plan has the appropriate balance between strategy, operational, financial, compliance, information technology and follow-up reviews. The results of internal audits are communicated to the management team responsible, the Executive Committee, the Audit Committee, the Chairman of the Board and the external auditors through formal audit reports. During 2012 more than 45 internal audits were conducted.

External audit: The external auditor examines the books and accounts of OC Oerlikon Corporation AG, Pfäffikon and those of the Oerlikon Group, coordinating his 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 Audit Committee and the Board of Directors about the detailed findings of the audit, and prepares a summary thereof for the Annual General Meeting of Shareholders. Since 2003, the external audit has been carried out by KPMG AG. For further information regarding auditors, see page 80 et seq.

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

Leadership and accountability
The Oerlikon Executive Committee

1 Dr. Michael Buscher
1965, German citizen
Chief Executive Officer (CEO)[1]

Professional background and education
Dr. Michael Buscher was appointed Chief Executive Officer effective May 19, 2010. From 2007 to 2010, Dr. Michael Buscher acted as President of Bombardier's Business Unit Propulsion & Controls, Switzerland. From 2003 to 2007, Dr. Michael Buscher served as Vice President of the Business Unit Locomotives, responsible for global engineering, and from 2004 until 2007, he additionally served as Site Coordinator Zurich and Member of the Management Team of Bombardier Switzerland. Between 2000 and 2003, he acted as Engineering Head of Mannheim and Hennigsdorf (Director) at DaimlerChrysler Rail System GmbH (now Bombardier Transportation), Germany. Between 1990 and 2000, he held several positions with predecessor companies of Bombardier Transportation. Dr. Michael Buscher graduated from the Technical University Darmstadt, Germany, with a PhD and a master's degree in electrical engineering.

Other activities and vested interests
Dr. Michael Buscher is Deputy Chairman of the Advisory Board of PCS Power Converter Solutions GmbH and a Board Member of Knorr-Bremse AG.

2 Jürg Fedier
1955, Swiss citizen
Chief Financial Officer (CFO)[1]

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, 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 the IMD, Switzerland, and the University of Michigan, USA.

Other activities and vested interests
None

Adrian Cojocaru [2]
1964, Romanian citizen
Chief Human Resources Officer (CHRO)[1]

Professional background and education
Adrian Cojocaru was appointed Chief Human Resources Officer effective November 10, 2010, and held this position until his resignation on December 31, 2012. From 2009 to 2010, he served as Regional Chief Human Resources Officer Middle East & Africa of LG Electronics in Dubai, United Arab Emirates. From 2008 to 2009, he worked as Human Resources Vice President Europe at Reader's Digest in the UK. Between 2001 and 2008, Adrian Cojocaru filled various HR management positions at Mars Inc., based in Central Europe and the UK and, from 1992 to 2001, several management positions with Unilever and Coca-Cola in Central and Eastern Europe, the Netherlands and in the USA. Adrian Cojocaru holds a Mechanical Engineer Diploma from the Polytechnic University in Bucharest, Romania, and completed postgraduate studies in organizational change at Ashridge Business School, UK.

Other activities and vested interests
None

[1] A description of the role and authority of each member of the Executive Committee can be found in the company's Organizational and Governance Rules, published on the Oerlikon website: www.oerlikon.com/en/investor-relations/corporate-governance/investor-relations-new-statutes/.
[2] Adrian Cojocaru left the Group on December 31, 2012.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Executive Committee

Management philosophy

Oerlikon Group works with a decentralized management structure. This means that Group headquarters determines strategic guidelines and sets targets, monitoring these with effective controlling; Segments and Business Units are then responsible for operations and for implementing the agreed strategy within given guidelines. In this sense, Group headquarters functions as a strategic holding.

Members of the Executive Committee

On December 31, 2012, Dr. Michael Buscher (CEO), Adrian Cojocaru (CHRO) and Jürg Fedier (CFO) were members of the Executive Committee, whereas Adrian Cojocaru, CHRO since November 10, 2010, left the Group on December 31, 2012.

No member of Oerlikon's Executive Committee previously carried out tasks for OC Oerlikon Corporation AG, Pfäffikon or any other Group company.

Composition of the Executive Committee

Name	Nationality	Age	Position	Joined	In position since	Stepped down
Dr. Michael Buscher	DE	47	CEO	2010	19.05.2010	
Jürg Fedier	CH	57	CFO	2009	01.01.2009	
Adrian Cojocaru	RO	48	CHRO	2010	10.11.2010	31.12.2012

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 interests groups and official functions and political posts, see page 76.

Management contracts

There are no management contracts with third parties.

Shareholders’ participation

Voting rights and representation restrictions

Each shareholder may be represented at the Annual General Meeting by the institutional representative (OC Oerlikon Corporation AG, Pfäffikon), by the company-appointed independent voting rights representative, or by some other registered shareholder appointed by him to act as proxy with written authorization to represent his shares. Where the power of proxy is based on facts other than a legal contract (e.g. legal representation by a guardian), the proxy need not to be a registered shareholder. On the other hand, where the power of proxy arises from a legal contract (e.g. a power of attorney), the proxy must be a registered shareholder. Otherwise, there are no restrictions on voting rights.

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 provisions of corporate law, 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 Commercial Gazette.

Inclusion of items on the agenda

The company’s 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 Annual General Meeting of Shareholders.

Inscriptions into the share register

The 40th Annual General Meeting of Shareholders will be held on April 30, 2013, in the KKL Luzern (Culture and Convention Center), Lucerne. Entitled to vote in the Annual 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.

Right to inspect the minutes of the Annual General Meeting

The minutes of the 39th Annual General Meeting of Shareholders held on April 12, 2012, can be viewed on the Internet at www.oerlikon.com and shareholders may also read the minutes at the headquarters of the corporation upon prior notice. The minutes of the 2013 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 Articles 32 and 52 of the Federal Act on Stock Exchanges and Securities Trading (opting out).

Clauses on changes of control
Please see page 95 (section 7.0 Remuneration report).

Auditors

Duration of the mandate and term of office of the lead auditor
KPMG AG has been the auditor of the company since 2003, and was elected by the Annual General Meeting of Shareholders of May 23, 2003 for the first time. The auditor is elected by the Annual General Meeting of Shareholders for a one-year term of office. At the 39th Annual General Meeting of Shareholder of April 12, 2012, KPMG was confirmed in that role for an additional year. The lead auditor responsible for the mandate, Mr. Thomas Affolter, has served in this function since the financial year ended December 31, 2012. 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 2012, KPMG invoiced the company for CHF 2 729 215 in global auditing fees.

Additional fees
In the calendar year 2012, KPMG invoiced the company for CHF 739 152 in additional services, CHF 732 807 for tax consultancy and the rest (CHF 6 345) for general consultancy work. The tax consultancy fees mainly include worldwide tax consultancy in connection with the divestment of the Natural Fibers and Textile Components Business Units.

Informational instruments pertaining to an external audit
In accordance with Art. 728b Para. 1 of the Swiss Code of Obligations, the external auditors issue to the Board of Directors, on an annual basis, a comprehensive report including statements pertinent to bookkeeping and company reporting, the internal controlling system and the performance, 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 Audit Committee. During the reporting period, several of such interim audits have been conducted between September and December 2012.

Once the auditing work has been completed, the Audit Committee 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. Further, the Audit Committee submits proposals in response to the external auditors' recommendations, objections and other discovered deficiencies, if any, to the Board of Directors for deliberation, and monitors the implementation of any relevant action decided upon by the Board of Directors.

The Chairman of the Audit Committee meets regularly with the lead auditor and other representatives of the auditing firm. The latter also participates in meetings of the Audit Committee dealing with the relevant agenda points. In the reporting year, KPMG AG participated in four meetings of the Audit Committee.

On behalf of the Board of Directors, the Audit Committee evaluates the work done by the external auditors, based on the documents, reports and presentations issued by them as well as on the materiality and objectivity of their statements. Therefore, the Audit Committee consults with the CFO and the Head of Group Internal Audit. 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 Audit Committee and subject to the approval of the Board of Directors.

The Audit Committee submits a proposal to the Board of Directors for the election of external auditors by the Annual General Meeting of Shareholders.

Information policy

General

Oerlikon provides its shareholders and the capital market with transparent, comprehensive and timely information on facts and developments of relevance to them, and in a manner that is in keeping with the principle of equal treatment of all capital market participants. Apart from its detailed annual report and half-year report, which are prepared in accordance with International Financial Reporting Standards (IFRS), Oerlikon publishes key financial figures (sales, order intake, order backlog and EBIT) and a related commentary for the first and third quarters of its financial year. Like this, Oerikon has increased its transparency. Additionally, press releases keep shareholders and the capital market informed of significant changes and developments in the company. The company's website, www.oerlikon.com, is a permanently accessible platform for information concerning the company. As already indicated at the beginning of this section 6.0 Corporate Governance, Oerlikon has phased out all information relating to the DCG's section "Compensations, shareholdings and loans" in a separate chapter (7.0 Remuneration report).

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

The publication medium for corporation notices is the Swiss Official Gazette of Commerce. The Board of Directors may select additional publishing mediums. Communications to registered shareholders shall be served in writing to their address last notified to the company.

Press releases

Press releases published in 2012, along with all others dating back to January 2007, can be accessed on our website at www.oerlikon.com/pressreleases. Those interested in receiving our press releases regularly by e-mail can register at www.oerlikon.com/en/media/pressreleases/subscribe-to-media-releases/.

Financial calendar

March 5, 2013
Annual Results 2012 and Annual Report 2012

April 30, 2013
Annual General Meeting of Shareholders, Lucerne

May 7, 2013
Q1 Results 2013

August 6, 2013
Q2/HY 2013 and
Half-Year Report 2013

October 29, 2013
Q3 Results/9M 2013

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

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7.0 Remuneration report

Attractive, motivating and fair compensation for all staff is the foundation of Oerlikon's performance-based corporate culture. 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 2012:

- General principles of the compensation policy
- Setting and approving compensation
- Compensation system and compensation paid to the Board of Directors in 2012
- Compensation systems applicable to management (incl. the Executive Committee)
- Compensation paid to the Executive Committee in 2012

With this remuneration report, Oerlikon meets the requirements of Art. 663bbis and 663c Para. 3 of the Swiss Code of Obligations (CO) and Para. 5.1 of the Annex to the Corporate Governance Directive (DCG) of the 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. Oerlikon prepares its consolidated financial statements in accordance with IFRS (International Financial Reporting Standards). These regulations require different interpretations and presentations, where appropriate (see also Notes 23 and 24).

Compensation policy

Oerlikon believes that compensation must be attractive, motivating and fair. 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 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, the Executive Leadership Team and Group-wide managerial and non-managerial staff;
- the annual pay plan for the Group (including general salary increases);
- the objectives for the CEO and assessment of performance;
- the performance assessment of Executive Committee members by the CEO.

The compensation policies for the Board of Directors, the Executive Committee and the Executive Leadership Team 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 forms the basis for the Board of Directors to approve in:

- December, the target compensation of the members of the Board of Directors, the Executive Committee and the Executive Leadership Team for the following year;
- February, the target achievement and variable compensation of members of the Board of Directors and the Executive Committee for the past year;
- March and November, Long-Term Incentive (LTI) grants, i.e. participants in equity programs and share awards allocated to them.

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	Chairman	Human Resources Committee	Board of Directors
Compensation of members of the Executive Committee	CEO	Human Resources Committee	Board of Directors
LTI grants	CEO	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 Human Resources Committee, he is also involved in the determination of Board remuneration, including his own.

The CEO, or other members of the Executive Committee, are neither involved in the determination of their remuneration nor are they present when the Board of Directors approve them.

Board of Directors

Compensation system – Board of Directors

The compensation system applicable to the members of the Board of Directors consists of a fixed cash component and a restricted stock units (RSU) component with a fixed grant value. 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 chart below. 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.

The compensation is reviewed by the Human Resources Committee (HRC) on an annual basis and, if necessary, adjusted by the entire Board of Directors based on a proposal by the HRC. In view of the increased demands on the Strategy Committee and the Human Resources Committee, the Board of Directors decided in 2012 to bring the fee for members of these committees in line with that of the Audit Committee. The fees were reviewed against the results of a study requested from PwC, comparing 18 industrial and other manufacturing companies listed in Switzerland. The fixed grant values for restricted stock units (RSU) remain unchanged.

Cash compensation

	2011/12		2012/13	
in CHF 000	Fee	Expense allowance	Fee	Expense allowance
Member of the Board of Directors	75	5	75	5
Chairman of the Board of Directors		10		10
Chairman of the Audit Committee	50		50	
Chairman of the Human Resources Committee or Strategy Committee	40		50	
Member of the Audit Committee	30		30	
Member of the Human Resources Committee or Strategy Committee	20		30	

The grant 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 dividing the fixed grant value by the volume-weighted average share price (VWAP) over ten trading days immediately following the date of the release of the previous year's annual results. Although the grant values of the RSU are fixed, they are considered a variable compensation component, since the development of their values follows the share price. RSU are blocked from the date they are granted at the Annual General Meeting of Shareholders until the following 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 Oerlikon shares is determined at the sole discretion of the Board of Directors.

Restricted Stock Units (RSU) – Board of Directors

Year of Grant	Outstanding on 1.1.	Granted in 2012	Forfeited in 2012	Exercised in 2012	Outstanding on 31.12.	Average share price in CHF	Expenses for the period in MCHF	Vesting period
2011	145684	–	–	145684	–	6.9	0.4	11.05.11–12.04.12
2012	–	130711	–	–	130711	8.1	0.7	12.04.12–30.04.13
Total	**145684**	**130711**		**145684**	**130711**		**1.1**	

Compensation 2012 – Board of Directors

No member of the Board of Directors served in an executive role in 2012. Total compensation paid to the eight non-executive members of the Board of Directors in 2012 was CHF 2.2 million. In 2011, the total compensation for the same non-executive members of the Board of Directors amounted to CHF 2.1 million, while the total compensation for all non-executive members of the Board of Directors in 2011 amounted to CHF 2.3 million. The proportion of variable compensation changed from 46 % in 2011 to 51 % in 2012.

Compensation of non-executive members of the Board of Directors

in CHF 000	Board of Directors	Strategy Committee	Audit Committee	HR Committee	Cash compensation	Restricted Stock Units (RSU) 2011/12 [1]	Restricted Stock Units (RSU) 2012/13 [1]	Other compensation [2]	Total compensation 2012	Total compensation 2011
Tim Summers	C	C		C	169	115	193	40	517	277
Kurt J. Hausheer	M		C		125	50	86	22	283	287
Dr. Urs A. Meyer [3]	M		M		30	51	–	10	91	294
Reyad Fezzani [4]	M		M		75	–	86	5	166	–
Hans Ziegler	M	M		M	129	51	86	22	288	293
Carl Stadelhofer	M			M	102	51	86	21	260	258
Gerhard Pegam	M	M			102	50	86	5	243	241
Wolfgang Tölsner [5]	M		M		232	50	86	5	373	478
Total					**964**	**418**	**709**	**130**	**2221**	**2128**

C(hairman), M(ember)

[1] Accounting value of restricted stock units (RSU) for the mandate 2011/12 is based on a share price of CHF 6.9 (grant date), and for the mandate 2012/13, it is based on a share price of CHF 8.1 (grant date).
[2] Other compensation consists of social security contributions and expense allowances, which are paid by OC Oerlikon Corporation AG, Pfäffikon.
[3] Until April 12, 2012.
[4] As of April 12, 2012.
[5] Included in the aggregate cash compensation of Mr. Tölsner is, in addition to his Board remuneration, a fee for his consultancy work during 2012 for Oerlikon Group companies in the amount of KCHF 127. Mr. Tölsner's consulting contract with Oerlikon has been terminated as of November 1, 2012.

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 2012 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 2012.

No compensation was paid to any former members of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon or a Group company in 2012.

Management

Compensation system – management

The compensation system for management staff, including the CEO, the Executive Committee, the Executive Leadership Team, as well as other management functions (Global Leaders) was revised in 2012 in order to make it more attractive for talented individuals and to promote, recognize and reward Best-in-Class performance. The compensation system consists of fixed and variable components. The fixed component entails a base salary commensurate with the role, local market level and, depending on role and local practice, includes allowances. The variable component entails an annual cash bonus (Short-Term Incentive). In addition, Global Leaders consisting of over 120 management staff participate in a three-year equity program (Long-Term Incentive). The mix between these components is defined by the profile, strategic impact and pay level of the role, as described hereinafter.

Pay mix

Long-Term Incentive program (LTI)
- Three-year equity bonus aimed at motivating **Global Leaders.**
- Variable component based on a target number of shares.
- Depending on the achievement of performance and vesting conditions, LTI bonus can amount to zero or lie above the target value.

Short-Term Incentive program (STI)
- Annual cash bonus aimed at motivating **managers and specialists** to focus their efforts on specific financial and individual objectives.
- Variable component based on a target amount depending on job level.
- Bonus can – depending on the achievement of targets – amount to zero or lie above the target value.

Base salary
- Aims to reward **employees** at **market level** for effectively using their competencies, skills and knowledge to meet the requirements of their role.
- Reviewed annually or when an employee changes roles or adopts additional responsibilities.

Pay-for-Performance

Short-Term Incentive (STI) program 2012

The Oerlikon Short-Term Incentive (STI) program is an annual cash bonus aimed at motivating eligible managers and specialists to focus their efforts on specific financial and individual objectives. It helps them to align their efforts, promotes initiative and contributes to the performance of individuals and the company.

The program determines a variable part of compensation with a target amount that is based on the role and responsibility of the participant. Oerlikon's compensation policy sets target amounts above the market standard, in order to offer attractive incentives for outperforming peer companies and achieving and defending top positions in the respective market segments.

The STI program for Global Leaders, including the CEO, the Executive Committee and the Executive Leadership Team, consists of financial and individual objectives as well as strategic milestones. Financial objectives account for 70 %, individual objectives for 15 % and strategic milestones for 15 % of the target bonus.

The STI for management staff and specialists consists of financial and individual objectives. Financial objectives make up 70 % and individual objectives 30 % of the target bonus.

Financial objectives are set for each business and aim at increasing the growth, profitability and cash efficiency of the respective business. Global Leaders, including the Executive Committee and the Executive Leadership Team, are measured in sales growth (20 %), EBIT margin (30 %) and return on net assets (RONA) (20 %). Segment CEOs have their profitability target split into the EBIT margin of their Segment (15 %) and the EBIT margin of the Oerlikon Group (15 %). Participants are to aim their actions at reaching and exceeding these objectives and thus to reaching and exceeding their bonus target.

Strategic milestones are defined for the Group, Segments and Regions and aim at focusing on the timely and incremental achievement of longer-term business objectives. For the Executive Committee, they include the development and implementation of regional strategies or procurement savings.

Individual objectives are agreed upon between each plan participant and their manager, in order to define concrete and measurable targets that the plan participant is responsible for achieving. For Global Leaders, including the Executive Committee, they include the improvement of health, safety and environment throughout the Group.

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 target bonus, at the lower threshold 50 %, and below the lower threshold, 0 %. A financial result above the target is based on a factor that represents the competitiveness of the target, with respect to the relevant peer companies. No upper threshold exists, but the Human Resources Committee will finally assess the overall bonus payout, based on factual business circumstances and reasonable business judgment in order to achieve a fair result originated from true performance, and will make a recommendation to the Board of Directors for a final discretionary decision.

Long-Term Incentive (LTI) program 2012

The Oerlikon Group aims to manage its business portfolio efficiently in order to create added value for its shareholders. To meet these ambitious goals, it is essential that the Oerlikon Group is able to attract, motivate and retain key employees. The Board of Directors therefore decided to launch a long-term Performance Share Plan for the Oerlikon Group's Global Leaders to reward the increase in total shareholder return (TSR) relative to that of peer companies.

The LTI program is based on performance conditions measured over a period of three years from January 2012. The performance conditions are based on Oerlikon's TSR within a comparator group over a three-year period. List of companies:

Group (Swiss Peers)	**Group (International Peers)**	**Textile Segment**	**Drive Systems Segment**	**Vacuum Segment**	**Coating Segment**	**Advanced Technologies Segment**
ABB	General Electric	Jingwei	American Axle	Atlas-Copco	Bodycote	Applied Materials
Sulzer	Siemens	Lakshmi	Brembo	Gardner Denver	Kennametal	Lam Research
Georg Fischer	GEA		Carraro	INFICON	Praxair	Singulus
	Sumitomo		Dana	Ingersoll-Rand	Sandvik	Ulvac
	ThyssenKrupp		Bharat Gears	Pfeiffer Vacuum		
			BorgWarner			

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 our case, the performance period is three years.

TSR is measured with a starting value of the VWAP over the first 30 trading days of the first year and an ending value of the VWAP over the last 30 trading days of the third year. The rank of Oerlikon's TSR at the end of the performance period determines the effective number of Performance Share Awards (PSA), that are converted into shares.

At Rank 3 of the peer group or above, a maximum payout of 200 % of target performance share awards (PSA) are converted into shares. At Rank 10 of the peer group, the payout is 100 %, at Rank 15 it is 80 % and at Rank 20 or below, it is 0 %.

In 2012, the CEO, members of the Executive Committee and Global Leaders received a portion of their compensation in the form of awards of OC Oerlikon Corporation AG, Pfäffikon stock.

Performance Share Awards (PSA) 2012 – management

Year of grant	Outstanding on 1.1.	Granted in 2012	Forfeited in 2012	Exercised in 2012	Outstanding on 31.12.	Average share price in CHF	Expenses for the period in CHF million	Vesting period
2012	–	956 696	19 734	83 771	853 191	9.0	3.8	01.05.12–30.04.15
Total	–	**956 696**	**19 734**	**83 771**	**853 191**		**3.8**	

Shareholding requirement

In 2012, the Board of Directors instituted a shareholding requirement to further align the interests of the Executive Leadership Team (ELT) and shareholders. The CEO, members of the Executive Committee, Segment CEOs and selected Corporate Functions are required to build a significant personal shareholding in the business.

For each role, a minimum target number of shares should be attained by the relevant individuals. The minimum threshold is a percentage of annual base salary.

Role	% of base salary
CEO	200 %
Members of the Executive Committee	100 %
Segment CEO	100 %
Corporate Function	50 %

Current members of the Executive Leadership Team (ELT) are required to reach their minimum investment limit within a period of five years. The shareholding of the individuals is reviewed regularly from 2012. New members of the Executive Leadership Team (ELT) have five years during which to reach their minimum investment limit.

Earlier Long-Term Incentive (LTI) program 2007–2011 (not continued)

Previous LTI programs have been discontinued, however any grants issued will be governed by the respective policy until they have vested or expired in 2013 and 2014 respectively.

Grant year	LTI program	Status
2007	Options	Expiry 2013
2008	Performance Share Awards	Vested in 2010
2009	Restricted Stock Units (Executive Committee)	Vested in 2011
2009	Restricted Stock Units (Senior Management)	Vested in 2012
2010	Performance Share Awards	Vest in 2013
2011	Performance Share Awards	Vest in 2014

Stock options (not continued)

In 2007, members of senior management received a portion of their compensation in the form of options to purchase shares in OC Oerlikon Corporation AG, Pfäffikon with a blocking period of one, two, three or four years. Holders of these options are entitled to purchase one share for each option held. The value of the options at year end was calculated using the Black-Scholes valuation model and a weighted average share price of CHF 70. No options have been granted after 2007.

Options – management

Year of grant	Outstanding on 1.1.	Granted in 2012	Forfeited in 2012	Exercised in 2012	Outstanding on 31.12.	Exercise price in CHF	Expenses for the period in CHF million	Vesting period
2007	9282	–	–	–	9282	80	0.0	01.01.08–31.12.13
	9282	–	–	–	9282	80	0.0	01.01.08–31.12.13
	9282	–	–	–	9282	80	0.0	01.01.08–31.12.13
	9282	–	–	–	9282	80	0.0	01.01.08–31.12.13
Total	**37128**	**–**	**–**	**–**	**37128**		**0.0**	

Restricted Stock Units (RSU, not continued)

In 2009, members of senior management, excluding the CEO or the Executive Committee, could receive a portion of their compensation in the form of Restricted Stock Units (RSU) for OC Oerlikon Corporation AG, Pfäffikon stock, with a vesting period of three years. The value of the RSU per year end is based on the weighted average stock price of CHF 5.7. No RSU were granted to the members of senior management after 2009.

Restricted Stock Units (RSU) – management

Year of grant	Outstanding on 1.1.	Granted in 2012	Forfeited in 2012	Exercised in 2012	Outstanding on 31.12.	Average share price in CHF	Expenses for the period in CHF million	Vesting period
2009	235791	–	–	235791	–	5.7	0.3	01.05.09–30.04.12
Total	**235791**			**235791**			**0.3**	

Performance Share Awards (PSA, not continued)
In 2010 and 2011, the CEO, members of the Executive Committee and senior management could receive a portion of their compensation in the form of awards of OC Oerlikon Corporation AG, Pfäffikon stocks, which are subject to performance conditions and a vesting period of three years. The performance conditions consist of the cumulative economic profit (Oerlikon Value Added) over a three-year period of the respective business in which participants operate. Their achievement determines the effective number of total Performance Share Awards (PSA) that are converted into shares.

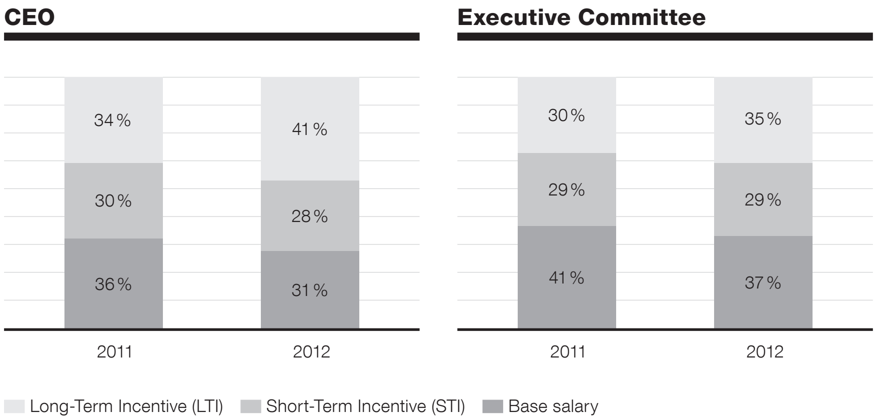
Each target has a lower threshold, below which no Performance Share Awards (PSA) are converted into stocks, and an upper threshold, above which no additional stocks are granted. The number of PSA cannot exceed 200 % of the target number. Upon vesting, the effective number of PSA is converted into shares.

Performance Share Awards (PSA) – management

Year of grant	Outstanding on 1.1.	Granted in 2012	Forfeited in 2012	Exercised in 2012	Outstanding on 31.12.	Average share price in CHF	Expenses for the period in CHF million	Vesting period
2010	484 465	–	114 149	–	370 316	4.6	0.7	01.05.10–30.04.13
2011	565 718	–	138 024	–	427 694	6.8	1.5	01.05.11–30.04.14
Total	**1 050 183**	–	**252 173**	–	**798 010**		**2.2**	

Compensation 2012 – Executive Committee

The Board of Directors approved the decision of the Human Resources Committee (HRC) to adapt the compensation system for Global Leaders, including members of the Executive Committee in 2012, compensation consisting of a base salary, expense allowances, a performance-related Short-Term Incentive (STI) and a performance-related Long-Term Incentive (LTI). However, the new compensation system is based on a different mix of fixed and variable components, putting a stronger emphasis on performance-based, mid- to long-term variable compensation. No members of the Executive Committee were present when decisions on Executive Committee compensation were made.



The implementation of the new compensation system included a systematic review of pay levels together with Towers Watson, leading to increases in the base salary of the CEO and increases in STI and LTI target amounts for other members of the Executive Committee. The base salary is determined primarily by the executive's tasks, responsibilities, skills, managerial experience and market conditions, and is paid in cash. All compensation elements have been benchmarked by Towers Watson against comparable positions in companies of comparable size in terms of revenue, employees and geographical scope, that are operating in the general industry in some of the major markets in which we operate – including Switzerland, Germany, Italy and USA. Among other companies, Towers Watson also provides other compensation services to the Oerlikon Group and its subsidiaries.

The STI 2011 paid in 2012 reached the maximum payout of 205 % when, in the former STI Plan, the two financial measures – return on net assets (RONA) and operating free cash flow (OFCF) – reached their respective upper threshold and individual objectives were fully met. The expected payout for the STI 2012 is 108 % when, in the new STI Plan, the three financial measures – sales growth, EBIT margin and return on net assets (RONA) – reached or exceeded their respective target and the strategic milestones and individual objectives were fully met.

The total compensation for all members of the Executive Committee in 2012 amounted to CHF 9.7 million. The highest compensation paid to an individual member of the Executive Committee was CHF 3.5 million.

Compensation of members of the Executive Committee

in CHF 000	Salary	Bonus [1]	LTI (2010–13) [2]	LTI (2011–14) [2]	LTI (2012–15) [2]	Pension	Other compensation [3]	Severance payment [4]	Total compensation 2012	Total compensation 2011
Total compensation of the Executive Committee	2 065	3 391	545	818	1 305	564	137	895	9 720	9 902
Of which, highest individual compensation: Michael Buscher (CEO) in 2012, Thomas Babacan (former COO) in 2011	858	1 333	187	432	441	189	42	0	3 482	4 128

[1] Effective bonus 2011, paid in 2012, and one bonus 2012, paid in 2012. The expected bonus outcome for the year 2012 amounts to CHF 1.5 million. Bonus payments will be made in March/April 2013, after the financial results are published.
[2] Accounting value of Performance Share Awards (PSA) is based on a weighted average share price of CHF 4.6 (grant date in 2010), CHF 6.8 (grant date in 2011) and CHF 9.0 (grant date in 2012).
[3] Other compensation includes expense and car allowances.
[4] Adrian Cojocaru's (former CHRO) employment ended on December 31, 2012. The LTI grant 2012 vested on a pro-rated basis upon termination. The termination payment included the contractually agreed compensation for the notice period of 12 months.

Members of the Executive Committee did not receive any fees or other remuneration for additional services to OC Oerlikon or its subsidiaries in the 2012 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 2012.

The employment contracts of the most recent members of the Executive Committee (CEO and CHRO) contain no provisions relating to severance payment or change of control. The employment contracts of Executive Committee members are of unlimited duration and end automatically when the member reaches the age of 62. The contracts provide for a notice period of 12 months.

The contract of one member of the Executive Committee contains provisions relating to a severance payment or change of control. They include:

Severance payment: In case of termination by OC Oerlikon (other than for good cause within the meaning of Art. 337 of the Swiss Code of Obligations or other than in case of a change of control), the Executive Committee member is entitled to a severance payment. The severance payment is equal to the market value of the grants of the individual under the existing LTI plans.

In case of termination by OC Oerlikon or the Executive Committee member within a period of 12 months from the effective date of a change of control regarding OC Oerlikon Corporation AG, Pfäffikon, the Executive Committee member is entitled to a severance payment. The severance payment is equal to an annual compensation and the market value of the grants of the individual under the existing LTI plans.

Change of control: A change of control means (summarized) one of the following events:

- A person, group of persons or entity acquires, either directly or indirectly, 33.33 % or more of the combined voting power of all issued securities of OC Oerlikon Corporation AG, Pfäffikon (hereinafter “OC Oerlikon”) or, in the event of a merger, of the issued voting securities of the surviving or resulting entity, while at the same time no other shareholder of OC Oerlikon, who had more than 10 % of the voting rights on October 1, 2008, disposes of more voting rights in OC Oerlikon or, in the event of a merger, in the surviving or resulting entity.
- The shareholders of OC Oerlikon approve the sale of substantially all the business and/or assets of OC Oerlikon to a person or entity of which OC Oerlikon, directly or indirectly, controls 50 % or less of all outstanding securities.

During 2012, no compensation was paid to former members of the Executive Committee, either by OC Oerlikon Corporation AG, Pfäffikon or by any other company of the Oerlikon Group.

8.0 Risk management

1. Oerlikon conducted two Group-wide risk management cycles in 2012 in order to identify and evaluate risks and mitigation actions.

2. A new risk management software was rolled out across the Group in 2012 to support enterprise-wide performance of risk assessments, central consolidation of risk data and calculation of total risk exposure.

3. Oerlikon took its first steps towards risk-return management by calculating the total risk exposure, introducing a risk-adjusted key performance indicator (KPI) and defining the risk-bearing capacity.

Oerlikon's Risk Management System

The Risk Management System is a management tool that serves to integrate risk management within the company's executive ranks and organizational structure.

Risk management at Oerlikon is based on the Group's risk policy, which has been approved by the Board of Directors, and the risk management directive adopted by the Executive Committee. The policy outlines the fundamental objectives and principles, while the directive defines the framework and methods of operational implementation.

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 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 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 KPI, 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, including trade control); Group Compliance (compliance risks); IT Security (IT risks); Security (security risks); and Insurance Management (insurable risks) etc.

Culture

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

Current risk 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: Deterioration of the macroeconomic environment in Europe (sovereign-debt and Euro crisis) and around the world and business cycles in various markets could cause demand to decline. 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.
- 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).
- 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 taken.
- Country risks: For example, 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, resulting in decreased profitability.

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 costs (contractual warranty obligations). This could reduce profitability.
- 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. 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.

Risk-return management

In 2012, Oerlikon took its first steps towards systematic risk-return management. The primary objectives are to ensure transparent risk-return ratios for the various business activities and to align the total risk exposure with the company's risk-bearing capacity.

Oerlikon also defined its risk-bearing capacity for the first time in 2012. This is seen as a risk buffer that will absorb incurred risks up to a specifically defined lower limit. On this basis, Oerlikon is aligning the total risk exposure of the Group with its risk-bearing capacity. The aim is to ensure that total risk exposure does not exceed the risk-bearing capacity.

For further information on risk management, see page 74 (section 6.0 Corporate Governance), page 134 et seq. (Notes 19–21 to the consolidated financial statements) and page 159 (Note 21 to the financial statements of OC Oerlikon Corporation AG, Pfäffikon).

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IV. Financial report

Key figures Oerlikon Group

Key figures Oerlikon Group

in CHF million	January 1 to December 31 2012	January 1 to December 31 2011
Order intake [1]	2 802	2 878
Order backlog [1]	834	971
Sales [1]	2 906	2 731
EBITDA [1]	547	450
– as % of sales	19 %	16 %
EBIT [1]	421	318
– as % of sales	14.5 %	11.6 %
Net income	385	224
– as % of equity attributable to shareholders of the parent	21 %	14 %
Cash flow from operating activities	506	438
Capital expenditure for property, plant and equipment and intangible assets [2]	181	167
Total assets	4 159	4 573
Equity attributable to shareholders of the parent	1 858	1 586
– as % of total assets	45 %	35 %
Net cash [3]	339	–86
Net Operating Assets [2,4]	1 575	2 205
Number of employees [1]	12 708	12 726
Personnel expense [1]	765	740
Research and development expenditure [1,5]	106	102

[1] 2012 continuing operations, 2011 restated.

[2] 2012 continuing operations, 2011 as reported.

[3] Net cash includes cash and cash equivalents and marketable securities less current and non-current debt.

[4] Net Operating Assets include current and non-current operating assets (including goodwill and brands and excluding cash and cash equivalents, financial assets, current and deferred tax receivables) less operating liabilities (excluding financial liabilities, current tax payables and deferred tax liabilities).

[5] Research and development expenditure includes expense recognized as intangible assets in the amount of CHF 15 million (previous year: CHF 16 million).

Key share-related figures [1]

	January 1 to December 31 2012	January 1 to December 31 2011
Year high in CHF	10.85	7.85
Year low in CHF	5.06	4.06
Year-end in CHF	10.35	5.03
Shares outstanding at year-end	325 964 498	323 124 010
Market capitalization at year-end in CHF million	3 374	1 625
EBIT per share in CHF	1.30	0.99
Earnings per share in CHF	1.18	0.68
Cash flow from operating activities per share in CHF	1.56	1.36
Equity per share in CHF [2]	5.74	4.91
Dividend per share in CHF	0.25 [3]	0.20 [4]

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

[2] Attributable to shareholders of the parent.

[3] Dividend proposed for 2012, to be paid in 2013.

[4] For financial year 2011, paid in 2012.

Key figures by Segment

in CHF million	January 1 to December 31 2012	January 1 to December 31 2011
Oerlikon Group		
Order intake	2 802	2 878
Order backlog	834	971
Sales	2 906	2 731
EBITDA	547	450
EBIT	421	318
– as % of sales	14.5 %	11.6 %
Net Operating Assets [1,2]	1 575	2 205
Number of employees	12 708	12 726
Textile Segment		
Order intake	1 039	1 014
Order backlog	602	673
Sales to third parties	1 103	909
EBITDA	209	97
EBIT	186	73
– as % of sales	17.0 %	8.0 %
Net Operating Assets [1,2]	31	618
Number of employees	2 511	2 389
Drive Systems Segment		
Order intake	766	892
Order backlog	134	213
Sales to third parties	826	821
EBITDA	111	94
EBIT	70	49
– as % of sales	8.5 %	6.0 %
Net Operating Assets [1]	959	936
Number of employees	5 177	5 471
Vacuum Segment		
Order intake	377	400
Order backlog	73	77
Sales to third parties	373	409
EBITDA	52	72
EBIT	38	59
– as % of sales	10.2 %	13.9 %
Net Operating Assets [1]	179	165
Number of employees	1 491	1 472
Coating Segment		
Order intake	501	484
Order backlog	–	–
Sales to third parties	501	484
EBITDA	145	141
EBIT	103	97
– as % of sales	20.5 %	20.1 %
Net Operating Assets [1]	332	303
Number of employees	3 126	2 986
Advanced Technologies Segment		
Order intake	119	88
Order backlog	25	8
Sales to third parties	103	108
EBITDA	11	14
EBIT	7	11
– as % of sales	6.6 %	10.3 %
Net Operating Assets [1]	87	82
Number of employees	188	200

[1] Net Operating Assets include current and non-current operating assets (including goodwill and brands and excluding cash and cash equivalents, financial assets, current and deferred tax receivables) less operating liabilities (excluding financial liabilities, current tax payables and deferred tax liabilities).

[2] 2012 continuing operations, 2011 as reported.

Consolidated income statement

in CHF million	Notes	January 1 to December 31 2012	January 1 to December 31 2011 restated
Sales of goods		2 251	2 090
Services rendered		655	641
Total sales		**2 906**	**2 731**
Cost of sales		–2 079	–1 985
Gross profit		**827**	**746**
Marketing and selling		–158	–155
Research and development		–107	–101
Administration		–209	–201
Other income	3	77	49
Other expense	3	–9	–20
Result before interest and taxes (EBIT)		**421**	**318**
Financial income	5	51	11
Financial expense	5	–138	–106
Result before taxes (EBT)		**334**	**223**
Income taxes	6	–111	–64
Result from continuing operations		**223**	**159**
Result from discontinued operations, net of income taxes	2	162	65
Net income		**385**	**224**
Attributable to:			
Shareholders of the parent		382	220
Non-controlling interest		3	4
Earnings per share in CHF	7	**1.18**	0.68
Fully diluted earnings per share in CHF	7	**1.16**	0.68
Earnings per share continuing operations in CHF	7	**0.68**	0.48
Fully diluted earnings per share continuing operations in CHF	7	**0.67**	0.48
Earnings per share discontinued operations in CHF	7	**0.50**	0.20
Fully diluted earnings per share discontinued operations in CHF	7	**0.49**	0.20

Consolidated statement of comprehensive income

in CHF million	Notes	January 1 to December 31 2012	January 1 to December 31 2011
Net income		385	224
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		14	–7
Net change in fair value of cash flow hedges reclassified to the income statement		–	1
Defined benefit plan actuarial losses[1]	14	–70	–47
Income taxes on other comprehensive income		21	14
Reclassification of conversion differences on sale of Group companies		7	–
Conversion differences		–27	–28
Other comprehensive income for the period, net of income taxes		**–55**	**–67**
Total comprehensive income for the period		**330**	**157**
Attributable to:			
Shareholders of the parent		327	155
Non-controlling interest		3	2

[1] Includes a reclassification of CHF 2 million from income taxes to retained earnings on the sale of the Solar entities.

Consolidated balance sheet at December 31

Assets

in CHF million	Notes	2012	2011
Cash and cash equivalents	8	638	742
Current financial investments and derivatives	9	16	8
Trade receivables	10	474	635
Other receivables	10	89	234
Current tax receivables		19	18
Inventories	11	388	582
Prepaid expenses and accrued income		18	20
Assets classified as held for sale	2	737	–
Current assets		**2 379**	**2 239**
Loans and other non-current financial receivables	10	6	8
Non-current financial investments	9	4	39
Property, plant and equipment	12	718	915
Intangible assets	13	938	1 261
Post-employment benefit assets	14	1	–
Deferred tax assets	6	113	111
Non-current assets		**1 780**	**2 334**
Total assets		**4 159**	**4 573**

Liabilities and equity

in CHF million	Notes	2012	2011
Trade payables	15	287	457
Other current financial liabilities and derivatives	15	3	24
Other current liabilities	15	47	62
Accrued liabilities	16	199	271
Current customer advances		450	471
Current income taxes payable		57	61
Current post-employment benefit provisions	14	24	28
Other current provisions	17	57	111
Liabilities classified as held for sale	2	239	–
Current liabilities		**1 363**	**1 485**
Non-current loans and borrowings	15	304	832
Non-current post-employment benefit provisions	14	533	525
Deferred tax liabilities	6	73	73
Other non-current provisions	17	4	48
Non-current liabilities		**914**	**1 478**
Total liabilities		**2 277**	**2 963**
Share capital		326	323
Treasury shares		–8	–3
Retained earnings and reserves		1 540	1 266
Equity attributable to shareholders of the parent		**1 858**	**1 586**
Non-controlling interest		24	24
Total equity		**1 882**	**1 610**
Total liabilities and equity		**4 159**	**4 573**

Consolidated cash flow statement [1]

in CHF million	**January 1 to December 31 2012**	January 1 to December 31 2011 reclassified [2]
Net income	385	224
Income taxes	124	91
Interest expense (net)	86	89
Other financial expense (net)	6	5
Depreciation of property, plant and equipment	123	137
Amortization of intangible assets	28	38
Impairment losses on property, plant and equipment	3	7
Impairment losses on intangible assets	–	4
Addition to other provisions (net)	9	30
Decrease in post-employment benefit provisions	–21	–13
Gains on sale of property, plant and equipment and intangible assets	–40	–2
Gain on sale of discontinued operations, net of tax	–207	–
Income taxes paid	–97	–63
Other non-cash expense / income	15	–3
Cash flow from operating activities before changes in net current assets	414	544
Decrease/increase in receivables, prepaid expenses and accrued income	99	–127
Decrease/increase in inventories	46	–128
Decrease/increase in payables, accrued liabilities and use of other provisions	–125	7
Increase in customer advances	76	143
Non-cash impact on net current assets due to hedge accounting	–4	–1
Cash flow from changes in net current assets	92	–106
Cash flow from operating activities	**506**	**438**
Purchase of property, plant and equipment	–181	–141
Purchase of intangible assets	–21	–26
Proceeds from sale of Group companies, net of cash disposed of	232	–6
Purchase of financial investments	–2	–6
Proceeds from sale of financial investments	54	–
Purchase of marketable securities [3]	–	–129
Proceeds from sale of property, plant and equipment	45	14
Interest received	6	11
Dividends received	3	–
Cash flow from investing activities	**136**	**–283**
Dividends paid	–67	–3
Purchase of treasury shares	–7	–3
Proceeds from issue of share capital	17	–
Proceeds from the issue of financial debt	630	25
Payment of transaction costs related to financial debt	–18	–
Repayment of financial debt [3]	–1 170	–139
Acquisition of non-controlling interest	–8	–
Interest paid	–58	–52
Other payments related to financing activities	–37	–3
Cash flow from financing activities	**–718**	**–175**
Translation adjustments to cash and cash equivalents	–6	6
Decrease in cash and cash equivalents	**–82**	**–14**
Cash and cash equivalents at the beginning of the year	742	756
Cash and cash equivalents at the end of the year [4]	660	742
Decrease in cash and cash equivalents	**–82**	**–14**

[1] The consolidated cash flow statement is presented without any effects from discontinued operations as well as assets and liabilities held for sale. Refer to Note 2 for cash flows from discontinued operations.

[2] The presentation of the cash flows from operating and financing activities have been changed in the current year and the 2011 figures have been reclassified to conform to the current year presentation. The reclassification of the prior year figures concerns the line items "Other financial expense (net)", "Other non-cash expense / income" and "Other payments related to financing activities" and had no material effect.

[3] During 2011, CHF 129 million of own debt was bought back and was offset with the syndicated credit facility as of December 31, 2011.

[4] Includes CHF 22 million which are included in "Assets classified as held for sale" in the balance sheet as of December 31, 2012.

Consolidated statement of changes in equity

in CHF million	Share capital[1]	Additional paid-in capital[2]	Treasury shares	Conversion differences	Retained earnings	Hedge accounting	Income taxes	**Total equity attributable to shareholders**	Non-controlling interest	**Total share-holders' equity**
Balance at January 1, 2011	**323**	**1 475**	**–2**	**–441**	**53**	**–1**	**23**	**1 430**	**24**	**1 454**
Net income	–	–	–	–	220	–	–	220	4	224
Other comprehensive income										
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	–7	–	–7	–	–7
Net change in fair value of cash flow hedges reclassified to the income statement	–	–	–	–	–	1	–	1	–	1
Defined benefit plan actuarial losses	–	–	–	–	–47	–	–	–47	–	–47
Income taxes on other comprehensive income	–	–	–	–	–	–	14	14	–	14
Conversion differences, net	–	–	–	–26	–	–	–	–26	–2	–28
Total other comprehensive income for the period	**–**	**–**	**–**	**–26**	**–47**	**–6**	**14**	**–65**	**–2**	**–67**
Total comprehensive income for the period	**–**	**–**	**–**	**–26**	**173**	**–6**	**14**	**155**	**2**	**157**
Dividend distributions	–	–	–	–	–	–	–	–	–2	–2
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	–	–
Share-based payments	–	–	–	–	4	–	–	4	–	4
Purchase of treasury shares	–	–	–3	–	–	–	–	–3	–	–3
Transfer of treasury shares	–	–	2	–	–2	–	–	–	–	–
Balance at December 31, 2011	**323**	**1 475**	**–3**	**–467**	**228**	**–7**	**37**	**1 586**	**24**	**1 610**
Net income	–	–	–	–	382	–	–	382	3	385
Other comprehensive income										
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	14	–5	9	–	9
Defined benefit plan actuarial losses[3]	–	–	–	–	–70	–	26	–44	–	–44
Conversion differences, net	–	–	–	–20	–	–	–	–20	–	–20
Total other comprehensive income for the period	**–**	**–**	**–**	**–20**	**–70**	**14**	**21**	**–55**	**–**	**–55**
Total comprehensive income for the period	**–**	**–**	**–**	**–20**	**312**	**14**	**21**	**327**	**3**	**330**
Capital increase	3	14	–	–	–	–	–	17	–	17
Dividend distributions	–	–65	–	–	–	–	–	–65	–2	–67
Share-based payments	–	–	–	–	4	–	–	4	–	4
Purchase of treasury shares	–	–	–7	–	–	–	–	–7	–	–7
Transfer of treasury shares	–	–	2	–	1	–	–	3	–	3
Acquisition of non-controlling interest	–	–	–	–	–7	–	–	–7	–1	–8
Balance at December 31, 2012	**326**	**1 424**	**–8**	**–487**	**538**	**7**	**58**	**1 858**	**24**	**1 882**

[1] The share capital of OC Oerlikon Corporation AG, Pfäffikon consists of 325 964 498 registered shares with a nominal value CHF 1.

[2] As of December 31, 2012, additional paid-in capital includes CHF 1 197 million of legal reserves in OC Oerlikon Corporation AG, Pfäffikon.

[3] Includes a reclassification of CHF 2 million from income taxes to retained earnings on the sale of the Solar entities.

Treasury shares	Number of shares	Price per share in CHF	Cost in CHF million	Fair value in CHF million	Result in CHF million
Balance at January 1, 2011	**300 000**	**5**	**2**	**–**	**–**
Transfer 2011 due to employee purchase plan	–280 989	6	–2	–2	–
Purchase 2011	570 000	6	3	–	–
Balance at December 31, 2011	**589 011**	**6**	**3**	**–**	**–**
Transfer 2012 due to employee purchase plan	–317 147	6	–1	–3	2
Transfer 2012 to warrant holders	–69 616	7	–1	–	–1
Purchase 2012	700 000	10	7	–	–
Balance at December 31, 2012	**902 248**	**9**	**8**	**–**	**–**

Accounting principles

Company operations
OC Oerlikon Corporation AG, Pfäffikon is a Swiss public company located on Churerstrasse 120 in 8808 Pfäffikon SZ (community of Freienbach SZ). It is the ultimate parent company of the Oerlikon Group, a globally leading supplier of production systems, transmission technology, yarn processing solutions (textile machinery), components and services for selected information technology market segments and industrial applications.

Apart from its activities in Switzerland, the Oerlikon Group operates in the EU region, North America and Asia, and employs 12 708 individuals (continuing operations).

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. The reporting period is twelve months. The consolidated financial statements are presented in Swiss francs (CHF). The consolidated income statement shows operating costs grouped by function. Assets and liabilities in the consolidated balance sheet are classified as current or non-current. The consolidated financial statements were approved by the Board of Directors on March 1, 2013, and will be submitted to the Annual General Meeting of Shareholders on April 30, 2013, for approval. All standards issued by the IASB and all interpretations of the IFRS Interpretations Committee (IFRIC) effective at the date of the consolidated financial statements have been taken into account. The consolidation is based on audited annual individual company accounts of the Group's material subsidiaries, prepared according to uniform Group accounting principles. 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 and financial assets held for trading purposes, which are stated 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.

Judgements, 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, judgements 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 calls for decisions on management's part. The most important accounting estimates are to be found in:

Impairment of value: Property, plant and equipment, goodwill and intangibles: A detailed test for impairment of value 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) or a group of CGUs that is expected to benefit from the synergies of the business combination to which goodwill gave rise. The recoverable amount of the CGUs is determined based on the higher of either value-in-use or fair value less cost to sell calculations. 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 use of the assets concerned, or from their possible 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 12 for impairment of property, plant and equipment and Note 13 for impairment of intangible assets.

Provisions and 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 17 for provisions and Note 25 for contingent liabilities.

The Group entered into an agreement to divest its Solar Segment in March 2012 as well as its Natural Fibers and Textile Components Business in December 2012. In connection with these divestments, Oerlikon has assumed certain customary obligations like warranty obligations and indemnifications. To assess the impact of these obligations on reported provisions and contingent liabilities, management had to make assumptions with estimation uncertainties. Further details see Note 2.

Pensions: The estimates and assumptions used are based on future projections and actuarial calculations which have been determined together with the actuaries. Refer to Note 14 for details.

Taxes on income: 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 regulation. 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 6 for details.

Adoption of new and revised accounting standards
The International Accounting Standards Board (IASB) has published a number of new and revised standards and interpretations, which have been applied by the Oerlikon Group since January 1, 2012:
– IFRS 7 amended – Disclosures: Transfers of Financial Assets
– IAS 12 amended – Deferred Tax: Recovery of Underlying Assets

The new and revised accounting standards had no material effect on the consolidated financial statements.

Newly published accounting standards not early adopted

The International Accounting Standards Board (IASB) has published a number of new and revised standards and interpretations which come into force later and have not been implemented ahead of their effective dates. Their effects on the Oerlikon Group's financial statements have not yet been fully analyzed, but a first review has been conducted and the expected effects of each standard and interpretation are presented in the table below:

Standard/Interpretation	Impact level	Effective date	Planned application by Oerlikon
IFRS 7 amended – Offsetting Financial Assets and Liabilities	*	1 January 2013	Reporting year 2013
IFRS 10 – Consolidated Financial Statements	*	1 January 2013	Reporting year 2013
IFRS 11 – Joint Arrangements	*	1 January 2013	Reporting year 2013
IFRS 12 – Disclosure of Interests in Other Entities	**	1 January 2013	Reporting year 2013
IFRS 13 – Fair Value Measurement	*	1 January 2013	Reporting year 2013
Improvements to IFRSs (May 2012)	*	1 January 2013	Reporting year 2013
IAS 1 amended – Presentation of Items of Other Comprehensive Income	**	1 July 2012	Reporting year 2013
IAS 19 amended – Employee Benefits	****	1 January 2013	Reporting year 2013
IAS 27 rev. – Separate Financial Statements	*	1 January 2013	Reporting year 2013
IAS 28 rev. – Investments in Associates and Joint Ventures	*	1 January 2013	Reporting year 2013
Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance (Amendments to IFRS 10, IFRS 11 and IFRS 12)	*	1 January 2013	Reporting year 2013
IAS 32 amended – Offsetting Financial Assets and Financial Liabilities	***	1 January 2014	Reporting year 2014
IFRS 10, IFRS 12 and IAS 27 amended – Investment Entities	***	1 January 2014	Reporting year 2014
IFRS 9 – IFRS 9 Financial Instruments	***	1 January 2015	Reporting year 2015

* No impact or no significant impact is expected on the consolidated financial statements of the Oerlikon Group.

** The impact on the consolidated financial statements is expected to result in additional disclosures or changes in presentation.

*** The impact on the consolidated financial statements cannot yet be determined with sufficient reliability.

**** The net profit is expected to be reduced by a single-digit million amount. The impact on the consolidated financial statements is expected to result in additional disclosures.

Principles of consolidation

Method and scope of consolidation

December 31 is the uniform closing date for all companies included in the consolidated financial statements. All companies in which OC Oerlikon Corporation AG, Pfäffikon has either a direct or indirect interest exceeding 50 % of the shareholders' voting rights, and companies over which control is assured through contractual arrangements are consolidated. Using the full consolidation method the assets, liabilities, income and expenses of these consolidated subsidiaries are included in their entirety.

Non-controlling interests are recorded separately under equity in the consolidated financial statements. Group companies acquired or sold during the course of the financial year are included in or, respectively, eliminated from the consolidated financial statements as of the date of purchase or sale. All significant consolidated investments held are shown in the listing at the end of the notes.

Business combinations and goodwill

The equity consolidation follows the "acquisition method of accounting". 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 less the net recognized assets. Goodwill denominated in foreign currencies is translated into Swiss francs at the rates prevailing at the balance sheet date. Goodwill is not amortized, but instead is tested annually for possible value impairment.

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, or its local currency. 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 application of different exchange rates 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 inter-company 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 inter-company profits

Profits on inter-company sales not yet realized through sales to third parties, as well as profits on transfers of fixed assets and investments in subsidiaries, are eliminated.

Segment information

The Segment reporting of the Oerlikon Group is in accordance with the "management approach" and based on the internal structure and reporting. The Executive Committee is an advisory body to the Chief Executive Officer (CEO). The CEO performs the function of the Chief Operating Decision Maker (CODM) and assesses performance and makes resource allocation decisions. The internal reporting to the Executive Committee and the Board of Directors is based on uniform Group accounting principles, which correspond to those used in the consolidated financial statements. Inter-segment pricing is determined on an arm's length basis.

According to the internal Segment reporting, the Group consists of the following reportable Segments (which are partially an aggregation of operating segments):

– Textile Segment develops and manufactures textile machinery.
– Drive Systems Segment manufactures gears and other components for power transmission, mainly in motor vehicles.
– Vacuum Segment develops application- and customer-specific systems for the creation of vacuums and extraction of processing gases.
– Coating Segment supplies metal coatings that improve the performance of tools and precision components, offering coating services at 90 centers worldwide.
– Advanced Technologies Segment develops applications and technologies, from which the highest precision and accuracy is required and mainly specializes in nanotechnology.

Assets

Cash and cash equivalents are placed with various financial institutions with top-quality international ratings. Time deposits included therein mature in three months or less from the date of acquisition. Cash and cash equivalents are stated at nominal value.

Financial assets and derivative financial instruments: Marketable securities are held at fair values, with their values adjusted as required through the income statement. Gains or losses are measured by reference to fair value. Unquoted securities are valued by standard valuation methods, with value adjustments also through the income statement.

Regular way purchases or sales of financial assets are recognized at settlement date. Financial investments held to maturity as well as loans and receivables are carried at amortized cost using the effective interest method. Gains and losses from changes in the fair value of financial investments available for sale are temporarily recorded in other comprehensive income until such investments are sold or disposed of, at which time the gains or losses are transferred to the income statement. Any loss from value impairment is immediately recorded in the income statement.

Forward contracts and options are utilized systematically and mainly for the purpose of reducing business-related foreign currency and interest rate risks. These transactions are concluded with first-rate financial institutions and, as a general rule, have a term to maturity of up to 12 months. These derivative financial instruments are stated at fair value. If all requirements are fulfilled with regard to documentation, probability of occurrence, effectiveness and reliability of valuation, hedge accounting is applied in accordance with IAS 39. Until the hedged underlying business transactions are accounted for, the unrealized profits and losses resulting from the valuation of derivative financial instruments at fair value are recorded in other comprehensive income, with no impact on the income statement.

Trade receivables: Receivables are stated 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.

Inventories: Inventories of raw materials, purchased components and trade merchandise are carried at the lower of cost or net realizable value, using FIFO and 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.

Investments in associated companies: Investments in associated companies (20 % to 50 % ownership of voting rights) are accounted for in accordance with IAS 28 (Accounting for Investments in Associates) using the equity method. The book value of the investment, initially its acquisition cost, is increased or reduced in response to the development in equity value of the associate, in proportion to the percentage held by the Oerlikon Group.

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:

IT hardware	3–7 years
Company cars	4–7 years
Trucks and electric vehicles	5–10 years
Technical installations and machines	5–15 years
Other operating and business equipment	3–15 years
Central building installations	10–25 years
Leasehold improvements	Duration of rental contract (max. 20 years) or, if shorter, individual useful life
Plant and administrative buildings – used operationally	20–60 years

Estimated useful life and residual values are examined annually.

Fixed assets under financial leasing agreements are treated identically to fixed assets owned. Non-operating properties that are classified as held for sale are measured at the lower of their carrying amount or fair value less costs to sell, less any impairment.

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: 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 useful lives, where these can be clearly determined, for example software over two to three years or development costs over five years. 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.

Liabilities

Current and non-current financial liabilities: Current and non-current financial liabilities are initially valued at fair value less directly attributable costs. Subsequent valuation is at amortized cost adjusted using the effective interest rate method. The financial liabilities consist mainly of the bond.

Current and non-current provisions: Provisions are set up if the future outflow of resources is more likely than not and can be estimated reliably, for obligations arising from past events. Other provisions represent uncertainties, for which a best estimate is made in arriving at the amount reserved. The value of provisions whose expected maturity exceeds one year is discounted at normal market rates.

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 customer 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 based on the so-called “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.

Provisions for pensions and other post-employment benefits: The net obligation for defined benefit and other post-retirement benefit plans has been calculated for each plan according to IAS 19 using the projected unit credit method as of the balance sheet date. The way these benefits are provided varies according to the legal, fiscal and economic conditions of each country, the benefits generally being based on the employees’ remuneration and years of service. The obligations relate both to existing retirees’ pensions and to pension entitlements of future retirees.

Actuarial gains and losses from defined benefit plans and deductions in connection with asset limitation are recognized in other comprehensive income, so they have no impact on the income statement, and are presented in the consolidated statement of comprehensive income.

Service costs for pensions and other post-retirement obligations are recognized as an expense in the operating result, while interest costs and the expected return on plan assets recognized as components of net periodic pension costs are included in net financial income/expense in the consolidated statement of income.

The Group obligations for contributions to defined contribution plans are recognized as expense in the operating result as incurred.

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: Sales of goods and services are recognized when the transaction occurs, when the amounts involved are reliably known and when it is considered likely that the related economic benefit will flow to the Oerlikon Group. Sales are booked net of credits for returns and rebates at such time as the risk and reward of ownership of the goods passes to the customer.

Long-term contracts are accounted for under the “Percentage of Completion” (POC) method. In the Textile Segment the percentage of completion is determined by measuring costs incurred to date as a proportion of extrapolated total contract cost (cost to cost method).

Revenues from services that have been rendered are recorded in the income statement, according to the level of completion at the balance sheet date.

Research and development: 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, usually five years.

Other income and expenses: Other income consists of income from real estate, investments, licences, patents and non-operating assets. Other expense consists of non-operating expenses and taxes not based on income.

Financial expenses: Interest expense is charged to the income statement without restriction. In principle, borrowing costs are recognized in the income statement by using the effective interest rate method. Borrowing costs which can be directly allocated to the construction, build-up 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. The valuation of assets and liabilities pertaining to both current and deferred taxation calls for extensive use of judgement and estimation.

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 within the next five years, by 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 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/loss attributable to shareholders of OC Oerlikon Corporation AG, Pfäffikon divided by the weighted average number of shares outstanding during the reporting period. Fully diluted earnings per share take into account additionally all potential equity securities that could have come into existence as the result of an exercise of option rights.

Discontinued operations and assets and liabilities classified as held for sale

A component of the Group is reclassified into "discontinued operations" if its divestment is intended and if it fulfils the criteria for being classified as "held for sale" and for being presented as discontinued operations. Non-current assets 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: Due to its international activities, the Group is exposed to various financial risks, such as foreign exchange risk, interest rate risk, 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 pre-approved 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, who 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 "Foreign exchange risks")

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 "Interest rate risk").

Credit risks: Risks of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations is monitored locally by the individual Group companies (refer to Note 20 "Credit risk").

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 19 "Liquidity risk").

Contingent liabilities

Contingent liabilities represent potential obligations whose impact depends on the occurrence of one or more future events which cannot be influenced. Contingent liabilities are also existing obligations which 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

OC Oerlikon Corporation AG, Pfäffikon offers members of the Board of Directors and Executive Committee, as well as senior managers, options to purchase shares of the company under various participation 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 as personnel expense, with a corresponding increase in equity (equity settled plans). For cash-settled plans, a liability is recorded, which is measured at fair value at each reporting date with any movements in fair value being recorded as personnel expense.

Related-party transactions

Members of the Board of Directors or Executive Committee, significant shareholders and companies controlled or jointly controlled by any of those individuals as well as post-employment benefit plans of the Group are deemed to be related parties.

Adjustments of previously reported figures

Certain comparative figures for 2011 have been restated, reclassified or supplemented to conform to the current year. The following changes to the manner of presentation have been made:

Cash Flow Statement: The presentation of the cash flows from operating and financing activities have been changed in the current year and the 2011 figures have been reclassified to conform to the current year presentation. The reclassification of the prior year figures concerns the line items "Other financial expense (net)", "Other non-cash income" and "Other payments related to financing activities" and had no material effect.

Discontinued operations: Following the divestment of the Solar Segment and the announcement of the divestment of the Natural Fibers and Textile Components Business Units, the respective figures are shown as discontinued operations and certain 2011 figures have been restated in accordance with IFRS 5. The effects of the adjustments to the 2011 consolidated income statement are as follows:

in CHF million	January 1 to December 31, 2011 as reported	Oerlikon Solar	Natural Fibers and Textile Components	**January 1 to December 31, 2011 restated**
Sales of goods	3 367	–315	–962	2 090
Services rendered	815	–8	–166	641
Total sales	**4 182**	**–323**	**–1 128**	**2 731**
Cost of sales	–3 101	231	885	–1 985
Gross profit	**1 081**	**–92**	**–243**	**746**
Marketing and selling	–228	11	62	–155
Research and development	–211	68	42	–101
Administration	–245	15	29	–201
Impairment of goodwill	–2	2	–	–
Restructuring costs	–1	–	1	–
Other income	51	5	–7	49
Other expense	–26	1	5	–20
Result before interest and taxes (EBIT)	**419**	**10**	**–111**	**318**
Financial income	12	1	–2	11
Financial expense	–116	5	5	–106
Result before taxes (EBT)	**315**	**16**	**–108**	**223**
Income taxes	–91	8	19	–64
Result from continuing operations	**224**	**24**	**–89**	**159**
Result from discontinued operations	–	–24	89	65
Net income	**224**	**–**	**–**	**224**

Notes to the consolidated financial statements

Changes in scope of consolidation and Group structure

Note 1

During the financial year 2012, the following changes in scope of consolidation have occurred:

Acquisition of non-controlling interest
– On January 25, 2012, the Group purchased the non-controlling interest in Oerlikon Fibrevision Ltd, increasing the ownership to 100 %.

Divestments
– On March 2, 2012, Oerlikon Group agreed to sell the segment Oerlikon Solar. The transaction was closed on November 26, 2012. The following companies were sold as part of this transaction: Oerlikon Solar Holding AG, Oerlikon Solar AG, Oerlikon Mechatronics AG, Oerlikon Solar-Lab SA, Oerlikon Solar IP AG, Oerlikon Solar USA Inc., Oerlikon Laser Systems GmbH, Oerlikon Solar Taiwan Ltd., Oerlikon Solar Singapore Pte. Ltd., Oerlikon Solar (Shanghai) Trading Co. Ltd., OOO Oerlikon Rus. Refer to Note 2 for details.
– On June 29, 2012, the Textile Segment's Melco business was sold.
– On December 3, 2012, Oerlikon Group announced the divestment of its Natural Fibers and Textile Components Business Units. The transaction has not yet closed as per December 31, 2012. Refer to Note 2 for details.

Mergers
– On January 1, 2012, Oerlikon Optics USA Inc. was merged into Oerlikon Management USA Inc.
– On June 19, 2012, Saurer Financing LP was merged into Saurer AG.
– On November 26, 2012, Barmag Liegenschaften GmbH & Co. KG was merged into W. Reiners Verwaltungs-GmbH.

Liquidations and foundations
– On January 12, 2012, Oerlikon SEA Pte. Ltd. and on April 5, 2012, Oerlikon Textile Components Far East Ltd. were liquidated.
– As of May 23, 2012, Oerlikon Balzers Coating Malaysia Sdn. Bhd. was founded.

Discontinued operations and assets and liabilities classified as held for sale

Note 2

Divestment of the Solar Segment

On March 2, 2012, the Oerlikon Group agreed the terms of a divestment of its Solar Segment to a leading global supplier of semiconductor production equipment, Tokyo Electron Limited (TEL) of Japan. The transaction closed on November 26, 2012. The segment was not a discontinued operation or classified as held for sale as of December 31, 2011, and the comparative consolidated statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations. In connection with this divestment, Oerlikon has assumed specifically restricted representations for disclosure of claims with a notification duration which lapses in 2013. Based on estimates and assumptions made by management, neither a provision is recorded nor a contingent liability is disclosed as of December 31, 2012.

Divestment of the Natural Fibers and Textile Components Business Units

On December 3, 2012, the Oerlikon Group signed an agreement with the Jinsheng Group of China to divest the Natural Fibers and Textile Components Business Units from its Textile Segment. For non-occurrence of closing by either party, a break-up fee of CHF 20 million is agreed as a contractual penalty. The amount was paid into a deposit account in February 2013. The closing of the sale is expected in the second quarter of 2013, subject to merger control approvals. Consequently, the Natural Fibers and Textile Components Business Units are presented as a disposal group held for sale. On December 31, 2012, the disposal group comprised assets of CHF 713 million less liabilities of CHF 239 million. Cumulative exchange differences relating to foreign operations to be disposed of previously recognized in other comprehensive income, will be reclassified to the income statement on disposal of the Business Units, i.e. when control of the subsidiaries is lost. On December 31, 2012, the cumulative exchange differences concerned were negative (CHF –117 million) and, therefore, management assumes that a loss will be reclassified from other comprehensive income to the income statement on disposal. There is no other cumulative income or expense included in other comprehensive income relating to the disposal group. The disposal group was not a discontinued operation or classified as held for sale as of December 31, 2011, and the comparative consolidated statement of comprehensive income has been represented to show the discontinued operation separately from continuing operations. In connection with this divestment, Oerlikon has assumed certain customary obligations like warranty obligations and indemnifications. The indemnification obligations cover in particular employment-, intellectual property- and environment-related topics. The duration and overall liability caps for these indemnifications vary, but are customary for transactions of this nature. Based on estimates and assumptions made by management, neither a provision is recorded nor a contingent liability is disclosed as of December 31, 2012.

Divestment of property in Germany

Following the commitment of Oerlikon Group in December 2012 to sell a property in Germany, the respective assets amounting to CHF 24 million have been classified as held for sale. The sale was finalized in January 2013.

Result of discontinued operations

	January 1 to December 31, 2012			January 1 to December 31, 2011		
in CHF million	Solar	Natural Fibers and Textile Components	**Total**	Solar	Natural Fibers and Textile Components	**Total**
Sales	**51**	**956**	**1 007**	**323**	**1 128**	**1 451**
Total expenses	–145	–894	–1 039	–339	–1 020	–1 359
Result before taxes (EBT) from operating activities	**–94**	**62**	**–32**	**–16**	**108**	**92**
Income taxes	–5	–8	–13	–8	–19	–27
Result from operating activities	**–99**	**54**	**–45**	**–24**	**89**	**65**
Gain on sale of discontinued operations	207	–	207	–	–	–
Income tax on sale of discontinued operations	–	–	–	–	–	–
Net result from discontinued operations	**108**	**54**	**162**	**–24**	**89**	**65**
Attributable to:						
Shareholders of the parent	108	55	163	–24	88	64
Non-controlling interest	–	–1	–1	–	1	1
Earnings per share in CHF	0.33	0.17	0.50	–0.07	0.27	0.20
Fully diluted earnings share in CHF	0.32	0.17	0.49	–0.07	0.27	0.20

Cash flows from discontinued operations

	January 1 to December 31, 2012			January 1 to December 31, 2011		
in CHF million	Solar	Natural Fibers and Textile Components	**Total**	Solar	Natural Fibers and Textile Components	**Total**
Cash flow from operating activities	3	131	134	–57	70	13
Cash flow from investing activities	–9	–5	–14	–22	–13	–35
Cash flow from financing activities	50	–9	41	82	–4	78
Net cash flows from discontinued operations	44	117	161	3	53	56

Discontinued operations and assets and liabilities classified as held for sale

Note 2 (cont.)

Effect of disposal of the Solar Segment on the financial position

in CHF million	2012
Cash and cash equivalents	–65
Trade and other receivables	–38
Prepaid expenses and accrued income	–3
Inventories	–16
Non-current financial investments	–7
Property, plant and equipment	–78
Intangible assets	–19
Trade and other payables	22
Accrued liabilities	26
Current customer advances	54
Other current provisions	22
Deferred tax liabilities	7
Non-current post-employment benefit provisions	11
Net assets and liabilities	–84
Consideration received (cash and cash equivalents)	296
Cash and cash equivalents disposed of	–65
Net cash inflow	**231**

The reclassification of foreign currency differences previously recorded in other comprehensive income amounts to CHF 7 million.

Disposal group classified as held for sale

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 presented separately in the balance sheet. No losses on remeasurement have been incurred.

At December 31, 2012, the following assets and liabilities have been classified as held for sale:

Assets classified as held for sale

in CHF million	2012
Cash and cash equivalents	22
Current financial investments and derivatives	2
Trade receivables	137
Other receivables	13
Current tax receivables	2
Inventories	125
Prepaid expenses and accrued income	2
Loans and other non-current financial receivables	2
Non-current financial investments	3
Property, plant and equipment [1]	137
Intangible assets	281
Post-employment benefit assets	8
Deferred tax assets	3
Total assets classified as held for sale	**737**

[1] Includes CHF 24 million related to the proposed sale of the property in Germany (refer to “Divestment of property in Germany”)

Liabilities classified as held for sale

in CHF million	2012
Trade payables	104
Other current liabilities	12
Accrued liabilities	27
Current customer advances	38
Current income taxes payable	3
Other current provisions	16
Non-current post-employment benefit provisions	34
Deferred tax liabilities	3
Other non-current provisions	2
Total liabilities classified as held for sale	**239**

Other income and expense

Note 3

in CHF million	**2012**	2011 restated
Licensing, patent and know-how income	2	3
Rental income from non-operating real estate	13	13
Gain on sale of non-operating real estate	1	8
Other income [1]	61	25
Other income	**77**	**49**
Taxes not based on income	–4	–6
Impairment of property, plant and equipment and intangible assets	–	–6
Other expense	–5	–8
Other expense	**–9**	**–20**
Other income, net	**68**	**29**

[1] Other income for the financial year 2012 includes the gain on sale of Oerlikon Group's property in Arbon, Switzerland, amounting to CHF 39 million.

Expenses included in EBIT

Note 4

in CHF million	2012	2011 restated
Personnel expense		
Salaries and wages	595	566
Social security and other employee benefits [1]	170	174
Total	**765**	**740**
Depreciation and amortization		
– operating property, plant and equipment	105	104
of which in:		
Cost of sales	82	84
Marketing and selling	1	1
Research and development	5	5
Administration	17	14
– intangible assets	21	22
of which in:		
Cost of sales	–	–
Marketing and selling	2	2
Research and development	16	15
Administration	3	5
Total	**126**	**126**

[1] Included in the CHF 170 million expense for social security and other benefits is CHF 32 million (previous year: CHF 26 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 5

in CHF million	2012	2011 restated
Interest income	5	6
Other financial income [1]	32	5
Net gain on hedging transactions recognized in the income statement	14	–
Financial income	**51**	**11**
Interest on financial debt [2]	–41	–65
Interest on provisions for post-employment benefit plans	–17	–11
Other financial expense [3]	–67	–22
Foreign currency loss, net	–13	–8
Financial expense	**–138**	**–106**
Total	**–87**	**–95**

[1] Other financial income for the financial year 2012 includes the gain from the sale of a financial investment.

[2] The total interest expense amounted to CHF 70 million (previous year: CHF 77 million), which is included in interest on financial debt and other financial expense.

[3] Other financial expense for the financial year 2012 includes one-time charges amounting to CHF 47 million, in connection with the replacement of the old Syndicated Credit Facility.

Income taxes

Note 6

in CHF million	2012 Continuing operations	2012 Discontinued operations	2012 Total	2011 Total
Current income tax expense	–92	–6	–98	–78
Deferred tax expense	–19	–7	–26	–13
Total			**–124**	**–91**

Analysis of tax expense

in CHF million	2012	2011
Result before taxes from continuing operations	334	223
Result before taxes from discontinued operations, including gain on sale	175	92
Total	**509**	**315**
Tax expense from continuing operations	–111	–64
Tax expense from discontinued operations	–13	–27
Total	**–124**	**–91**
Expected tax expense [1]	–135	–86
Difference between actual and expected tax expense	**11**	**–5**

The difference between the tax expense calculated using the weighted average tax rate of Oerlikon Group (expected tax expense) of 26.4 % (previous year: 27.4 %) and the effective tax expense arises from the following factors:

Non-taxable income and expenses	34	1
Unrecognized deferred taxes on current-year losses	–27	–12
Non-refundable withholding tax	–16	–9
Utilization of unrecognized tax loss carry forwards from previous periods	7	3
Income tax from prior periods	14	–1
Recognition of previously not recognized tax losses	4	8
Other effects	–5	5
	11	**–5**

[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.

Note 6 (cont.)

Deferred taxes

Composition of deferred taxes

in CHF million	2012 Deferred tax balances Assets	2012 Deferred tax balances Liabilities	2011 Deferred tax balances Assets	2011 Deferred tax balances Liabilities
Trade accounts receivable	4	1	4	2
Other receivables and accruals	1	12	2	26
Inventories	42	2	44	1
Financial assets	1	6	1	1
Property, plant and equipment	18	46	20	54
Assets classified as held for sale	–3	–3	–	–
Intangible assets	2	115	3	111
Assets	**65**	**179**	**74**	**195**
Trade accounts payable	1	–	–	–
Other current and long-term liabilities	11	15	11	18
Financial liabilities	3	–	7	1
Provisions	112	7	97	4
Liabilities	**127**	**22**	**115**	**23**
Deferred tax asset from recognized tax loss carry forwards [1]	49	–	67	–
Netting	–128	–128	–145	–145
Total	**113**	**73**	**111**	**73**

[1] In 2012, tax loss carry forwards of CHF 296 million for federal taxes and CHF 70 million for state/local taxes were recognized (previous year: CHF 380 million for federal taxes and CHF 128 million for state/local taxes).

Movement in deferred tax balances during the year

2012

in CHF million	**Balance at January 1, 2012**	**Recognized in the income statement**	**Recognized in other comprehensive income**	**Other [1]**	**Balance at December 31, 2012**
Total	**38**	**–26**	**21**	**7**	**40**

[1] Effect of disposal of the Solar Segment on the financial position (see Note 2).

2011

in CHF million	Balance at January 1, 2011	Recognized in the income statement	Recognized in other comprehensive income	Other	Balance at December 31, 2011
Total	**36**	**–13**	**14**	**1**	**38**

Limitation of utilization of tax loss carry forwards

in CHF million	Tax losses not recognized as deferred tax assets		Total tax loss carry forwards	
	federal tax	state/local tax	federal tax	state/local tax
1 year	5	3	9	5
2 years	4	4	5	4
3 years	1	13	14	13
4 years	14	15	130	15
5 years	55	22	85	22
over 5 years	384	335	515	403
Total	**463**	**392**	**758**	**462**

Compared to previous year, tax loss carry forwards not recognized decreased by CHF 51 million for federal taxes and CHF 21 million for state/local taxes. On the one hand, the reason is that the tax loss carry forwards of the Solar Segment cannot be considered anymore, and on the other hand, that the forfeiture of certain tax loss carry forwards could be avoided. These additional tax loss carry forwards are only partially recognizable.

The deferred tax on unrecognized tax loss carry forwards would amount to CHF 103 million in 2012 (previous year: CHF 90 million).

Earnings per share

Note 7

Earnings per share of CHF 1.18 have been calculated on the basis of a net profit of CHF 382 million, attributable to shareholders (previous year: CHF 220 million), and the average weighted number of outstanding shares (issued shares less treasury shares). In 2012, the average weighted number of shares entitled to vote and receive dividends amounted to 323 700 961 (previous year: 322 718 881). Diluted earnings per share amounted to CHF 1.16. The average weighted number of shares used in the calculation of diluted earnings per share amounted to 328 200 827 (previous year: 322 718 881).

Number of outstanding shares	**2012**	2011
Total shares issued at year-end	325 964 498	323 124 010
Weighted average number of shares outstanding for the year	323 700 961	322 718 881
Effect of potential exercise of option rights	4 499 866	–
Weighted average number of shares diluted for the year	328 200 827	322 718 881

Cash and cash equivalents

Note 8

in CHF million	**2012**	2011
Cash, postal and bank current accounts	469	584
Time deposits	169	158
Total	**638**	**742**

CHF 189 million (previous year: CHF 214 million) of total cash and cash equivalents are held in countries in which prior approval is required to transfer funds abroad. Nevertheless, if the Group complies with these requirements, 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	**2012**	2011
CHF	207	265
EUR	185	188
USD	70	81
CNY	120	153
Other	56	55
Total	**638**	**742**

Financial investments

Note 9

in CHF million	2012	2011
Current[1]	5	5
Non-current	–	–
Financial assets, carried at fair value	**5**	**5**
Current	–	–
Non-current[2]	4	39
Financial assets, carried at cost	**4**	**39**
Current	11	3
Non-current	–	–
Derivatives used for hedging[3]	**11**	**3**
Total current financial investments and derivatives	**16**	**8**
Total non-current financial investments	**4**	**39**
Total	**20**	**47**

[1] Financial assets carried at fair value include marketable securities held as funding for the provision for partial retirement.

[2] Non-current financial investments include several small investments, which are not publicly traded and for which no financial information is available. These investments are held at cost. Currently, Oerlikon has no intention to sell these investments. On April 16, 2012, Oerlikon Group has sold its 13.97 % minority stake in Pilatus Flugzeugwerke AG.

[3] Valued at forward rates.

Loans and receivables

Note 10

in CHF million	2012	2011
Current		
Trade receivables	419	577
Trade notes receivable	55	58
Other receivables[1]	89	234
Non-current		
Loans and other non-current financial receivables	6	8
Total	**569**	**877**

[1] Other receivables include:
- Receivables from Swiss and foreign tax authorities (VAT) and insurance companies.
- Accrued sales under the POC method for orders which are not completely pre-financed by customer advances.

Inventories

Note 11

in CHF million	2012 Gross value	2012 Value adjustment	2012 **Net value**	2011 Gross value	2011 Value adjustment	2011 **Net value**
Raw material and components	172	–28	**144**	298	–54	**244**
Work in progress	143	–7	**136**	176	–17	**159**
Finished goods	64	–7	**57**	113	–15	**98**
Trade merchandise	62	–11	**51**	110	–29	**81**
Total	441	–53	**388**	697	–115	**582**

Amounts charged to the income statement for write-downs of inventories in the reporting year were CHF 7 million (previous year restated: CHF 7 million).

Construction contracts according to the percentage of completion method (POC)
The accrued sales under the POC method pertain to customer orders in the Textile Segment, summarized as follows:

in CHF million	**2012**	2011
POC sales recognized as revenue in the period [1]	**610**	477
Aggregate contract costs incurred and recognized contract profits to date [1]	**80**	120
Gross amount due from customers for contract work as an asset	**18**	138
Net amount of customer advances for POC projects [2]	**68**	121

[1] 2011 restated.

[2] This amount is included in the current customer advances totaling CHF 449 million (previous year: CHF 470 million).

Property, plant and equipment

Note 12

in CHF million	Plant, equipment and furniture	Production and administration buildings	Developed land	Facilities under construction	**2012 Total**
Cost					
Balance at January 1, 2012	1 369	598	94	42	2 103
Conversion differences	–21	–6	–2	–	–29
Changes in the scope of consolidated companies	–	–	–	–	–
Additions	89	4	–	82	175
Disposals	–27	–12	–2	–2	–43
Reclassifications to assets held for sale	–288	–181	–15	–5	–489
Transfers	53	22	–	–75	–
Balance at December 31, 2012	1 175	425	75	42	1 717
Accumulated depreciation and impairment losses					
Balance at January 1, 2012	–903	–285	–	–	–1 188
Conversion differences	12	3	–	–	15
Changes in the scope of consolidated companies	–	–	–	–	–
Depreciation	–106	–17	–	–	–123
Impairment losses	–	–	–	–	–
Disposals	21	2	–	–	23
Reclassifications to assets held for sale	189	85	–	–	274
Transfers	–	–	–	–	–
Balance at December 31, 2012	–787	–212	–	–	–999
Net Group values at December 31, 2011	466	313	94	42	915
Net Group values at December 31, 2012	**388**	**213**	**75**	**42**	**718**
Of which assets held under finance leases	1	2	–	–	3
Insured values in event of fire	1 876	976	–	10	2 862

Open purchase commitments for property, plant and equipment at the end of 2012 amounted to CHF 14 million (previous year: CHF 12 million).

Property, plant and equipment

Note 12 (cont.)

in CHF million	Plant, equipment and furniture	Production and administration buildings	Developed land	Facilities under construction	**2011 Total**
Cost					
Balance at January 1, 2011	1 305	603	95	36	2 039
Conversion differences	–24	–3	–1	–1	–29
Changes in the scope of consolidated companies	–	–1	–	–	–1
Additions	82	2	1	56	141
Disposals	–41	–5	–1	–	–47
Transfers	47	2	–	–49	–
Balance at December 31, 2011	1 369	598	94	42	2 103
Accumulated depreciation and impairment losses					
Balance at January 1, 2011	–834	–263	–	–	–1 097
Conversion differences	15	1	–	–	16
Changes in the scope of consolidated companies	–	–	–	–	–
Depreciation	–116	–21	–	–	–137
Impairment losses	–1	–6	–	–	–7
Disposals	33	4	–	–	37
Transfers	–	–	–	–	–
Balance at December 31, 2011	–903	–285	–	–	–1 188
Net Group values at December 31, 2010	471	340	95	36	942
Net Group values at December 31, 2011	**466**	**313**	**94**	**42**	**915**
Of which assets held under finance leases	1	2	–	–	3
Insured values in event of fire	2 340	1 287	1	7	3 635

Intangible assets

Note 13

in CHF million	Goodwill	Software	Technology and Development costs [1]	Other intangible assets [2]	**2012 Total**
Cost					
Balance at January 1, 2012	1 204	43	142	463	1 852
Conversion differences	–15	–	–1	–2	–18
Additions	–	2	15	–	17
Disposals	–	–2	–	1	–1
Reclassifications to assets held for sale	–264	–3	–60	–179	–506
Balance at December 31, 2012	925	40	96	283	1 344
Accumulated amortization and impairment losses					
Balance at January 1, 2012	–398	–34	–61	–98	–591
Conversion differences	3	–	1	–	4
Amortization	–	–3	–18	–7	–28
Impairment losses	–	–	–	–	–
Disposals	–	2	1	–	3
Reclassifications to assets held for sale	133	3	26	44	206
Balance at December 31, 2012	–262	–32	–51	–61	–406
Net Group values at December 31, 2011	806	9	81	365	1 261
Net Group values at December 31, 2012	**663**	**8**	**45**	**222**	**938**

[1] Additions to capitalized development costs are costs incurred in internal development projects and acquired technology. Development costs are recognized as intangible assets if they meet the criteria for such recognition set forth in IAS 38. After the development phase is complete, the asset is amortized over five years.

[2] Other intangible assets include brands of CHF 207 million (previous year: CHF 339 million) with indefinite useful life.

The capitalized development costs pertain to the Segments as follows:

Capitalized development costs for the period

in CHF million	**2012**	2011 [1]
Textile Segment	3	6
Vacuum Segment	5	5
Solar Segment	–	4
Coating Segment	5	6
Advanced Technologies Segment	2	3
Total	**15**	**24**

[1] Total includes CHF 8 million related to discontinued operations.

Intangible assets

Note 13 (cont.)

Goodwill and brands are attributed to the Segments as follows:

Goodwill and brands in CHF million	**2012** Goodwill	2011 represented Goodwill	**2012** Brands	2011 represented Brands
Textile Segment	114	248	136	267
Manmade Fibers	114	115	136	137
Natural Fibers [1]	–	54	–	127
Textile Components [1]	–	79	–	3
Drive Systems Segment	485	494	71	72
Coating Segment	26	26	–	–
Advanced Technologies Segment	38	38	–	–
Total	**663**	**806**	**207**	**339**

[1] On December 3, 2012, the Oerlikon Group signed an agreement with the Jinsheng Group of China to divest the Natural Fibers and Textile Components Business Units from its Textile Segments. Consequently, the Natural Fibers and Textile Components Business Units are presented as a disposal group held for sale. Goodwill and brands of the Natural Fibers and Components Business Units have been reclassified to assets classified as held for sale, following the announcement of the planned divestment (refer to Note 2 for details). For the Natural Fibers Business Unit, goodwill amounting to CHF 54 million and brands amounting to CHF 127 million have been reclassified to assets classified as held for sale. For the Components Business Unit, goodwill amounting to CHF 79 million and brands amounting to CHF 3 million have been reclassified to assets classified as held for sale. Before reclassification to assets held for sale, impairment tests for goodwill and brands have been carried out for the Natural Fibers and Components Business Units. The impairment tests supported the carrying amounts of goodwill and brands for both Business Units and therefore, no need for impairment was identified.

Goodwill and other intangible assets with indefinite useful life are allocated to those cash-generating units (CGUs) which are expected to benefit from the relevant business combination. The Business Units correspond to CGUs and are the lowest level at which goodwill is monitored by management. Goodwill and intangible assets with indefinite useful life are tested annually for possible impairment of value, using discounted cash flow analysis.

Effective January 1, 2012, the Textile Segment introduced a new organizational structure which reduced the number of Business Units from five to three. The new Manmade Fibers Business Unit comprises Oerlikon Barmag and Oerlikon Neumag, and the new Natural Fibers Business Unit consists of Oerlikon Schlafhorst and Oerlikon Saurer. The structure of the Textile Components Business Unit remained unaffected by the realignment. The attribution of goodwill and brands has been reclassified accordingly, and 2011 figures have been reclassified to conform with the new Business Unit structure.

As of January 1, 2012, the Business Units Graziano and Fairfield became fully integrated in the Drive Systems Segment. With this realignment, the global operations of these two Business Units are monitored and managed on a Segment level, including the review of financial information and the servicing of the global customer base. The attribution of goodwill and brands has been reclassified accordingly, and 2011 figures have been reclassified to conform with the new structure.

Asset values used in the impairment testing are based on net realizable values (fair value less costs to sell), and on the latest forecasts approved by management. The forecast period used for future cash flows covers the years 2013 to 2017. 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 impairment tests carried out at Business Unit level supported the carrying amounts and therefore, no need for impairment was identified.

Detailed results of the impairment testing are presented below for the four goodwill items (Textile, Drive Systems, Coating and Advanced Technologies), representing 100 % of the net book value at December 31, 2012.

The following growth rates and pre-tax discount rates were used:

Growth rates and discount rates per Segment	**2012** Growth rates [1]	2011 Growth rates [1]	**2012** Discount rates	2011 Discount rates
Textile Segment	2.0 %	1.0–2.0 %	10.5 %	9.8–11.2 %
Drive Systems Segment	2.5 %	2.5 %	10.5 %	10.3–10.4 %
Coating Segment	2.0 %	2.0 %	10.9 %	11.7 %
Advanced Technologies Segment	2.0 %	2.0 %	9.6 %	9.7 %

[1] For periods following the five-year plan period 2013 to 2017.

For the Business Units of the Textile Segment as well as for the Advanced Technologies and the Coating Segments, neither a reduction of the growth rate of the terminal value to 0.5 % (prior year: 1.0 %), nor an increase in the discount rate of 1.5 % (prior year: 0.5 %) would give rise to an impairment of goodwill.

For the Drive Systems Segment, neither a reduction of the growth rate of the terminal value to 0.5 % (prior year: 1.5 %), nor an increase in the discount rate of 1.5 % (prior year: 0.5 %) would give rise to an impairment of goodwill.

Intangible assets

Note 13 (cont.)

Previous year in CHF million	Goodwill	Software	Technology and Development costs	Other intangible assets	**2011 Total**
Cost					
Balance at January 1, 2011	1 219	44	121	471	1 855
Conversion differences	–15	–1	–1	–5	–22
Additions	–	1	24	1	26
Disposals	–	–1	–2	–4	–7
Reclassifications to assets held for sale	–	–	–	–	–
Balance at December 31, 2011	1 204	43	142	463	1 852
Accumulated amortization and impairment losses					
Balance at January 1, 2011	–403	–31	–41	–87	–562
Conversion differences	7	–	–	–	7
Amortization	–	–4	–20	–14	–38
Impairment losses	–2	–	–2	–	–4
Disposals	–	1	2	3	6
Reclassifications to assets held for sale	–	–	–	–	–
Balance at December 31, 2011	–398	–34	–61	–98	–591
Net Group values at December 31, 2010	816	13	80	384	1 293
Net Group values at December 31, 2011	**806**	**9**	**81**	**365**	**1 261**

Post-employment benefit provisions

Note 14

in CHF million	**2012**	within 1 year	Due beyond 1 year	2011	within 1 year	Due beyond 1 year
Post-employment benefit provisions	549	23	526	539	26	513
Other non-current employee benefit provisions	8	1	7	14	2	12
Subtotal	**557**	24	533	553	28	525
Post-employment benefit provisions classified as held for sale	30	–	30	–	–	–
Other non-current employee benefit provisions classified as held for sale	4	–	4	–	–	–
Total	**591**	24	567	553	28	525

Post-employment benefit provisions are related to the following plans:

			2012			2011
in CHF million	**Total**	Defined benefit	Defined contribution	Total	Defined benefit	Defined contribution
Number of plans						
Funded plans	**33**	24	9	40	26	14
Unfunded plans	**25**	25	–	27	27	–
Number of insured members						
Active members [1]	**11 329**	9 615	1 714	12 342	10 644	1 698
Vested terminations [2]	**5 450**	5 016	434	6 373	5 060	1 313
Retired members	**8 493**	8 462	31	8 530	8 454	76
in CHF million						
Pension cost (operative)	**32**	24	8	26	23	3
Pension cost (financial)	**16**	16	–	11	11	–
Total post-employment benefit plan cost	**48**	40	8	37	34	3
Post-employment benefit provisions	**579**	579	–	539	539	–
Post-employment benefit assets	**9**	9	–	–	–	–

[1] In certain Group companies, members belong to multiple plans.

[2] Former employees of a Group company with vested rights in a pension plan.

Post-employment benefit provisions

Note 14 (cont.)

Defined benefit plans	2012			2011		
in CHF million	**Total**	Funded	Unfunded	Total	Funded	Unfunded
Projected benefit obligation (PBO)	**–1 178**	–767	–411	–1 184	–812	–372
Plan assets at market value [3]	**632**	632	–	673	673	–
Assets below PBO	**–546**	–135	–411	–511	–139	–372
Post-employment benefit provisions	**579**	168	411	539	167	372
Post-employment benefit assets [4]	**9**	9	–	–	–	–
Unrecognized surplus	**24**	24	–	28	28	–
of which:						
– past service costs	**–**	–	–	2	2	–
– unrecognized assets (effect of capitalization limit IAS 19.58(b))	**24**	24	–	26	26	–

[3] Plan assets include:	**2012**		2011	
Equity instruments	**195**	31 %	173	26 %
Bonds and other obligations	**228**	36 %	229	34 %
Real estate [5]	**97**	15 %	101	15 %
Other	**112**	18 %	170	25 %
Total plan assets	**632**	100 %	673	100 %

[4] The post-employment benefit asset relates mainly to an impending divestment and is shown as assets held for sale (see Note 2).

[5] Plan assets include real estate in Germany with a fair value of CHF 9 million (previous year: CHF 9 million); the property is rented by a Group company, with an annual rent of CHF 1 million (previous year: CHF 1 million).

Funded status and experience adjustments	**2012**	2011	2010	2009	2008
Projected benefit obligation (PBO)	**–1 178**	–1 184	–1 158	–1 215	–1 335
Plan assets at market value	**632**	673	682	730	861
Assets below PBO	**–546**	–511	–476	–485	–474
Experience adjustments					
– to obligations (gains (–)/losses (+))	**–11**	9	12	–3	–7
– to plan assets (gains (+)/losses (–))	**23**	–28	7	14	–147

Post-employment benefit provisions

Note 14 (cont.)

in CHF million	2012	2011
Plan assets at market value at January 1	**673**	**682**
Expected return on plan assets	26	32
Employee contributions	9	10
Employer contributions	24	20
Actuarial gains (+)/losses (–)	23	–28
Amounts paid out	–36	–42
Changes in the scope of consolidated companies	–84	–
Conversion differences	–3	–1
Plan assets at market value at December 31	**632**	**673**
Present value of projected benefit obligation (PBO) at January 1	**1 184**	**1 158**
Service cost	33	33
Interest cost	43	43
Actuarial losses	89	28
Amounts paid out	–59	–68
Changes in the scope of consolidated companies	–102	–5
Conversion differences	–10	–5
Present value of projected benefit obligation (PBO) at December 31	**1 178**	**1 184**
Pension cost – defined benefit plans		
Current service cost	–33	–33
Employee contributions	9	10
Current service cost after deduction of employee contributions	**–24**	**–23**
Current service cost after deduction of employee contributions	–24	–23
Interest cost	–43	–43
Expected return on plan assets	26	32
Effect of plan mutations	1	–
Total pension cost – defined benefit plans [6]	**–40**	**–34**

[6] Pension costs of CHF 8 million are included in result of discontinued operations (2011: CHF 7 million).

Assumptions used in actuarial calculations	2012	2011
(weighted average rates)		
Discount rate	3.1 %	3.9 %
Salary progression	2.1 %	2.1 %
Benefit progression	0.8 %	0.7 %
Return on plan assets	4.4 %	4.3 %

The expected return on funded plan assets is based on the long-term historical performance of the separate categories of plan assets for each funded pension plan. The calculation includes assumptions concerning expected income and realized or unrealized gains on plan assets. The expected return on plan assets included in the income statement is calculated by multiplying the expected rate of return by the fair value of plan assets. The difference between the expected return and the actual return in any twelve-month period is an actuarial gain/loss, and is recorded directly in other comprehensive income. In 2012, the actual return on plan assets was CHF 49 million (previous year: CHF 4 million).

Actuarial losses recognized in other comprehensive income

in CHF million	2012	2011
Accumulated values at January 1	**144**	**97**
Actuarial losses recognized during year	72	47
Changes in the scope of consolidated companies	–17	–
Accumulated values at December 31	**199**	**144**
Effect of capitalization limit IAS 19.58(b)	6	–9

The employer contributions for 2013 are expected to be approximately CHF 22 million (previous year: CHF 27 million).

Liabilities

Note 15

in CHF million	Note	**2012**	2011
Current			
Bank debts		2	1
Trade payables		287	457
Other payables, excluding derivatives		47	62
Total		**336**	**520**
Derivatives used for hedging		1	23
Total current financial liabilities		**337**	**543**
Non-current			
Loans payable	19	3	830
Financial leases	19	3	2
Bond	19	298	–
Total non-current financial liabilities		**304**	**832**

Accrued liabilities

Note 16

in CHF million	**2012**	2011
Accrued personnel costs	94	117
Accrued material costs	44	70
Other accrued liabilities	61	84
Total	**199**	**271**

Provisions

Note 17

in CHF million	Product warranties	Onerous contracts [1]	Restructuring [2]	Other provisions [3]	**2012 Total**
Balance at January 1, 2012	78	11	39	31	**159**
Conversion differences	–2	–	–	–	**–2**
Change in the scope of consolidated companies	–	–	–	–	**–**
Additions	27	1	3	6	**37**
Amounts used	–18	–1	–33	–3	**–55**
Amounts reversed	–13	–5	–3	–16	**–37**
Reclassifications to liabilities held for sale	–36	–3	–1	–3	**–43**
Transfers	–	–	–	2	**2**
Balance at December 31, 2012	**36**	**3**	**5**	**17**	**61**
Due within 1 year	36	1	5	15	**57**
Due beyond 1 year [4]	–	2	–	2	**4**

[1] Provisions are made for cases where the costs of fulfilling contractual obligations (e.g. projects) are higher than their expected economic benefit. During the preparation of the financial statements, a systematic reassessment of the project risks was conducted and appropriate adjustments were made to the cost estimates for the projects underway in the individual Business Units. The basis for such was the so-called “most likely outcome”. This requires estimates to be made with regard to the technical and time-related realization of those projects, and also includes a quantification of the relevant risks.

[2] The restructuring provisions pertain to the Segments Vacuum (CHF 3 million) and Textile (CHF 2 million).

[3] Other provisions cover various risks which occur in the normal course of business. They consist mainly of provisions for pending litigation, technical risks and product anomalies.

[4] For the long-term provisions, the cash outflow is assumed to be within the next two to three years.

Financial instruments

Note 18

in CHF million	2012 Contract volume	2012 Fair value positive	2012 Fair value negative	2011 Contract volume	2011 Fair value positive	2011 Fair value negative
Forward exchange contracts	**430**	**11**	**1**	**505**	**3**	**23**
Interest-rate derivatives	**600**	**–**	**–**	**600**	**–**	**–**
Interest-rate swaps	–	–	–	–	–	–
Interest caps [1]	600	–	–	600	–	–
Total	**1 030**	**11**	**1**	**1 105**	**3**	**23**

Based on the Group's business activities, the following main currencies are hedged: EURO and US dollar. Positive and negative changes in fair values of currency derivatives are offset by the corresponding gain or loss on the underlying hedged transactions. The maximum risk of counterparty non-performance is equal to the positive deviation from fair value. In view of the reputation of the counterparties, this risk is deemed to be minimal. In principle, the maturities of currency and interest-rate hedges correspond to the maturity of the underlying base transaction. 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 recycled 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 and interest-rate derivatives 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
Forward exchange contracts							
2012	10	**430**	389	38	3	–	–
2011	–20	**505**	417	82	6	–	–

[1] As a hedge against the interest rate risk inherent in the interest rate of the syndicated loan, two interest caps were taken out in June 2010 for a nominal amount of CHF 600 million. The interest caps run to 2014, and over that period, they compensate for any excess of the 3-month-CHF-LIBOR over 2 % by paying out the difference.

Liquidity risk

Note 19

Liquidity risk is the risk that Oerlikon may be unable to discharge its financial liabilities in a timely manner or at an acceptable cost. Oerlikon Group 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 an acceptable financing cost. GroupTreasury 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 liquidity forecasts, about which senior management are kept informed. On the basis of this plan, Oerlikon mobilizes the necessary liquid funds and takes any further steps necessary on a timely basis.

Terms and debt repayment schedule

in CHF million	Carrying amount	Contractual cash flow	within 1 year	1 to 5 years	more than 5 years	2012 of which secured
Bank overdrafts	1	1	1	–	–	–
Fixed advances	1	1	1	–	–	–
Trade payables	287	287	287	–	–	–
Loans and borrowings [1]	299	364	17	347	–	–
Gross finance lease obligation	3	3	–	–	3	–
Accrued liabilities	98	98	98	–	–	–
Non-derivative financial liabilities	**689**	**754**	**404**	**347**	**3**	**–**
Forward exchange contracts used for hedging	–10	430	427	3	–	–
– thereof: for hedging fx-outflows	–10	117	115	2	–	–
– thereof: for hedging fx-inflows	–	313	312	1	–	–
Derivative financial instruments [2]	**–10**	**430**	**427**	**3**	**–**	**–**
Total	**679**	**1 184**	**831**	**350**	**3**	**–**

[1] Loans and borrowings mainly include a CHF 300 million Swiss Franc bond with a coupon rate of 4.25 %, maturing in July 2016, including capitalized transaction costs of CHF 2 million. The contractual cash flows include future interest payments until maturity.

[2] Contractual cash flows relate to underlying transactions which cover the contractual cash flows almost completely.

in CHF million	Carrying amount	Contractual cash flow	within 1 year	1 to 5 years	more than 5 years	2011 of which secured
Bank overdrafts	1	1	1	–	–	–
Fixed advances	–	–	–	–	–	–
Trade payables	457	457	457	–	–	–
Loans and borrowings	830	1 037	34	1 003	–	–
Gross finance lease obligation	2	2	–	–	2	–
Accrued liabilities	151	151	151	–	–	–
Non-derivative financial liabilities	**1 441**	**1 648**	**643**	**1 003**	**2**	**–**
Forward exchange contracts used for hedging	20	505	499	6	–	–
– thereof: for hedging fx-outflows	–	117	114	3	–	–
– thereof: for hedging fx-inflows	20	388	385	3		
Derivative financial instruments	**20**	**505**	**499**	**6**	**–**	**–**
Total	**1 461**	**2 153**	**1 142**	**1 009**	**2**	**–**

Terms and debt repayment schedule

Note 19 (cont.)

in CHF million	Currency	Nominal interest rate	Year of maturity	2012 Face value	2012 Carrying amount
Syndicated loan / Revolving Credit Facility (Facility A)	CHF	Libor + 2.50 %	2015	–	–
Bond [1]	CHF	4.25 %	2016	300	298
Finance lease non-current [2]	var.	var.	2014–2027	3	3
Finance lease current [2]	var.	var.	2013	–	–
Various current and non-current liabilities [3]	var.	var.	var.	3	3
Total interest-bearing liabilities					**304**

in CHF million	Currency	Nominal interest rate	Year of maturity	2011 Face value	2011 Carrying amount
Syndicated loan /Term Loan (Facility B) [4]	CHF	Libor + 2.00 %	2014	235	219
Syndicated loan /Term Loan (Facility B)	EUR	Libor + 2.00 %	2014	83	83
Syndicated loan /Term Loan (Facility B)	USD	Libor + 2.00 %	2014	43	43
Syndicated loan /Term Loan (Facility C) [5]	CHF	Libor + 11.00 %	2014	483	483
Finance lease non-current [2]	var.	var.	2013–2027	2	2
Finance lease current [2]	var.	var.	2012	–	–
Various current and non-current liabilities [6]	var.	var.	var.	2	2
Total interest-bearing liabilities					**832**

In June 2012, the Oerlikon Group entered into a new unsecured Syndicated Credit Facility amounting to CHF 800 million. The new facility initially included (i) a CHF 700 million credit facility (Facility A), consisting of a revolving facility of CHF 450 million and an ancillary facility of CHF 250 million, with a tenor of three years and two additional one-year extension options, and (ii) a twelve months CHF 100 million optional term loan (Facility B). Facility A was used to refinance part of Oerlikon's existing facilities, as well as for general corporate purposes. The interest rate of the new Syndicated Credit Facility is Libor plus a margin. As at December 31, 2012, the margin is 2.5 % p. a. After six months, the margin is subject to a Net Debt / EBITDA margin grid with a range from 2 % to 3 % per year. The effective date of the new Syndicated Facility Agreement was July 13, 2012.

As of December 31, 2012, the new Syndicated Credit Facility contains the following financial covenants, which are tested quarterly or yearly:
– Total Equity
– Total Borrowings / EBITDA
– EBITDA / Net Interest Expense

On June 13, 2012, the Oerlikon Group successfully issued a 4-year CHF 300 million straight bond with a coupon of 4.25 % (interest to be paid out in July). The issuance of the domestic bond was conditional for the effectiveness and utilization of the new Syndicated Credit Facility. The settlement date of the bond was on July 13, 2012. In the light of the successful issuance of the domestic bond exceeding expectations, the twelve months CHF 100 million optional term loan (Facility B) has been cancelled.

To achieve the new financing structure, the existing loan facilities have been fully repaid in July 2012, using (i) bond proceeds of some CHF 300 million, (ii) drawings under new Syndicated Credit Facility of CHF 230 million and (iii) cash.

With the replacement of the old Syndicated Credit Facility, one-time charges amounting to CHF 47 million have been incurred in 2012 and are included in other financial expense.

The initial revolving credit facility drawing of CHF 230 million was increased by CHF 100 million in connection with a short-term prefunding of the Solar sale and fully paid back during the year 2012. As of December 31, 2012, the revolving credit facility balance was zero and ancillary credit facility was CHF 250 million (thereof CHF 146 million was unused).

[1] Face value differs from book value, because CHF 2 million of directly attributable transaction costs related to the financing of the bond were deducted and are being expensed over the term of the bond. The effective interest rate of the bond is 4.5 % p.a.

[2] The finance leases are secured by contract provisions normal for such leases.

[3] Various currencies including: CHF, EUR, USD, RON, HUF.

[4] Face value differed from book value in respect of the senior term loan (Facility B), because CHF 16 million of directly attributable transaction costs related to the financing of the credit facility were deducted from the senior term loan for simplification purposes, and were expensed over the term of the loan.

[5] The junior term loan (Facility C) included a cash interest of Libor + 4 % and a compounded interest of 7 %. The 7 % interest was added to Facility C quarterly, hence was increasing the interest amount constantly.

[6] Various currencies including: CHF, EUR, INR, USD, BRL, HUF, RON, CAD.

Credit risk

Note 20

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 receivables from customers and investment securities.

The credit or default risk associated with operating receivables is monitored locally by the individual Group companies. These companies follow an established group-wide credit policy, 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 defined country credit limits are set and monitored on an ongoing basis. "High risk" customers are placed on a restricted customer list, and future sales with them are made on a prepayment basis only. Letters of credit and other instruments are also used to reduce credit risk. Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have a secured claim.

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.

As a fundamental principle, the Group places funds only with first-rate domestic and foreign banking institutions, and Group Treasury periodically assesses the relevant ratings of these bank institutions.

Oerlikon Group's maximum credit risk from financial instruments is reflected in the book values of the individual financial assets. 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	**2012**	2011
Cash and cash equivalents	638	742
Financial assets, carried at fair value	5	5
Financial assets, carried at cost	4	39
Derivatives used for hedging	11	3
Trade receivables	474	635
Accrued sales under percentage of completion (POC) method for orders without customer advances	18	138
Loans and other financial receivables	6	8
Total	**1 156**	**1 570**

Trade receivables are distributed geographically (by location of the Group company) as follows:

in CHF million	**2012**	2011
Asia	133	148
Europe	290	410
North America	47	68
Other	4	9
Total	**474**	**635**

No concentrations of risk to the Group are expected from the outstanding receivables.

Ageing of trade receivables

Note 20 (cont.)

in CHF million	2012[1] Gross amount	2012[1] Value adjustment	2011[2] Gross amount	2011[2] Value adjustment
Current (not due)	**417**	**–1**	**555**	**–2**
Total past due	**69**	**–11**	**97**	**–15**
0–30 days	33	–2	51	–1
31–60 days	13	–	16	–1
61–90 days	5	–1	8	–
91–120 days	4	–1	4	–1
over 120 days	14	–7	18	–12
Total	**486**	**–12**	**652**	**–17**

[1] Continuing operations.

[2] As reported.

Provisions for doubtful debts are based on the difference between the nominal value of receivables and the amounts considered collectible. Amounts considered collectible are developed from experience. A receivable is considered to be doubtful if certain facts are known which suggest that a debtor is in significant financial difficulty and that amounts receivable from that source are unlikely to be received at all, or only in part.

Reconciliation of changes in allowance accounts for credit losses:

in CHF million	2012	2011
Balance at January 1	–17	–21
Change in the scope of consolidated companies	1	–
Reclassifications to assets held for sale	5	–
Additional impairment losses charged to income[1]	–6	–4
Reversal of impairment losses	4	6
Write-off	1	2
Balance at December 31	**–12**	**–17**

[1] 2011 includes CHF 1 million related to discontinued operations.

Market risk

Note 21

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. Oerlikon 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
The Group has adopted the Swiss franc as its reporting currency. Due to its most significant markets, the Group is primarily exposed to exchange risks versus the US dollar and Euro. If costs and revenues of Group companies are incurred or earned in differing or non-local 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, who hedges the related exchange risks using internal hedging contracts with the companies concerned, and external contracts with first-class 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 made 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 which 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 risk arising from foreign subsidiary balance sheets – the effect of which is a currency impact on consolidated Group equity – is not hedged.

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
	2012	2011	11/12	**2012**	2011	11/12
1 USD	0.938	0.887	5.7%	0.914	0.940	–2.8%
1 EUR	1.205	1.233	–2.3%	1.208	1.219	–0.9%
100 CNY	14.900	13.700	8.8%	14.700	14.900	–1.3%
100 HKD	12.100	11.300	7.1%	11.800	12.100	–2.5%
100 JPY	1.177	1.112	5.8%	1.063	1.212	–12.3%
1 SGD	0.751	0.705	6.5%	0.746	0.723	3.2%

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 12.87% (USD/CHF) and 11.01% (EUR/CHF), a corresponding change in exchange rates at December 31, 2012 would have changed the equity and the income statement by the amounts listed below.

31 December	**2012**		2011	
Effect in CHF million	Equity	Income statement	Equity	Income statement
USD	1	3	–1	6
EUR	–1	3	1	3

A 12.87 % (USD/CHF) and 11.01 % (EUR/CHF) weakening of the Swiss franc against the above currencies would have had the same but opposite effect on the above currencies to the amounts shown above, assuming all other variables remain constant. In the previous period, the sensitivity analysis was calculated with 13.8 (USD/CHF) and 12.67 (EUR/CHF).

Note 21 (cont.)

Exposure to foreign exchange risk

The Group's exposure to foreign exchange risk was as follows, based on nominal amounts as of December 31, 2012:

	2012 [1]			2011 [2]		
in million	EUR	USD	CHF	EUR	USD	CHF
Trade receivables	11	10	–	11	26	–
Trade payables	6	5	2	14	13	4
Net financial position	21	34	–67	33	48	–
Gross exposure consolidated balance sheet	**38**	**49**	**–65**	**58**	**87**	**4**
Foreign exchange risk in business operations	**–9**	**140**	**–12**	**159**	**121**	**–31**
Open foreign exchange forward contracts	**–6**	**–124**	**8**	**–147**	**–128**	**21**
Net exposure	**23**	**65**	**–69**	**70**	**80**	**–6**

[1] Continuing operations.
[2] As reported.

Interest rate risk

Oerlikon is exposed to interest rate risk mainly from drawings from the syndicated loan facility (at which no drawing is open at year end 2012), which are placed at variable interest rates, but also on a much smaller scale from its liquid funds, which are also placed at variable rates or held as short-term investments. Amounts drawn down from the syndicated loan are subject to interest rate fluctuations.

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.

At December 31, 2012, the interest rate profile of the Group's interest-bearing financial instruments was:

in CHF million	**2012** **Net carrying amount**	2011 Net carrying amount
Fixed rate interest		
Financial assets	–	3
Financial liabilities	–303	–
Total	**–303**	**3**
Variable rate interest		
Financial assets	643	745
Financial liabilities	–1	–832
Total	**642**	**–87**

Cash flow sensitivity analysis for variable rate instruments
A change of 100 basis points (bp) in interest rates at the reporting date would have decreased (increased) 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**
2012		
Cash flow sensitivity	5	–
2011		
Cash flow sensitivity	–2	3

It has been assumed that a change of +100 bp has a full impact on interest income and expenses. In case of a decrease of 100 bp, we assumed no negative impact of interest on assets, due to the overall low interest rates. Tax impact has been included in all figures regarding interest sensivity.

A change of 100 basis points in interest rates would have no impact on Group equity.

Capital management

Note 21 (cont.)

The positive result in 2012 has again led to an improved equity ratio, debt-to-equity ratio and return on equity compared to last year.

The ratios are shown in the table below:

in CHF million	**2012**	2011
Total assets	4 159	4 573
Equity attributable to shareholders of the parent	1 858	1 586
Equity ratio in %	**45 %**	**35 %**
Interest-bearing debt	304	832
Equity	1 882	1 610
Debt-to-equity ratio	**0.2**	**0.5**
Average equity	1 746	1 532
Net result attributable to the shareholders of the parent	382	220
Return on equity	**22 %**	**14 %**

With an equity ratio of 45 % (2011: 35 %), the Oerlikon Group trails well within the range of its financial policy, approaching investment grade for capital markets.

Fair values versus carrying amounts at December 31

Note 22

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

		2012		2011
in CHF million	**Carrying amount**	**Fair Value**	Carrying amount	Fair Value
Cash and cash equivalents	**638**	**638**	742	742
Financial assets	**9**	**9**	44	44
Loans and receivables	**498**	**498**	781	781
Forward exchange contracts				
– Assets	**11**	**11**	3	3
– Liabilities	**–1**	**–1**	–23	–23
Secured bank loans	**–**	**–**	–828	–828
Unsecured bank loans	**–2**	**–2**	–2	–2
Bond	**–298**	**–319**	–	–
Finance lease liabilities	**–3**	**–3**	–2	–2
Trade payables	**–287**	**–287**	–457	–457
Accrued liabilities	**–98**	**–98**	–151	–151
Total	**467**	**446**	107	107
Unrecognized gains/losses		**–21**		**–**

Fair value hierarchy

The fair values for financial instruments carried at fair value have been calculated, from a hierarchy point of view, as level 2 assessments (observable inputs other than quoted prices in markets for identical assets and liabilities), and include financial assets of CHF 9 million (prior year: CHF 44 million), derivative financial assets of CHF 11 million (prior year: 3 million) and derivative financial liabilities of CHF 1 million (prior year: CHF 23 million).

OC Oerlikon participation plans

Note 23

On December 31, 2012, 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 value of the RSU per year end is based on the weighted average share price of CHF 8.1.

Members of senior management may receive, as portion of their compensation, a long-term incentive in the form of Restricted Stock Units (RSU) for OC Oerlikon Corporation AG, Pfäffikon shares, with a vesting period of 3 years. The value of the RSU per year end is based on a weighted average share price of CHF 5.7. The RSU program for senior management has been discontinued after 2009.

Year of allocation	Outstanding on 1.1.	Granted in 2012	Forfeited in 2012	Exercised in 2012	Outstanding on 31.12.	Average share price in CHF	Expenses for the period in CHF million	Vesting period
2009	235 791	–	–	235 791	–	5.7	0.3	01.05.09–30.04.12
2011	145 684	–	–	145 684	–	6.9	0.4	11.05.11–12.04.12
2012	–	130 711	–	–	130 711	8.1	0.7	12.04.12–30.04.13
Total	**381 475**	**130 711**	**–**	**381 475**	**130 711**		**1.4**	

Performance Share Awards (PSA)

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, which are based on performance conditions and a vesting period of three years. Performance conditions may consist of financial objectives. Their achievement determines the effective number of total Performance Share Awards (PSA). Upon vesting, the effective number of PSA is converted into shares.

The population eligible for participating in the Performance Share Plan was expanded in 2012. Performance conditions are based on the rank of the Total Sharerholder Return (TSR) of Oerlikon over a three-year period, within a Peer Group consisting of 28 companies including OC Oerlikon. TSR is measured with a starting value of the Volume Weighted Average Share Price (VWAP) over the first 30 trading days of the first year, and an ending value of the VWAP over the last 30 trading days of the third year. The fair market value at grant date is CHF 16.55, and has been calculated using a Monte Carlo Simulation. Main assumptions include a stock price of CHF 8.97 and an average expected volatility of the peer group of 40.38 %. The rank of Oerlikon's TSR at the end of the Performance Period determines the effective number of total shares. At Rank 3 of the peer group or above, a maximum payout of 200 % of target performance share awards (PSA) are converted into shares. At Rank 10 of the peer group, the payout is 100 %, at Rank 15 it is 80 % and at Rank 20 or below, it is 0 %.

Year of allocation	Outstanding on 1.1.	Granted in 2012	Forfeited in 2012	Exercised in 2012	Outstanding on 31.12.	Average share price in CHF	Expenses for the period in CHF million[1]	Vesting period
2010	484 465	–	114 149	–	370 316	4.6	0.7	01.05.10–30.04.13
2011	565 718	–	138 024	–	427 694	6.8	1.5	01.05.11–30.04.14
2012	–	956 696	19 734	83 771	853 191	9.0	3.8	01.05.12–30.04.15
Total	**1 050 183**	**956 696**	**271 907**	**83 771**	**1 651 201**		**6.0**	

[1] The total expense of CHF 6.0 million includes expenses of discontinued operations in the amount of CHF 0.6 million.

Share Options

In previous years, employees could receive a portion of their compensation as options for OC Oerlikon Corporation AG, Pfäffikon with a blocking period of one, two, three or four years. Holders are entitled to purchase one share for each option held. The value per year end is based on a Black-Scholes valuation, including a weighted average share price of CHF 70. No options have been granted since 2008.

Year of allocation	Outstanding on 1.1.	Granted in 2012	Forfeited in 2012	Exercised in 2012	Outstanding on 31.12.	Exercise price in CHF	Expenses for the period in CHF million	Vesting period
2007	9 282	–	–	–	9 282	80	–	01.01.08–31.12.13
	9 282	–	–	–	9 282	80	–	01.01.09–31.12.13
	9 282	–	–	–	9 282	80	–	01.01.10–31.12.13
	9 282	–	–	–	9 282	80	–	01.01.11–31.12.13
Total	**37 128**	**–**	**–**	**–**	**37 128**		**–**	

Related Party transactions

Note 24

Members of the Board of Directors or Executive Committee, significant shareholders and companies controlled or jointly controlled by any of those individuals as well as post-employment benefit plans of the Group are deemed to be related parties. Transactions with related parties are generally conducted at arm's length.

Significant shareholders

The share capital of CHF 325 964 498 consists of 325 964 498 registered shares, each with a par value of CHF 1.00. On December 31, 2012, conditional capital amounted to CHF 61 334 431 (2011: CHF 64 174 919).

The shareholders registered as holding more than 5 % of the shares as at December 31, 2012, were:

Shareholder	Share ownership [1] No. of shares	in %
Renova Group [2]	156 210 954 [3]	47.92 %
Chase Nominees Ltd, London	18 170 486 [4]	5.57 %

[1] Sources: Disclosure notification pursuant to Art. 20 of the Swiss Stock Exchange Law by Renova Group (published by SIX Exchange Regulation on September 6, 2012) and share register (Chase Nominees Ltd).

[2] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow. Renova Group is composed of Liwet Holding AG, Zurich, Switzerland, Renova Industries Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama.

[3] At the end of 2011, the Renova Group held (as per disclosure notification) 155 035 964 shares (47.98 % of the issued Oerlikon shares).

[4] At the end of 2011, Chase Nominees Ltd, London, held (according to the share register) 9 501 954 shares (2.94 % of the issued Oerlikon shares).

Compensation of Non-Executive Members of the Board of Directors

Members of the Board of Directors receive a cash compensation and Restricted Stock Units (RSU). The cash compensation consists of a Board member fee, a fee for Committee Chairmen, a fee for Committee members and a fee for the Chairman of the Board of Directors. In addition, a cash allowance is paid to all Board members. Board members receive Restricted Stock Units (RSU), which are blocked from their grant at the annual shareholders meeting until the following annual shareholders meeting 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 compensation is set by the Human Resources Committee and approved by the Board of Directors after the annual shareholders meeting.

The total compensation for the eight non-executive members of the Board of Directors in 2012 was CHF 2.2 million. In 2011, the total compensation for the same non-executive members of the Board of Directors amounted to CHF 2.1 million, while the total compensation for all non-executive members of the Board of Directors in 2011 amounted to CHF 2.3 million.

in CHF 000	Board of Directors	Strategy Committee	Audit Committee	HR Committee	Cash Compensation	Restricted Stock Units (RSU) 2011/12 [1]	Restricted Stock Units (RSU) 2012/13 [1]	Other Compensation [2]	**Total Compensation 2012**	**Total Compensation 2011**
Tim Summers	C	C		C	169	115	193	40	517	277
Kurt J. Hausheer	M		C		125	50	86	22	283	287
Dr. Urs A. Meyer [3]	M		M		30	51	–	10	91	294
Reyad Fezzani [4]	M		M		75	–	86	5	166	–
Hans Ziegler	M	M		M	129	51	86	22	288	293
Carl Stadelhofer	M			M	102	51	86	21	260	258
Gerhard Pegam	M	M			102	50	86	5	243	241
Wolfgang Tölsner [5]	M		M		232	50	86	5	373	478
Total					964	418	709	130	**2 221**	**2 128**

C(hairman), M(ember)

[1] Accounting value of restricted stock units (RSU) for the mandate 2011/12 is based on a share price of CHF 6.9 (grant date), and for the mandate 2012/13, it is based on a share price of CHF 8.1 (grant date).

[2] Other compensation consists of social security contributions and an expense allowance, which are paid by OC Oerlikon Corporation AG, Pfäffikon.

[3] Until April 12, 2012.

[4] As of April 12, 2012.

[5] Included in the aggregate cash compensation of Mr. Tölsner is, in addition to his Board remuneration, a fee for his consultancy work during 2012 for Oerlikon Group companies in the amount of KCHF 127. Mr. Tölsner's consulting contract with Oerlikon has been terminated as of November 1, 2012.

Related Party transactions

Note 24 (cont.)

Compensation of Members of the Executive Committee

Members of the Executive Committee receive a compensation consisting of base salary and performance-based bonus paid in cash. In addition, members of the Executive Committee participate in a long-term bonus plan paid in shares.

The compensation for the members of the Executive Committee is set by the Human Resources Committee and approved by the Board of Directors at the end of the year. The achievement of targets defined for the annual performance-based bonus are reviewed by the Human Resources Committee at the end of the year, and the bonus is usually paid in April of the following year.

In 2012, members of the Executive Committee participated in a long-term performance share program for 2012–15. In 2011, they participated in a long-term performance share program for 2011–14. In 2010, they participated in a long-term performance share program for 2010–13.

The total compensation paid to members of the Executive Committee for the year 2012 was CHF 9.7 million. The highest compensation paid to an individual Committee member was CHF 3.5 million.

Compensation to the Executive Committee is composed as follows:

in CHF 000	Salary	Bonus [1]	LTI (2010–13) [2]	LTI (2011–14) [2]	LTI (2012–15) [2]	Pension	Other Compensation [3]	Severance payment [4]	**Total Compensation 2012**	Total Compensation 2011
Total compensation to members of the Executive Committee	2 065	3 391	545	818	1 305	564	137	895	9 720	9 902
Thereof highest paid to one individual: [5] Michael Buscher (CEO)	858	1 333	187	432	441	189	42	–	3 482	4 128

[1] Effective bonus 2011, paid in 2012, and one bonus 2012, paid in 2012.

[2] Accounting value of Performance Share Awards (PSA) is based on a weighted average share price of CHF 4.6 (grant date in 2010), CHF 6.8 (grant date in 2011) and CHF 9.0 (grant date in 2012).

[3] Other compensation includes expense and car allowances.

[4] Adrian Cojocaru's (former CHRO) employment ended on December 31, 2012. The LTI grant 2012 vested on a pro-rated basis upon termination. The termination payment included the contractually agreed compensation for the notice period of 12 months.

[5] The highest compensation in 2011 went to the former COO.

Compensation of Former Members of Governing Bodies

During 2012, no compensation was paid to former members of the Board of Directors or the Executive Committee, either by OC Oerlikon Corporation AG, Pfäffikon or by any other company of the Oerlikon Group. No compensation was paid to former members of the Board of Directors in 2011, however, a former member of the Executive Committee received a fee of CHF 21 000 for a board membership.

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)**
Tim Summers	31 683	35 533
Kurt J. Hausheer	168 748	15 863
Reyad Fezzani	–	15 863
Carl Stadelhofer	97 945	15 863
Hans Ziegler	159 486	15 863
Gerhard Pegam	33 228	15 863
Wolfgang Tölsner	33 228	15 863
Total	**524 318**	**130 711**

Tim Summers (Chairman), Reyad Fezzani (Board Member) and Carl Stadelhofer (Board Member) are also in senior positions at Renova Group. Mr. Summers is Chairman of Venetos Management AG and Managing Director of Renova Management AG. Mr. Fezzani is Supervisory Board Member of Renova US Holdings Ltd. Mr. Stadelhofer is Chairman of Renova Industries Ltd. and Renova Holding Ltd., Vice President of Renova Management AG and Chief Legal Counsel of Renova Group. 200 of his shares are held by a related party.

Related Party transactions

Note 24 (cont.)

Members of the Executive Committee	Number of Shares	Number of Performance Share Awards (PSA)
Dr. Michael Buscher, CEO	–	322 639
Jürg Fedier, CFO	74 882	284 412
Adrian Cojocaru, CHRO (until December 31, 2012)	9 954	–
Total	**84 836**	**607 051**

Loans and Other Payments to Members of Governing Bodies

No loans were granted and no other payments were made to current or former members of the Board of Directors or the Executive Committee during 2012. No such loans or payments were outstanding as of December 31, 2012.

Group and Associated Companies

An overview of the Group subsidiary companies can be found on pages 150 and 151. 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.

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 9 million (previous year: 9 million), and the annual rent is CHF 1 million (previous year: 1 million).

Participation plans: see Note 23.

Oerlikon Solar AG and Hevel LLC signed comprehensive collaboration agreements for the production of thin-film solar modules in Russia. Hevel LLC is a joint venture between Rusnano and Renova Group. Renova Group owns a 51% stake in Hevel LLC and is responsible for the development of the business. Rusnano holds a 49% stake. The Russian Corporation of Nanotechnologies (Rusnano) was established in 2007 to effect government policy in the field of nanotechnology.

In 2009, Hevel LLC has ordered an end-to-end Micromorph® line for production of thin film solar modules with an annual capacity of at least 120 MW, for a total consideration of EUR 264 million. The overall investment including all equipment, processes and services is on an arm's length basis.

As of the date of the closing of the Solar sale on November 26, 2012, 85% of the contract volume was completed, and accumulated sales of CHF 312 million have been recognized. With the sale of Solar, there are no outstanding balances as of December 31, 2012.

During the financial year 2012, there were no other material related party transactions.

Contingent liabilities

Note 25

Contingent liabilities as of December 31, 2012, amount to CHF 8 million, net of CHF 1 million for discontinued operations (2011: CHF 8 million, net of CHF 0 million for discontinued operations) and mainly consist of debt guarantees to banks.

Payments under non-cancellable operating leases

Note 26

in CHF million	**2012**	2011
Due in 1st year	24	29
Due in 2nd year	19	25
Due in 3rd year	11	15
Due in 4th year	8	11
Due in or beyond 5th year	24	29
Total	**86**	**109**

The expenses of operating leases charged to the income statement amount to CHF 22 million (2011 restated: CHF 26 million).

Pledged assets

Note 27

The following assets shown on the balance sheet were pledged as security:

in CHF million	**2012**	2011
Cash and cash equivalents	–	129
Receivables	–	171
Inventories	–	83
Other current assets	–	8
Property, plant and equipment	7	306
Other non-current assets	–	248
Total	**7**	**945**

In 2011, a significant part of the pledged assets was provided as security for the syndicated loan facility dated March 31, 2010. Having met the security release condition specified in the Facility Agreement, these securities have been released as of June 30, 2012. The security release condition specified that the ratio of Net Debt to EBITDA for each of the six most recent quarters is less than 2.25 to 1.

Events subsequent to the balance sheet date

Note 28

No events occurred between the balance sheet date and the date on which this report was approved by the Board of Directors which could have a significant impact on the consolidated financial statements 2012.

Segment information

in CHF million	Textile Segment 2012	Textile Segment 2011	Drive Systems Segment 2012	Drive Systems Segment 2011	Vacuum Segment 2012	Vacuum Segment 2011	Coating Segment 2012	Coating Segment 2011
Order intake	1 039	1 014	766	892	377	400	501	484
Order backlog	602	673	134	213	73	77	–	–
Sales								
Sales to third parties	1 103	909	826	821	373	409	501	484
Sales to other segments	–	–	–	–	4	13	1	2
Eliminations	–	–	–	–	–4	–13	–1	–2
	1 103	**909**	**826**	**821**	**373**	**409**	**501**	**484**
Sales by market region to third parties								
Asia / Pacific	833	686	86	93	135	143	154	143
Europe	134	95	396	359	166	191	245	248
North America	48	76	309	330	64	71	66	58
Other regions	88	52	35	39	8	4	36	35
	1 103	**909**	**826**	**821**	**373**	**409**	**501**	**484**
Sales by location to third parties								
Asia / Pacific	315	233	101	93	111	116	157	130
thereof China	301	221	17	9	51	57	29	26
Europe	763	646	413	470	193	220	248	267
thereof Switzerland	1	3	–	53	–	–	47	65
Germany	762	628	–	–	193	220	100	97
Italy	–	7	407	412	–	–	11	13
North America	25	29	312	258	69	73	62	53
Other regions	–	1	–	–	–	–	34	34
	1 103	**909**	**826**	**821**	**373**	**409**	**501**	**484**
Capital expenditure for property, plant and equipment and intangible assets [2]								
Asia / Pacific	11	7	31	14	4	5	24	27
Europe	18	28	18	17	12	10	28	18
North America	–	–	17	11	–	–	9	3
Other regions	–	–	–	–	–	–	3	1
	29	**35**	**66**	**42**	**16**	**15**	**64**	**49**
EBITDA	**209**	**97**	**111**	**94**	**52**	**72**	**145**	**141**
EBIT	**186**	**73**	**70**	**49**	**38**	**59**	**103**	**97**
Other material items								
Research and development expense	–31	–30	–12	–11	–19	–19	–33	–30
Depreciation and amortization	–24	–17	–40	–45	–14	–13	–41	–44
Impairment of property, plant and equipment	–	–6	–	–	–	–	–	–
Impairment of goodwill	–	–	–	–	–	–	–	–
Restructuring costs	–1	–	2	–	–	–	–	–
Assets [2]	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.
Operating assets [3]	715	1 458	1 132	1 184	249	258	402	387
Liabilities [2]								
Operating liabilities [4]	684	840	173	248	70	93	70	84
Number of employees	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.
Asia / Pacific	980	929	2 010	1 901	357	336	987	923
Europe	1 496	1 373	1 902	2 333	1 052	1 060	1 609	1 557
North America	35	80	1 265	1 237	82	76	302	279
Other regions	–	7	–	–	–	–	228	227
	2 511	**2 389**	**5 177**	**5 471**	**1 491**	**1 472**	**3 126**	**2 986**

[1] Discontinued operations include the divestments of the Solar Segment and the Natural Fibers and Textile Components Business Units.

[2] For 2011, Oerlikon Solar is shown under discountinued operations while the Natural Fibers and Textile Components Business Units are included in the Textile Segment.

[3] Operating assets include current and non-current operating assets (including goodwill and brands), whereas cash and cash equivalents, current and non-current financial investments, current tax receivables as well as deferred tax assets are not included.

[4] Operating liabilities include current and non-current operating liabilities, whereas current and non-current financial liabilities, current tax payables and deferred tax liabilities are not included.

Segment information

Advanced Technologies Segment		Total Segments		Group / Eliminations		Total from continuing operations		Discontinued operations [1]		Total including discontinued operations	
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
119	88	2 802	2 878	–	–	2 802	2 878	922	1 165	3 724	4 043
25	8	834	971	–	–	834	971	274	510	1 108	1 481
103	108	2 906	2 731	–	–	2 906	2 731	1 007	1 451	3 913	4 182
1	1	6	16	–6	–16	–	–	33	47	33	47
–1	–1	–6	–16	6	16	–	–	–33	–47	–33	–47
103	**108**	**2 906**	**2 731**	**–**	**–**	**2 906**	**2 731**	**1 007**	**1 451**	**3 913**	**4 182**
58	49	1 266	1 114	–	–	1 266	1 114	673	917	1 939	2 031
33	45	974	938	–	–	974	938	209	248	1 183	1 186
11	13	498	548	–	–	498	548	44	61	542	609
1	1	168	131	–	–	168	131	81	225	249	356
103	**108**	**2 906**	**2 731**	**–**	**–**	**2 906**	**2 731**	**1 007**	**1 451**	**3 913**	**4 182**
–	–	684	572	–	–	684	572	158	171	842	743
–	–	398	313	–	–	398	313	136	139	534	452
92	95	1 709	1 698	–	–	1 709	1 698	801	1 206	2 510	2 904
61	54	109	175	–	–	109	175	109	385	218	560
31	41	1 086	986	–	–	1 086	986	680	810	1 766	1 796
–	–	418	432	–	–	418	432	–	–	418	432
11	13	479	426	–	–	479	426	39	60	518	486
–	–	34	35	–	–	34	35	9	14	43	49
103	**108**	**2 906**	**2 731**	**–**	**–**	**2 906**	**2 731**	**1 007**	**1 451**	**3 913**	**4 182**
–	–	70	53	–	–	70	53	1	–	71	53
4	6	80	79	2	4	82	83	17	16	99	99
–	–	26	14	–	–	26	14	–	–	26	14
–	–	3	1	–	–	3	1	–	–	3	1
4	**6**	**179**	**147**	**2**	**4**	**181**	**151**	**18**	**16**	**199**	**167**
11	**14**	**528**	**418**	**19**	**32**	**547**	**450**	**–19**	**155**	**528**	**605**
7	**11**	**404**	**289**	**17**	**29**	**421**	**318**	**–47**	**101**	**374**	**419**
–12	–11	–107	–101	–	–	–107	–101	–98	–110	–205	–211
–4	–3	–123	–122	–3	–4	–126	–126	–25	–49	–151	–175
–	–	–	–6	–	–	–	–6	–3	–1	–3	–7
–	–	–	–	–	–	–	–	–	–2	–	–2
–1	–	–	–	–	–	–	–	–1	–1	–1	–1
31.12.	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.
117	111	2 615	3 398	22	43	2 637	3 441	682	242	3 319	3 683
30	29	1 027	1 294	35	39	1 062	1 333	202	145	1 264	1 478
31.12.	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.
–	–	4 334	4 089	–	–	4 334	4 089	1 633	1 830	5 967	5 919
170	180	6 229	6 503	210	203	6 439	6 706	1 977	2 537	8 416	9 243
18	20	1 702	1 692	–	1	1 702	1 693	63	72	1 765	1 765
–	–	228	234	5	4	233	238	58	62	291	300
188	**200**	**12 493**	**12 518**	**215**	**208**	**12 708**	**12 726**	**3 731**	**4 501**	**16 439**	**17 227**

Reconciliation to the segment information

in million CHF	**2012**	2011
EBIT	421	318
Financial income	51	11
Financial expense	–138	–106
EBT	**334**	**223**
Operating assets [1]	3 319	3 683
Non-operating assets [1]	840	890
Total assets	**4 159**	**4 573**
Operating liabilities [2]	1 264	1 478
Non-operating liabilities [2]	1 013	1 485
Total liabilities	**2 277**	**2 963**

[1] Including assets classified as held for sale.

[2] Including liabilities classified as held for sale.

Geographical information on non-current assets

in million CHF		2012	2011
Asia / Pacific		227	235
thereof	China	104	102
Europe		1 336	1 881
thereof	Switzerland	956	1 380
	Germany	230	347
	Italy	126	143
North America		88	90
thereof	USA	88	90
Other regions		15	18
Total		**1 666**	**2 224**

Non-current assets do not include post-employment benefit assets and deferred tax assets.

Information about major customers

In 2012, no customer represented 10 % or more of the Group's third-party sales.

Companies by country

Country	Production	Distribution	R&D	Service	Name, registered office of significant companies by country	Currency	Share capital [1]	Group owns %	Number of employees
Austria	■	■			Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT	EUR	350 000	100.00	98
Austria				■	Saurer Holding GmbH, Leonding/AT	EUR	35 000	100.00	–
Belgium	■	■			Oerlikon Balzers Coating Benelux N.V., Sint-Truiden/BE	EUR	620 000	100.00	51
Brazil	■	■			Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR	BRL	30 662 100	99.99	132
Brazil		■		■	Oerlikon Textile do Brasil Máquinas Ltda., São Leopoldo, RS/BR	BRL	9 384 968	100.00	36
Cayman Islands				■	Saurer Group Investments Ltd., George Town/KY	CHF	474 469 300	100.00	–
China	■	■			Jintan Texparts Component Co. Ltd., Jintan/CN	USD	5 062 288	70.00	164
China	■	■		■	Oerlikon (China) Technology Co. Ltd., Suzhou/CN	USD	30 000 000	100.00	800
China	■	■			Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN	USD	6 150 000	100.00	311
China	■			■	Oerlikon Drive Systems (Suzhou) Co. Ltd., Suzhou/CN	USD	2 000 000	100.00	149
China		■			Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Tianjin/CN	USD	200 000	100.00	102
China	■	■			Oerlikon Leybold Vacuum Equipment (Tianjin) Co. Ltd., Tianjin/CN	USD	4 960 000	100.00	121
China				■	Oerlikon Textile China Investments Ltd., Hongkong/CN	HKD	266 052 505	100.00	–
China		■		■	Oerlikon Textile Far East Ltd., Hongkong/CN	HKD	100 000	100.00	37
China	■	■	■		Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN	USD	7 000 000	100.00	199
China	■	■	■	■	Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN	USD	1 112 220	100.00	201
China				■	Oerlikon Textile Trading and Services Ltd., Hongkong/CN	HKD	275 200	100.00	–
China				■	Saurer China Equity Ltd., Hongkong/CN	HKD	253 910 000	100.00	–
China	■	■	■	■	Saurer Jintan Textile Machinery Co. Ltd., Jintan/CN	USD	22 482 422	70.00	477
Czech Republic		■	■	■	Oerlikon Czech s.r.o., Cerveny Kostelec/CZ	CZK	30 000 000	100.00	38
Finland	■	■			Oerlikon Balzers Sandvik Coating Oy, Helsinki/FI	EUR	2 500	51.00	7
France	■	■			Oerlikon Balzers Coating France SAS, Saint-Thibault-des-Vignes/FR	EUR	3 150 000	100.00	103
France				■	Oerlikon France Holding SAS, Saint-Thibault-des-Vignes/FR	EUR	4 000 000	100.00	–
France	■	■	■	■	Oerlikon Leybold Vacuum France SAS, Villebon-sur-Yvette/FR	EUR	3 095 750	100.00	173
Germany				■	Afetau GmbH, Remscheid/DE	EUR	25 000	100.00	–
Germany	■	■			Oerlikon Balzers Coating Germany GmbH, Bingen/DE	EUR	511 300	100.00	556
Germany	■	■		■	Oerlikon Balzers Hartec GmbH, Stetten am kalten Markt/DE	EUR	25 000	100.00	47
Germany				■	Oerlikon Deutschland Holding GmbH, Köln/DE	EUR	30 680 000	100.00	–
Germany		■			Oerlikon Deutschland Vertriebs GmbH, Aschheim/DE	EUR	26 000	100.00	27
Germany	■	■			Oerlikon Leybold Vacuum Dresden GmbH, Dresden/DE	EUR	100 000	100.00	59
Germany	■	■	■	■	Oerlikon Leybold Vacuum GmbH, Köln/DE	EUR	1 200 000	100.00	761
Germany				■	Oerlikon Real Estate GmbH, Köln/DE	EUR	50 000	100.00	–
Germany	■	■	■		Oerlikon Textile Components GmbH, Fellbach/DE	EUR	51 400	100.00	254
Germany	■	■	■	■	Oerlikon Textile GmbH & Co. KG, Remscheid/DE	EUR	41 000 000	100.00	2 809
Germany				■	Oerlikon Vacuum Holding GmbH, Köln/DE	EUR	25 000	100.00	–
Germany				■	Oerlikon Vermietungs- und Verwaltungsgesellschaft mbH, Köln/DE	EUR	25 000	100.00	–
Germany				■	Oerlikon Vermögens-Verwaltungs GmbH, Köln/DE	EUR	25 000	100.00	–
Germany				■	W. Reiners Verwaltungs-GmbH, Remscheid/DE	EUR	38 346 900	100.00	–
Great Britain		■		■	Graziano Trasmissioni UK Ltd., St. Neots/UK	GBP	40 000	100.00	7
Great Britain	■	■			Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK	GBP	2 000 000	100.00	45
Great Britain	■	■	■		Oerlikon Fibrevision Ltd., Macclesfield/UK	GBP	48	78.00	26
Great Britain		■		■	Oerlikon Leybold Vacuum UK Ltd., Chessington/UK	GBP	300 000	100.00	24
Great Britain		■			Oerlikon Optics UK Ltd., London/UK	GBP	1	100.00	–
Great Britain		■		■	Vocis Limited, Warwick/UK	GBP	200	51.00	25
India	■	■			Fairfield Atlas Ltd., Kolhapur/IN	INR	273 205 400	83.87	734
India	■	■			Graziano Trasmissioni India Pvt. Ltd., New Delhi/IN	INR	267 124 880	100.00	1 127
India	■	■			Oerlikon Balzers Coating India Ltd., Pune/IN	INR	70 000 000	100.00	227
India		■			Oerlikon Leybold Vacuum India Pvt. Ltd., Pune/IN	INR	2 000 000	100.00	20
India	■	■		■	Oerlikon Textile India Pvt. Ltd., Mumbai/IN	INR	57 360 000	100.00	342
India	■	■	■	■	Peass Industrial Engineers Pvt. Ltd., Gujarat/IN	INR	15 000 000	51.00	146
India	■	■	■	■	Zinser Textile Systems Pvt. Ltd., Ahmedabad/IN	INR	45 500 000	70.00	40
Italy	■	■			Oerlikon Balzers Coating Italy S.p.A., Brugherio/IT	EUR	130 000	100.00	80
Italy				■	Oerlikon Graziano Group S.p.A., Torino/IT	EUR	59 669 000	100.00	–
Italy	■	■	■	■	Oerlikon Graziano S.p.A., Cascine Vica Rivoli/IT	EUR	58 697 357	100.00	1 869
Italy		■		■	Oerlikon Leybold Vacuum Italia S.r.l., Milano/IT	EUR	110 000	100.00	12
Japan		■			Oerlikon Leybold Vacuum Japan Co. Ltd., Yokohama/JP	JPY	450 000 000	100.00	35
Japan	■	■			Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP	JPY	100 000 000	100.00	135
Liechtenstein	■	■	■	■	OC Oerlikon Balzers AG, Balzers/LI	CHF	30 000 000	100.00	617
Luxembourg	■	■			Oerlikon Balzers Coating Luxembourg S.à r.l., Differdange-Niedercorn/LU	EUR	1 000 000	60.00	19
Malaysia	■	■			Oerlikon Balzers Coating Malaysia Sdn. Bhd., Puchong/MY	MYR	2 000 000	100.00	17
Mexico	■	■			Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX	MXN	71 458 000	100.00	85
Netherlands		■		■	Oerlikon Leybold Vacuum Nederland B.V., Utrecht/NL	EUR	463 000	100.00	7
Netherlands				■	SAC Saurer Automotive Components B.V., Rotterdam/NL	EUR	11 500 000	100.00	–
Poland	■	■			Oerlikon Balzers Coating Poland Sp.z o.o., Polkowice Dolne/PL	PLN	5 000 000	100.00	64
Russia	■	■		■	OOO Oerlikon Balzers Rus, Elektrostal/RU	RUB	1 000 000	100.00	11

Companies by country

Country	Production	Distribution	R&D	Service	Name, registered office of significant companies by country	Currency	Share capital [1]	Group owns %	Number of employees
Singapore	■	■			Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG	SGD	6 000 000	100.00	36
Singapore		■			Oerlikon Leybold Vacuum Singapore Pte. Ltd., Singapore/SG [2]	EUR		100.00	15
Singapore	■	■			Oerlikon Textile Components Singapore Pte. Ltd., Singapore/SG	SGD	1 000 000	100.00	144
South Korea	■	■			Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR	KRW	6 300 000 000	89.90	187
South Korea		■			Oerlikon Leybold Vacuum Korea Ltd., Cheonan/KR	KRW	7 079 680 000	100.00	30
Spain	■	■			Oerlikon Balzers Coating Spain S.A.U, Antzuola/ES	EUR	150 000	100.00	68
Spain		■		■	Oerlikon Leybold Vacuum Spain S.A., Cornellà de Llobregat/ES	EUR	168 283	100.00	9
Sweden	■	■			Oerlikon Balzers Sandvik Coating AB, Stockholm/SE	SEK	11 600 000	51.00	52
Switzerland				■	Aktiengesellschaft Adolph Saurer, Arbon/CH	CHF	10 000 000	100.00	1
Switzerland				■	GTG-Graziano Trasmissioni Group AG, Arbon/CH	CHF	250 000	100.00	–
Switzerland				■	InnoDisc AG, Windisch/CH	CHF	100 000	100.00	–
Switzerland				■	OC Oerlikon Corporation AG, Pfäffikon, Freienbach SZ/CH	CHF	325 964 498	100.00	–
Switzerland				■	OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH	CHF	2 000 000	100.00	100
Switzerland	■	■			Oerlikon Balzers Coating SA, Brügg, Brügg/CH	CHF	2 000 000	100.00	32
Switzerland	■	■	■		Oerlikon Heberlein Temco Wattwil AG, Wattwil/CH	CHF	1 000 000	100.00	85
Switzerland				■	Oerlikon IT Solutions AG, Pfäffikon, Freienbach SZ/CH	CHF	500 000	100.00	44
Switzerland		■		■	Oerlikon Leybold Vacuum Schweiz AG, Zürich/CH	CHF	300 000	100.00	8
Switzerland				■	Oerlikon Licensing Arbon GmbH, Arbon/CH	CHF	20 000	100.00	–
Switzerland	■	■	■	■	Oerlikon Saurer Arbon AG, Arbon/CH	CHF	14 160 000	100.00	96
Switzerland			■	■	Oerlikon Trading AG, Trübbach, Wartau/CH	CHF	8 000 000	100.00	2
Switzerland				■	OT Textile Verwaltungs GmbH, Arbon/CH	CHF	20 000	100.00	–
Switzerland				■	Saurer AG, Arbon/CH	CHF	112 019 600	100.00	–
Switzerland				■	Saurer Management AG, Freienbach SZ/CH	CHF	100 000	100.00	6
Switzerland				■	Unaxis GmbH, Freienbach SZ/CH	CHF	20 000	100.00	–
Taiwan		■		■	Oerlikon Leybold Vacuum Taiwan Ltd., Hsinchu/TW	TWD	20 000 000	100.00	34
Thailand	■	■			Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH	THB	80 000 000	99.99	49
Turkey	■	■			Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR	TRY	2 500 000	99.99	26
Turkey		■		■	Oerlikon Tekstil Middle East Tekstil Makinalari Dis Ticaret A.S., Istanbul/TR	TRY	1 964 960	100.00	28
USA	■	■	■		Fairfield Manufacturing Company Inc., Wilmington, DE/US	USD	10 000	100.00	1 260
USA		■		■	Graziano Trasmissioni North America Inc., Charlotte, NC/US	USD	1	100.00	5
USA				■	Melco Industries Inc., Denver, CO/US	USD	2 407 000	100.00	–
USA	■	■			Oerlikon Balzers Coating USA Inc., Wilmington, DE/US	USD	25 000	100.00	302
USA	■	■			Oerlikon Leybold Vacuum USA Inc., Wilmington, DE/US	USD	1 375 000	100.00	82
USA				■	Oerlikon Management USA Inc., Pittsburgh, PA/US	USD	500 000	100.00	–
USA		■		■	Oerlikon Textile Inc., Charlotte, NC/US	USD	3 000 000	100.00	98
USA				■	Oerlikon USA Holding Inc., Wilmington, DE/US	USD	40 234 000	100.00	–
USA		■			Oerlikon USA Inc., Plantation, FL/US	USD	14 730 000	100.00	18

[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.

[2] Shares have no par value. Share capital amounts to EUR 187 441.

Report of the Statutory Auditor

Report of the Statutory Auditor on the Consolidated Financial Statements to the Annual General Meeting of Shareholders of OC Oerlikon Corporation AG, Pfäffikon, Freienbach

As statutory auditor, we have audited the accompanying consolidated financial statements of OC Oerlikon Corporation AG, Pfäffikon, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and notes on pages 103 to 149 for the year ended 31 December 2012.

Board of Directors' Responsibility
The board of directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards as well as International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the board of directors.

We recommend that the consolidated financial statements submitted to you be approved.

KPMG AG

Thomas Affolter Licensed Audit Expert Auditor in Charge	Toni Wattenhofer Licensed Audit Expert

Zurich, March 1, 2013

Five-year summary of key figures

in CHF million	**2012**	2011	2010	2009	2008
Order intake [1]	**2 802**	2 878	4 520	2 996	4 209
Order backlog [1]	**834**	971	1 702	997	1 147
Sales [1]	**2 906**	2 731	3 601	2 877	4 632
EBITDA [1]	**547**	450	278	–165	471
– as % of sales	**19 %**	16 %	8 %	–6 %	10 %
EBIT [1]	**421**	318	51	–589	–59
– as % of sales	**14 %**	12 %	1 %	–20 %	–1 %
Net profit/loss	**385**	224	5	–592	–422
– as % of equity attributable to shareholders of the parent	**21 %**	14 %	0 %	–120 %	–39 %
Cash flow from operating activities [2]	**414**	544	354	–92	411
Capital expenditure for property, plant and equipment and intangible assets [3]	**181**	167	150	130	336
Total assets	**4 159**	4 573	4 475	4 342	5 476
Equity attributable to shareholders of the parent	**1 858**	1 586	1 430	493	1 093
– as % of total assets	**45 %**	35 %	32 %	11 %	20 %
Net cash [4]	**339**	–86	–274	–1 646	–1 585
Net Operating Assets [3,5]	**1 575**	2 205	2 196	2 821	3 498
Number of employees [1]	**12 708**	12 726	16 657	16 369	18 372
Personnel expense [1]	**765**	740	1 015	1 001	1 277
Research and development expenditure [1,6]	**106**	102	239	210	246

[1] 2012, 2011, 2009 and 2008 continuing operations.

[2] Before changes in net current assets.

[3] 2012: continuing operations; 2011, 2010, 2009 and 2008: as reported.

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

[5] Net Operating Assets include current and non-current operating assets (including goodwill and brands and excluding cash and cash equivalents, financial assets, current and deferred tax receivables) less operating liabilities (excluding financial liabilities, current tax payables and deferred tax liabilities).

[6] 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	**2012**	2011
Income from investments	2	197 828 748	22 702 828
Financial income	3	53 832 108	62 715 438
Other income	5	47 947 263	61 738 387
		299 608 119	147 156 653
Financial expense	4	–97 363 077	–85 918 066
Other expense	6	–55 245 859	–35 396 775
		146 999 183	25 841 812
Gain on disposal of investments	7	52 733 668	440 208
Valuation adjustments on loans and investments in subsidiaries		–11 043 810	–9 322 865
Net income		**188 689 041**	**16 959 155**

Balance Sheet as at December 31 of OC Oerlikon Corporation AG, Pfäffikon

Assets

in CHF	Notes	2012	%	2011	%
Cash and cash equivalents	8	334 420 148	10.3	334 390 059	9.1
Treasury shares	9	7 937 329	0.2	2 962 725	0.1
Receivables					
– from third parties		1 845 306	0.1	567 929	0.0
– from affiliated companies		27 460 095	0.9	190 402 108	5.2
Prepaid expenses and accrued income		836 078	0.0	3 198 191	0.1
Current assets		**372 498 956**	**11.5**	**531 521 012**	**14.5**
Investments	10	1 680 851 324	51.9	1 709 796 886	46.7
Non-current loans to affiliated companies		1 186 482 429	36.6	1 412 753 040	38.5
Non-current loans to third parties		1 020 894	0.0	1 103 203	0.0
Intangible assets	11	–	0.0	11 303 208	0.3
Non-current assets		**2 868 354 647**	**88.5**	**3 134 956 337**	**85.5**
Total assets		**3 240 853 603**	**100.0**	**3 666 477 349**	**100.0**

Liabilities and equity

in CHF	Notes	2012	%	2011	%
Current payables					
– to third parties		202 549	0.0	2 611 274	0.1
– to affiliated companies		204 775 134	6.3	323 189 426	8.8
Accrued liabilities		15 188 791	0.5	16 749 653	0.5
Non-current loans due from affiliated companies		491 234 414	15.2	381 151 099	10.4
Non-current bank loans	12	–	0.0	842 336 606	23.0
Bond	13	300 000 000	9.3	–	0.0
Provisions	14	40 657 771	1.2	52 654 236	1.4
Total liabilities		**1 052 058 659**	**32.5**	**1 618 692 294**	**44.2**
Share capital	15	325 964 498	10.1	323 124 010	8.8
Legal reserves					
– General legal reserves		70 593 765	2.2	70 593 765	1.9
– Reserves from capital contributions	16	1 126 014 673	34.7	1 176 534 314	32.1
– Reserves for treasury shares	17	7 937 327	0.2	3 460 395	0.1
Free reserves		293 910 850	9.1	293 910 850	8.0
Retained earnings		364 373 831	11.2	180 161 721	4.9
Total equity		**2 188 794 944**	**67.5**	**2 047 785 055**	**55.8**
Total liabilities and equity		**3 240 853 603**	**100.0**	**3 666 477 349**	**100.0**

Notes to the financial statements of OC Oerlikon Corporation AG, Pfäffikon

General

Reporting basis (1)

The financial statements of OC Oerlikon Corporation AG, Pfäffikon (the Company) are prepared in compliance with Swiss Company Law. They are a supplement to the consolidated financial statements, prepared according to International Financial Reporting Standards (IFRS). While the consolidated financial statements reflect the economic situation of the Group as a whole, the information contained in the financial statements of OC Oerlikon Corporation AG, Pfäffikon relates to the ultimate parent company alone.

Income statement

Income from investments (2)

The income from investments consists only of dividend income from subsidiary companies.

Financial income (3)

Financial income includes interest income.

Financial expense (4)

Financial expense mainly includes interest expenses and net exchange losses. In addition, one-time charges amounting to CHF 50 million have been incurred in connection with the replacement of the old syndicated credit facility.

Other income (5)

Other income consists mainly of trade mark fees.

Other expense (6)

Other expense consists mainly of management fees charged by OC Oerlikon Management AG, Pfäffikon and amortization of capitalized brands.

Gain on disposal of investments (7)

Gain on disposal of investments is driven by the gain from the sale of the investment in Oerlikon Solar Holding AG in connection with the disposal of the Solar Segment, and the gain from the sale of the investment in Pilatus Flugzeugwerke AG.

Balance sheet

Cash and cash equivalents (8)

This item consists of current balances denominated in CHF, EUR and USD and held with European Banks.

Treasury shares (9)

The total of 902 248 treasury shares (2011: 589 011) held at December 31, 2012 represents 0.28 % of the company's share capital.

The treasury shares are carried at the lower of cost or market, (and therefore have been valued at their cost value) at close of business on December 31, 2012 (CHF 8.80), giving a total value of CHF 8 million (2011: CHF 3 million).

During the year, 700 000 shares (2011: 570 000) were bought on the stock exchange, and 317 147 shares (2011: 280 989) were given to employees and further 69 616 shares were transferred to warrant holders (2011: 0).

Investments (10)

The list of the Company's major investments is on page 160.

These investments are recorded at historical cost less any valuation adjustments. The change in the net book value is mainly caused by disposals of investments.

Having met the security release condition specified in the syndicated loan facility agreement, the pledges on the investments in major subsidiaries, amounting to CHF 1 608 million as of December 31, 2011, have been released in 2012.

Intangible assets (11)

All intangible assets (trademarks of Oerlikon and Saurer) are fully amortized, as of December 31, 2012.

Bank loans (12)

No bank loans are used by end of the year (2011: CHF 842 million). Additional information to the terms and conditions of the syndicated loan and the financial covenants can be found in Note 19 of the Group's consolidated financial statements on page 134 and 135.

Bond (13)

On June 13, 2012 OC Oerlikon Corporation AG, Pfäffikon issued CHF 300 million of bonds bearing interest at 4.25 % per annum and due on July 13, 2016. The first interest coupon is payable on July 13, 2013. Additional information of the bond can be found in Note 19 of the Group's consolidated financial statements on page 134 and 135.

Provisions (14)

Provisions cover mainly risks related to investments and also other risks.

Share capital (15)

The share capital of CHF 326 million (2011: CHF 323 million) consists of 325 964 498 registered shares (2011: 323 124 010), each with a par value of CHF 1.00. On December 31, 2012, conditional capital amounted to CHF 61 334 431 (2011: CHF 64 174 919).

In 2012, 2 840 488 new shares (2011: 38 539) were issued based on exercises of warrants.

The shareholders registered as holding more than 5 % of the shares as at December 31, 2012, were[1]:

47.92 % (156 210 954 registered shares[2]) Renova Group[3] (composed of Liwet Holding AG, Zurich, Switzerland, Renova Industries Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama)

5.57 % (18 170 486 registered shares[4]) Chase Nominees Ltd, London

[1] Sources: Disclosure notification pursuant to Art. 20 of the Swiss Stock Exchange Law by Renova Group (published by SIX Exchange Regulation on September 6, 2012) and share register (Chase Nominees Ltd).
[2] At the end of 2011, the Renova Group held (as per disclosure notification) 155 035 964 shares (47.98 % of the issued Oerlikon shares).
[3] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow.
[4] At the end of 2011, Chase Nominees Ltd, London, held (according to the share register) 9 501 954 shares (2.94 % of the issued Oerlikon shares).

Reserves from capital contributions (16)

OC Oerlikon Corporation AG, Pfäffikon shows as of December 31, 2012, reserves from capital contributions of CHF 1 126 014 673. Thereof, based on a so-called revers CHF 268 706 303 has not been confirmed yet due to the current practice of the Swiss Federal Tax Authorities. Dividend distributions can be done out of the confirmed reserve from capital contribution first. Confirmed reserve from capital contributions amounts to CHF 857 308 370. In 2012, the value of confirmed reserves of capital contribution has been changed due to dividend payment of minus CHF 64 533 138, as well as plus capital surplus of CHF 14 013 497 (net amount), due to capital increase triggered by exercises of warrants.

in CHF	confirmed	not confirmed yet	Total
Balance at January 1, 2012	**907 828 011**	**268 706 303**	**1 176 534 314**
Dividend payment	–64 533 138	–	–64 533 138
Exercises of warrants	14 013 497	–	14 013 497
Balance at December 31, 2012	**857 308 370**	**268 706 303**	**1 126 014 673**

Reserves for treasury shares (17)
This reserve represents the acquisition cost of 902 248 treasury shares (2011: 589 011).

Contingent liabilities (18)
Contingent liabilities relate primarily to performance guarantees and guarantees for bank loans of affiliated companies, and amount to approximately CHF 284 million (2011: CHF 330 million).

Pledged assets (19)
Having met the security release condition specified in the syndicated loan facility agreement, the pledges on the investments in major subsidiaries (see Note 10) and other pledged assets have been released in 2012.

Disclosure of directors' remunerations (20)
The disclosure of directors' remunerations as required by Swiss Company Law may be found in Note 24 on pages 142 to 144 of the Group's consolidated financial statements.

Risk assessment according to the Swiss Code of Obligations (OR 663b, Z. 12) (21)
Oerlikon has a risk management system in place, with which the enterprise-wide risk management is centrally managed and decentrally implemented. Risk assessments are conducted at various levels, and corresponding risk reports are prepared.

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 supported Group-wide by a risk management software.

Internal reporting requirements to the Executive Committee and the Board of Directors (the Audit Committee and the entire Board) are fulfilled by the Group Risk Report that outlines relevant risks and risk mitigation actions from a Group perspective. The Group Risk Report is published twice a year, discussed by the Executive Committee and subsequently considered by the Board of Directors (the Audit Committee and the entire Board).

In its meeting on August 29, 2012, the Audit Committee discussed the Group Risk Report 2012–14 and related its findings to the Board of Directors. The Board of Directors reviewed the Group Risk Report 2013–15 in its meeting on December 6, 2012.

For further information regarding risk management, see page 74 (section 6.0 Corporate Governance), page 96 et seq. (section 8.0 Risk management) and page 134 et seq. (Notes 19–21 to the consolidated financial statements).

Investments

Company	Currency	Share capital	Investment in %
Aktiengesellschaft Adolph Saurer, Arbon/CH	CHF	10 000 000	100.00
InnoDisc AG, Windisch/CH	CHF	100 000	100.00
OC Oerlikon Balzers AG, Balzers/LI	CHF	30 000 000	100.00
OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH	CHF	2 000 000	100.00
Oerlikon Balzers Coating India Ltd., Pune/IN	INR	70 000 000	78.40
Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN	USD	6 150 000	100.00
Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH	THB	80 000 000	99.99
Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT	EUR	350 000	100.00
Oerlikon Balzers Coating Italy S.p.A., Brugherio/IT	EUR	129 100	100.00
Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR	KRW	6 300 000 000	89.10
Oerlikon Balzers Coating Luxembourg S.à r.l., Differdange-Niedercorn/LU	EUR	1 000 000	60.00
Oerlikon Balzers Coating Poland Sp.z o.o., Polkowice Dolne/PL	PLN	5 000 000	100.00
Oerlikon Balzers Coating SA, Brügg, Brügg/CH	CHF	2 000 000	100.00
Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG	SGD	6 000 000	100.00
Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK	GBP	2 000 000	99.99
Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR	TRY	2 500 000	99.99
Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR	BRL	30 662 100	99.99
Oerlikon Balzers Sandvik Coating AB, Stockholm/SE	SEK	11 600 000	51.00
Oerlikon Balzers Coating Spain S.A.U, Antzuola/ES	EUR	150 300	100.00
Oerlikon Deutschland Holding GmbH, Köln/DE	EUR	30 680 000	6.00
Oerlikon France Holding SAS, Saint-Thibault-des-Vignes/FR	EUR	4 000 000	100.00
Oerlikon IT Solutions AG, Pfäffikon, Freienbach SZ/CH	CHF	500 000	100.00
Oerlikon Leybold Vacuum Taiwan Ltd., Hsinchu/TW	TWD	20 000 000	100.00
Oerlikon Licensing Arbon GmbH, Arbon/CH	CHF	20 000	100.00
Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP	JPY	100 000 000	100.00
Oerlikon Optics UK Ltd., London/UK	GBP	1	100.00
Oerlikon Trading AG, Trübbach, Wartau/CH	CHF	8 000 000	100.00
Oerlikon USA Holding Inc., Wilmington, DE/US	USD	40 234 000	62.00
Oerlikon Vermögens-Verwaltungs GmbH, Köln/DE	EUR	25 000	100.00
OOO Oerlikon Balzers Rus, Elektrostal/RU	RUB	1 000 000	100.00
OT Textile Verwaltungs GmbH, Arbon/CH	CHF	20 000	100.00
PT. Oerlikon Balzers Artoda Indonesien	IDR	1 8000 000 000	42.00
Saurer AG, Arbon/CH	CHF	112 019 600	100.00
Saurer Management AG, Freienbach SZ/CH	CHF	100 000	100.00
Unaxis GmbH, Freienbach SZ/CH	CHF	20 000	100.00

Changes in equity of OC Oerlikon Corporation AG, Pfäffikon

in CHF million	Share capital	General legal reserves	Reserves from capital contributions	Reserves for treasury shares	Free reserves	Retained earnings	Total shareholders equity
Balance at January 1, 2010	**282.8**	**196.8**	**0.0**	**291.6**	**235.0**	**–62.9**	**943.3**
Changes in capital decrease and capital increase	40.2	–	–	–	1 109.0	–	1 149.2
Changes in reserves for treasury shares	–	–	–	–290.1	–	290.1	–
Net loss 2010	–	–	–	–	–	–62.0	–62.0
Balance at December 31, 2010	**323.0**	**196.8**	**–**	**1.5**	**1 344.0**	**165.2**	**2 030.5**
Changes in capital increase	0.1	–	0.2	–	–	–	0.3
Changes in reserves from capital contributions	–	–126.2	1 176.3	–	–1 050.1	–	–
Changes in reserves for treasury shares	–	–	–	2.0	–	–2.0	–
Net income 2011	–	–	–	–	–	17.0	17.0
Balance at December 31, 2011	**323.1**	**70.6**	**1 176.5**	**3.5**	**293.9**	**180.1**	**2 047.7**
Changes in capital increase	2.9	–	14.0	–	–	–	16.9
Changes in reserves for treasury shares	–	–	–	4.4	–	–4.4	–
Dividend payment	–	–	–64.5	–	–	–	–64.5
Net income 2012	–	–	–	–	–	188.7	188.7
Balance at December 31, 2012	**326.0**	**70.6**	**1 126.0**	**7.9**	**293.9**	**364.4**	**2 188.8**

Proposal of the Board of Directors

The available earnings amount to:

in CHF	2012
Balance brought forward from previous year	180 161 721
Net income 2012	188 689 041
Release in reserves for treasury shares	–4 476 931
Available earnings	364 373 831

The Board of Directors proposes to the Annual General Meeting of Shareholders that the available earnings are to be appropriated as follows:

Balance to be carried forward	364 373 831

The Board of Directors proposes to the Annual General Meeting of Shareholders a distribution of a dividend, distributed from reserves from capital contributions:

Dividend from reserves from capital contributions (without withholding tax) of CHF 0.25 on dividend bearing shares with a nominal value of CHF 1.00 each	85 250 000

The company will not pay dividend on treasury shares held by OC Oerlikon Corporation AG, Pfäffikon. The proposed dividend includes the maximum number of shares which could be issued from the conditional capital, as a result of the exercise of warrants, before the date of dividend payments.

Pfäffikon SZ, March 1, 2013

On behalf of the Board of Directors
Chairman

Tim Summers

Report of the Statutory Auditor

Report of the Statutory Auditor on the Financial Statements to the Annual General Meeting of Shareholders of OC Oerlikon Corporation AG, Pfäffikon, Freienbach

As statutory auditor, we have audited the accompanying statutory financial statements of OC Oerlikon Corporation AG, Pfäffikon, which comprise the balance sheet, income statement and notes on pages 156 to 161 for the year ended 31 December 2012.

Board of Directors' Responsibility
The board of directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The board of directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements
We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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.

KPMG AG

Thomas Affolter Licensed Audit Expert Auditor in Charge	Toni Wattenhofer Licensed Audit Expert

Zurich, March 1, 2013

Legal Structure

Legal Structure of significant companies as at December 31, 2012

OC Oerlikon Corporation AG, Pfäffikon, Freienbach SZ/CH

- Aktiengesellschaft Adolph Saurer, Arbon/CH
- InnoDisc AG, Windisch/CH
- OC Oerlikon Balzers AG, Balzers/LI
- OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH
- Oerlikon Balzers Coating India Ltd., Pune/IN
- Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN
- Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH
- Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT
- Oerlikon Balzers Coating Italy S.p.A., Brugherio/IT
- Oerlikon Balzers Coating Spain S.A.U, Antzuola/ES
- Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR
- Oerlikon Balzers Coating Luxembourg S.à r.l., Differdange-Niedercorn/LU
- Oerlikon Balzers Coating Poland Sp.z o.o., Polkowice Dolne/PL
- Oerlikon Balzers Coating SA, Brügg, Brügg/CH
- Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG
- Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK
- Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR
- Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR
- Oerlikon Balzers Sandvik Coating AB, Stockholm/SE
  - Oerlikon Balzers Sandvik Coating Oy, Helsinki/FI
- Oerlikon France Holding SAS, Saint-Thibault-des-Vignes/FR
  - Oerlikon Balzers Coating France SAS, Saint-Thibault-des-Vignes/FR
- Oerlikon IT Solutions AG, Pfäffikon, Freienbach SZ/CH
- Oerlikon Leybold Vacuum Taiwan Ltd., Hsinchu/TW
- Oerlikon Licensing Arbon GmbH, Arbon/CH
    - Oerlikon Drive Systems (Suzhou) Co. Ltd., Suzhou/CN
- Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP
- Oerlikon Optics UK Ltd., London/UK
- Oerlikon Trading AG, Trübbach, Wartau/CH
  - Oerlikon Balzers Coating Malaysia Sdn. Bhd., Puchong/MY
  - Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX
- Oerlikon USA Holding Inc., Wilmington, DE/US
  - Oerlikon Balzers Coating USA Inc., Wilmington, DE/US
  - Oerlikon Leybold Vacuum USA Inc., Wilmington, DE/US
  - Oerlikon Management USA Inc., Pittsburgh, PA/US
  - Oerlikon USA Inc., Plantation, FL/US
  - Fairfield Manufacturing Company Inc., Wilmington, DE/US
    - Fairfield Atlas Ltd., Kolhapur/IN
  - Graziano Trasmissioni North America Inc., Charlotte, NC/US
  - Melco Industries Inc., Denver, CO/US
  - Oerlikon Textile Inc., Charlotte, NC/US
- Oerlikon Vermögens-Verwaltungs GmbH, Köln/DE
- OOO Oerlikon Balzers Rus, Elektrostal/RU
- OT Textile Verwaltungs GmbH, Arbon/CH
- Saurer AG, Arbon/CH
  - GTG-Graziano Trasmissioni Group AG, Arbon/CH
  - Oerlikon Czech s.r.o., Cerveny Kostelec/CZ
  - Oerlikon Fibrevision Ltd., Macclesfield/UK
  - Oerlikon Saurer Arbon AG, Arbon/CH
    - Oerlikon Heberlein Temco Wattwil AG, Wattwil/CH
    - Oerlikon Textile China Investments Ltd., Hongkong/CN
      - Oerlikon (China) Technology Co. Ltd., Suzhou/CN
      - Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN
    - Saurer China Equity Ltd., Hongkong/CN
      - Jintan Texparts Component Co. Ltd., Jintan/CN
      - Saurer Jintan Textile Machinery Co. Ltd., Jintan/CN
  - W. Reiners Verwaltungs-GmbH, Remscheid/DE
    - Oerlikon Textile GmbH & Co. KG, Remscheid/DE
      - AFETAU GmbH, Friedberg/DE
      - Oerlikon Deutschland Holding GmbH, Köln/DE
        - Oerlikon Balzers Coating Benelux N.V., St.-Truiden/BE
        - Oerlikon Balzers Coating Germany GmbH, Bingen/DE
        - Oerlikon Balzers Hartec GmbH, Stetten am kalten Markt/DE
        - Oerlikon Deutschland Vertriebs GmbH, Aschheim/DE
        - Oerlikon Leybold Vacuum GmbH, Köln/DE

Legal Structure of significant companies as at December 31, 2012

· Oerlikon Leybold Vacuum Equipment (Tianjin) Co. Ltd., Tianjin/CN
· Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Tianjin/CN
· Oerlikon Leybold Vacuum Dresden GmbH, Dresden/DE
· Oerlikon Leybold Vacuum France SAS, Villebon-sur-Yvette/FR
· Oerlikon Leybold Vacuum India Pvt. Ltd., Pune/IN
· Oerlikon Leybold Vacuum Italia S.r.l., Milano/IT
· Oerlikon Leybold Vacuum Japan Co. Ltd., Yokohama/JP
· Oerlikon Leybold Vacuum Nederland B.V., Utrecht/NL
· Oerlikon Leybold Vacuum Schweiz AG, Zürich/CH
· Oerlikon Leybold Vacuum Singapore Pte. Ltd., Singapore/SG
· Oerlikon Leybold Vacuum Spain S.A., Cornellà de Llobregat/ES
· Oerlikon Leybold Vacuum UK Ltd., Chessington/UK
· Oerlikon Leybold Vacuum Korea Ltd., Cheonan/KR
· Oerlikon Real Estate GmbH, Köln/DE
· Oerlikon Vermietungs- und Verwaltungsgesellschaft mbH, Köln/DE
· Oerlikon Textile Components GmbH, Fellbach/DE
· Oerlikon Textile Far East Ltd., Hongkong/CN
· Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN
· Oerlikon Textile India Pvt. Ltd., Mumbai/IN
· Peass Industrial Engineers Pvt. Ltd., Gujarat/IN
· Zinser Textile Systems Pvt. Ltd., Ahmedabad/IN
· Oerlikon Vacuum Holding GmbH, Köln/DE
· Oerlikon Textile Components Singapore Pte. Ltd., Singapore/SG
· Oerlikon Textile do Brasil Máquinas Ltda., São Leopoldo, RS/BR
· Oerlikon Tekstil Middle East Tekstil Makinalari Dis Ticaret A.S., Istanbul/TR
· Oerlikon Textile Trading and Services Ltd., Hongkong/CN
· SAC Saurer Automotive Components B.V., Rotterdam/NL
· Oerlikon Graziano Group S.p.A., Torino/IT
· Oerlikon Graziano S.p.A., Cascine Vica Rivoli/IT
· Graziano Trasmissioni India Pvt. Ltd., New Delhi/IN
· Graziano Trasmissioni UK Ltd., St. Neots/UK
· Vocis Limited, Warwick/UK
· Saurer Group Investments Ltd., George Town/KY
· Saurer Holding GmbH, Leonding/AT
– Saurer Management AG, Freienbach SZ/CH
– Unaxis GmbH, Freienbach SZ/CH

Financial calendar

March 5, 2013
Annual Results 2012 and Annual Report 2012

April 30, 2013
Annual General Meeting of Shareholders, Lucerne

May 7, 2013
Q1 Results 2013

August 6, 2013
Q2 / HY 2013 and
Half-Year Report 2013

October 29, 2013
Q3 Results / 9M 2013

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

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Clients and partners (selection)

Oerlikon's Segments in brief

Key figures | **Applications and products**

Textile

The Textile Segment businesses are the market leaders in the areas of the manmade fibers machinery industry. Oerlikon innovations are continuously setting new standards in a global production for markets like clothing, home textiles, automotive, geo and agro textiles, construction and sports. The Segment provides comprehensive solutions of an engineered plant design for the production of manmade fibers, nonwovens, carpet yarns and synthetic staple fibers. Oerlikon covers the entire value chain in the manmade fibers sector.

in CHF million	2012	2011
Orders received	**1 039**	1 014
Order backlog	**602**	673
Sales (to third parties)	**1 103**	909
EBIT	**186**	73
Employees	**2 511**	2 389

- Filament yarn plants
- Texturizing systems
- Staple fiber plants
- Carpet yarn plants
- Spunbond plants
- Components for the manmade fiber industry
- Engineering solutions

Drive Systems

The Drive Systems Segment is a leading provider of gear and transmission solutions for a wide range of markets and applications, including agricultural machinery, construction equipment, energy and mining, high-performance auto cars, and similar on-/off-highway and industrial market segments. Drive Systems' portfolio of solutions includes dual clutch and continuously variable transmissions, transmission synchronizers, axles, Torque-Hub® planetary final drives and precision gear components and assemblies.

in CHF million	2012	2011
Orders received	**766**	892
Order backlog	**134**	213
Sales (to third parties)	**826**	821
EBIT	**70**	49
Employees	**5 177**	5 471

- Agricultural equipment
- Construction equipment
- Mining equipment
- Passenger cars
- High-performance cars
- All-wheel vehicles
- Zero-emission vehicles
- Material handling and ground support equipment
- City buses
- Rail and transportation
- Offshore oil and gas
- Wind power
- Specialty industrial

Vacuum

The Vacuum Segment offers a wide range of vacuum components for industrial manufacturing, analytical technology, and research and development purposes. The Vacuum Segment delivers standard and fully customized vacuum solutions which offer customers high efficiency, quality and flexibility. A global sales and service network complements the consulting and engineering expertise.

in CHF million	2012	2011
Orders received	**377**	400
Order backlog	**73**	77
Sales (to third parties)	**373**	409
EBIT	**38**	59
Employees	**1 491**	1 472

- Fore- and high-vacuum pumps
- Consulting and engineering of vacuum solutions
- Vacuum gauges
- Leak detecting
- Instruments
- Fittings and valves
- After-sales service and training

Coating

The Coating Segment is the world's leading supplier of PVD coatings for tools and precision components. The coatings – deposited with state-of-the-art equipment from Oerlikon Balzers – increase performance and therefore productivity. Coating services are offered through a network of 90 centers in 33 countries.

in CHF million	2012	2011
Orders received	**501**	484
Order backlog	**–**	–
Sales (to third parties)	**501**	484
EBIT	**103**	97
Employees	**3 126**	2 986

High-performance coatings for:
- Cutting tools
- Punching and forming tools
- Dies and molds
- Precision components for engine and fluid technology and mechanical drives

Advanced Technologies

The Advanced Technologies Segment focuses on production systems for advanced nanotechnology and semiconductor applications. The core competence of the Segment in the thin-film coating technology enables solutions in the area of advanced nanotechnology for touch panels, photovoltaics, thermoelectric generators and energy storage, saving, conversion and transmission. Applications for the semiconductor market include advanced packaging, power devices, read/write heads for hard disks, LEDs and Micro-Electro-Mechanical Systems (MEMS).

in CHF million	2012	2011
Orders received	**119**	88
Order backlog	**25**	8
Sales (to third parties)	**103**	108
EBIT	**7**	11
Employees	**188**	200

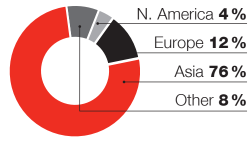
Semiconductor deposition equipment for:
- Read/Write heads for hard drives
- Advanced packaging/3D
- Thin wafer processing for backside metal
- MEMS and solid state lighting (LED)

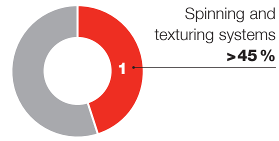
Deposition equipment for Advanced Nanotechnology:
- c-Si solar cells
- Energy harvesting applications
- Thermoelectric generators
- Touch panels

Clients and partners (selection) | **Peers** | **2012 sales by region** | **Selected market share and position in 2012**

Alok Industries, Guxiandao, Hengli, Indorama, Nan Ya, Reliance, Sapona Manufacturing Inc., Shenhong Chemical, Wellknown Polyesters, YingFengMing

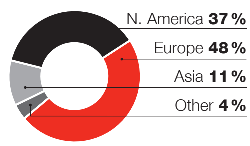
Jingwei
Lakshmi

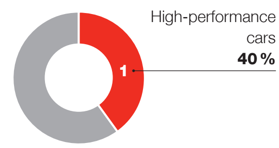




AGCO, Allison, Aston Martin Lagonda, Audi, Bombardier, CAT, CNH, Fiat, General Electric, Gusto, Hitachi, JLG-Oshkosh, John Deere, Lamborghini, Maserati, McLaren, SPX-Marley, Terex, VW

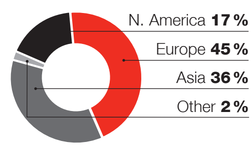
American Axle
Brembo
Carraro
Dara
Bharat Gears
BorgWarner

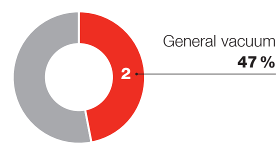




AB Applied Biosystems, Advanced Sterilization Products, Bystronic Laser AG, CERN, JEOL, Angelantoni, Kingyoup, Seagate

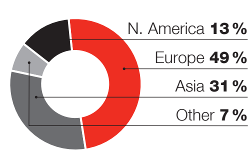
Atlas-Copco
Gardner Denver
INFICON
Ingersoll-Rand
Pfeiffer Vacuum

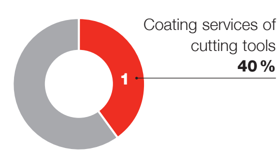




Audi, Bosch, Braun, Continental, Cummins, Delphi, Eaton, Ford, Hyundai, ZF

Bodycote
Kennametal
Praxair
Sandvik





ABB, Amkor, ASE, Bosch, CREE, Infineon, Osram, Seagate, ST, TSMC, TDK

Applied Materials
Lam Research
Singulus
Ulvac