

Introduction

OC Oerlikon Corporation AG, Pfäffikon, previously Unaxis Holding AG, is a Swiss public company located in Freienbach SZ, Churerstrasse 120, Pfäffikon SZ. It is the ultimate parent company of the Oerlikon Group, a globally leading supplier of production systems, components and services for selected information technology market segments and industrial applications. The recent acquisition of Saurer has added two new business activities: transmission technology and yarn solutions (textile machinery). Apart from its activities in Switzerland, the Oerlikon Group operates in particular in the EU region, North America and Asia, and employed some 19 200 individuals at the balance sheet date, 6 600 with Oerlikon and 12 600 with Saurer.

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 with Swiss company law. These accounting standards have been consistently applied in all periods represented herein. The consolidated financial statements were approved by the Board of Directors on March 22, 2007 and will be submitted to the annual general meeting of shareholders on May 8, 2007 for approval. All standards issued by the IASB and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) effective at the date of the consolidated financial statements have been taken into account. The consolidation was based on audited annual individual company accounts of the Group's subsidiaries, and prepared according to uniform Group accounting principles. The reporting currency of the Group is Swiss franc (CHF). All line item amounts in the consolidated financial statements are reflected 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 amounts can result in rounding differences. All assets and liabilities have been determined in accordance with the historical cost principle, with the exception of derivative financial instruments and financial assets available for sale or held for trading purposes, which are stated at fair value.

Judgements, estimates and assumptions

Preparation of the annual financial statements in accordance with IFRS requires that management makes estimates and assumptions that may have an impact on the level of the reported revenues, expenses, assets, liabilities and contingent liabilities at the time of accounting. These estimates and assumptions are constantly being revised. Depending on the issues involved, adjustment of such basic presumptions can have an effect on the current period as well as potentially on future periods. The estimates, judgements and assumptions are based on historical experience and other factors that are believed to be reasonable and justified. However, actual results can differ from these estimates. Moreover, application of the 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, the assessment of business cases that involve complex structures or legal forms call for decisions on management's part. The most important accounting estimates are to be found in:

- Property, plant and equipment, goodwill and other intangible assets
- Provisions
- Pension plans
- Income taxes

New and revised accounting principles

The International Accounting Standards Board (IASB) has published a number of new and revised standards that Oerlikon has adopted as of January 1, 2006. The effects of these adjustments on the Group's consolidation principles are discussed below.

IAS 19 Employee Benefits: since January 1, 2006, actuarial gains and losses may be recognized directly in equity in a Statement of Recognized Income and Expenses (SoRIE). Oerlikon has elected to adopt this reporting option for the

first time in 2006, and has therefore provided all additional information required, including restatement of the year 2005. The effect on the income statement and the balance sheet is shown in the attached table.

IAS 21 The Effects of Changes in Foreign Exchange Rates: foreign exchange differences pertaining to a company's net investment in a foreign entity, including equity loans between group companies, should be reported in equity regardless of the currency in which they arise.

Adoption of this standard has no significant effect on Oerlikon Group's business result, nor on the disclosed values of its assets and liabilities.

IAS 39 Financial Instruments – Recognition and Measurement: a group transaction affecting profit or loss may be covered by a cash flow hedge, if it is incurred in a currency other than that of the reporting company.

Such hedging, with recognition of assets and liabilities at fair values, is permitted only in certain circumstances. Adoption of this standard has no significant effect on Oerlikon Group's business result, nor on the disclosed values of its assets and liabilities.

Beside the above, the following additional standards and interpretations came into effect in 2006:

Effective date January 1, 2006:

- IFRS 6 Exploration for and evaluation of mineral resources
- IFRIC 4 Determining whether an arrangement contains a lease according to IAS 17

Effective date March 1, 2006:

- IFRIC 7 Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies

Effective date May 1, 2006:

- IFRIC 8 Scope of IFRS 2 share-based payment

Adoption of these standards has no effect on Oerlikon Group's business result, nor on the disclosed values of its assets and liabilities

Presentation of group accounts

To enhance comparability, the Group has made some changes in the manner of presentation; certain comparative figures have been reclassified or supplemented to conform with the current year.

Balance Sheet

- In 2006 the reporting of pension obligations no longer follows the 'corridor' method of IAS 19. Instead, actuarial gains and losses are recognized directly in equity. The prior year comparative figures have been adjusted in accordance with IAS 8 (see also Note 19 Post-employment Benefits).

Income Statement

- In 2006, transactions involving securities, investments and gains from dividends are recognized in other income and expenses as these transactions are determined by the parent company. Interest and foreign currency effects are shown below operating profit. If the same accounting treatment were applied to 2005, the CHF 62 million gain on sale of one investment would increase the EBIT from CHF –34 million as disclosed, to CHF 28 million. A further change results from adopting the equity option for recognition of certain pension costs (IAS 19). This increases the EBIT in 2005 by CHF 5 million. Details of this IAS 19 option are shown in Note 19 Post-employment Benefits.