

Changes in scope of consolidation and group structure

Note (1)

Acquisition of Saurer AG, Schweiz

On November 1, 2006, Oerlikon Group held over 50% of the shares of Saurer AG, Arbon, and by December 31, 2006 had acquired a total of 85.9%, for a price of CHF 1 635 million. A liability of CHF 277 million has been set up to cover the cost of acquiring the remaining shares outstanding under the public tender offer.

Saurer consists of two divisions, Textile Solutions and Transmission Systems. Textile Solutions is a provider of yarn processing solutions for the textile industry – natural and synthetic fibers. Transmission Systems develops and manufactures transmission systems for motor vehicles.

in CHF million	Acquired book values	Adjustments to fair values	Fair values
Cash and cash equivalents	127	0	127
Inventories	739	12	751
Other current assets	685	0	685
Deferred taxes	77	0	77
Other non-current assets	818	54	872
Total assets	2 446	66	2 512
Liabilities	848	0	848
Financial debt	496	0	496
Provisions	580	83	663
Provisions for deferred taxes	66	16	83
Total liabilities	1 990	99	2 090
Minority interests	17		17
Identifiable assets and liabilities	439	-33	405
Goodwill			1 507
Acquisition cost			1 912
Cash or cash equivalents acquired			127
Outstanding shares per public tender offer			277
Net cash outflow			1 508

The acquisition cost is made up as follows:

in CHF million	31.12.2006
Purchase price	1 567
Transaction costs	68
	1 635
Outstanding shares per public tender offer	277
Total acquisition cost	1 912

The goodwill arising from this acquisition represents the expected potential for synergies deriving from the combination of Saurer with Oerlikon, the merging of the two workforces and all other intangible assets which could not be separately identified.

The newly acquired group contributed CHF 26 million in 2006 to the consolidated result of Oerlikon Group. Had the acquisition occurred on January 1, 2006, combined total sales of CHF 4 678 million and a profit of CHF 360 million would have been reported for the year 2006.

The assets and liabilities of Saurer AG are included in the consolidated financial statements of Oerlikon Group at provisional values, because the process of determining fair values for Saurer's identifiable assets, liabilities and contingent liabilities is not yet complete. The provisional purchase accounting gives rise to a goodwill figure of CHF 1 507 million. However, both the goodwill itself and also the extent and value of the identified assets, liabilities and contingent liabilities included in the purchase accounting, are subject to change. The purchase accounting process is expected to be concluded during 2007.

Other acquisitions

Note (1 cont.)

The acquisition costs are made up as follows:

in CHF million	Acquired book values	Adjustment to fair values	Fair values
Inventories	9	-7	2
Property, plant and equipment	6	0	6
Intangible assets	3	2	5
Total assets	18	-5	13
Total liabilities	0	0	0
Identifiable assets and liabilities	18	-5	13
Goodwill			11
Acquisition cost			24
Net cash outflow			24

As at November 14, 2006 Oerlikon acquired the assets of **Exitech Ltd.** (GB) for CHF 6 million. Exitech specialises in manufacturing and sale of nano and micro laser systems, worldwide. Exitech will be integrated into the Oerlikon Optics business unit.

The acquisition cost is made up as follows:

in CHF million	14.11.2006
Purchase price, paid in cash	6
Transaction costs	0
Total acquisition cost	6

If the acquisition of Exitech had occurred as at January 1, 2006, the Group's consolidated sales would have been CHF 15 million higher and the consolidated profit CHF 4 million lower. The attributable loss since the date of acquisition is immaterial.

On January 23, 2006 Oerlikon Group acquired from the French **Snecma Moteurs** (F) their business in developing and manufacturing high-precision machinery for use in spacecraft, for a price of CHF 8 million.

Their main activity is the manufacturing of Solar Array Drive Mechanisms (SADM).

The acquisition cost is made up as follows:

in CHF million	23.01.2006
Purchase price, paid in cash	8
Transaction costs	0
Total acquisition cost	8

The business activities acquired contributed CHF 4 million to the consolidated total sales of Oerlikon Group for the year 2006, and CHF 1 million to the consolidated profit.

On May 1, 2006 Oerlikon Group acquired the assets and the PVD coating business of **Gold Star Coatings**, (USA) for a price of CHF 10 million.

The acquisition cost is made up as follows:

in CHF million	01.05.2006
Purchase price, paid in cash	10
Transaction costs	0
Total acquisition cost	10

The goodwill arising from this acquisition represents the expected potential for synergies deriving from the combination of the Coating businesses involved, the merging of the two workforces and all other intangible assets which could not be separately identified.

In the period from May 1 to December 31, 2006 the acquired coating business had a negative impact on the group result of CHF 0.2 million. Had the acquisition occurred on January 1, 2006, management estimate that Gold Star Coatings would have contributed CHF 1 million to the Group's profit and CHF 11 million. to the consolidated Oerlikon Group sales.

Acquisition of associated companies

Note (1 cont.)

On June 13, 2006 Oerlikon Group acquired 21% of the shares of **Novalux Inc.**, USA, for a price of CHF 14 million. Novalux specializes in the development of semiconductor laser technology. With this acquisition Oerlikon acquired two options for global, non-exclusive trading licences.

Conversion rates

Note (2)

The following rates were used to convert the most important foreign currencies in the financial statements:

in CHF	Average rates			Year-end rates		
	2006	2005	Change 05/06	2006	2005	Change 05/06
1 USD	1.25	1.25	0.6%	1.22	1.31	-6.8%
1 EUR	1.57	1.55	1.6%	1.61	1.56	3.1%
1 GBP	2.31	2.27	1.9%	2.40	2.27	5.6%
100 JPY	1.08	1.13	-4.8%	1.03	1.12	-7.9%
100 CNY	15.70	15.20	3.3%	15.70	16.30	-3.7%
100 HKD	16.10	16.00	0.6%	15.70	16.90	-7.1%
1 SGD	0.79	0.75	5.5%	0.80	0.79	1.1%

Impact of conversion rates on sales

Note (3)

in %	Change versus previous year		
	Actual	Excluding conversion impact	Impact of conversion rates
Oerlikon Balzers Coating	1.2	0.3	0.9
Oerlikon Leybold Vacuum	12.2	10.8	1.4
Oerlikon Components	8.2	7.0	1.2
Others	0	0	0
Total	5.8	4.7	1.1

Impact of conversion rates cannot be shown for the segments Saurer Textile and Graziano Drive Systems because there are no prior year values.

Impact of conversion rates on EBIT

Note (4)

in CHF million	Change versus previous year		
	Actual	Excluding conversion impact	Impact of conversion rates
Oerlikon Balzers Coating	153	153	0
Oerlikon Leybold Vacuum	51	51	0
Oerlikon Components	70	70	0
Others	-18	-18	0
Total	256	255	1

Impact of conversion rates cannot be shown for the segments Oerlikon Saurer Textile and Oerlikon Graziano Drive Systems because there are no prior year values.

Other income and expenses¹

Note (5)

in CHF million	2006	2005
Licensing, patent and know-how income	2	2
Gain from sale of operating real estate	4	6
Change in post-employment benefit plan accruals	1	1
Gain on sale of securities	76	62
Gain on sale of business activities and investments	12	23
Impairment reversal operating real estate	6	0
Impairment reversal property, plant & equipment	5	0
Rental income from investment property	2	3
Gain on sale of investment property	4	1
Other income and expenses	15	11
Other income	126	110
Taxes not based on income	-15	-7
Restructuring costs	0	-9
Expense of investment property	-1	-2
Depreciation of investment property	-1	-1
Additional expenses	-19	-5
Other expenses	-36	-25
Other income and expenses	90	85

¹ For disclosure details see page 89.**Expenses included in EBIT**

Note (6)

in CHF million	2006	2005
Salaries and wages	593	487
Social security and other employee benefits ¹	143	113
Personnel expense	737	600
Depreciation and amortization of		
– operating property, plant and equipment	98	89
– intangible assets (excluding goodwill)	6	3
Depreciation and amortization of operating assets	105	93

¹ Included in the CHF 143 million expense for social security and other employee benefits is CHF 20 million (previous year: CHF 19 million) attributable to specific post-retirement benefit plans of the individual companies. The remainder includes the legally required benefit contributions of Group companies as well as other social security expenses.

Finance cost, net

Note (7)

in CHF million	2006	2005
Interest income	6	5
Other financial income	4	19
Foreign currency gains, net	4	1
Financial income	14	25
Interest on financial debt	-14	0
Interest on provisions for post-employment benefit plans	-13	-11
Value adjustments to financial investments	0	-1
Other financial expenses	-12	-2
Financial expenses	-39	-14
Total	-24	12

Other investments

Note (8)

in CHF million	2006	2005
Pilatus Flugzeugwerke AG, Stans ¹	28	28
Others ²	6	
Total	34	28

¹ The investment in Pilatus Flugzeugwerke AG remains unchanged at 13.97%. The investment is valued at cost due to lack of information regarding fair values.

² Other investments are consolidated for the first time in connection with the acquisition of Saurer AG. Because Saurer was consolidated for the first time as at November 1, 2006, no comparative values are shown.

Income taxes

Note (9)

in CHF million	2006	2005
Current income taxes	30	17
Deferred taxes ¹	-29	8
Total	1	25

¹ The deferred tax credit results in part from recognition of tax losses as deferred tax assets and also from changes in the accounting treatment of pensions.

Analysis of tax expense

in CHF million

	2006 Pretax result	Tax expense	2005 Pretax result	Tax expense
Group total (actual)	303	1	46	25
Expected tax expense based on weighted average expected tax rates: ¹		64		32
Difference between actual and expected tax expense		-63		-8
The difference between the tax rate calculated using the weighted average tax rate of Oerlikon Group of 22.5% and the effective tax rate arises from the following factors:				
Unrecognized deferred taxes on current-year losses		7		40
Recognition/offset of unrecognized tax loss carryforwards from previous periods		-76		-18
Other effects		5		7
Non-taxable income and expenses		1		-37
Non-taxable income and expenses		-63		-8

Note (9 cont.)

¹ The expected tax expense is calculated from the various profits and losses of the individual companies, using local tax rates. From these a composite tax rate is developed, averaged over the whole group. In 2005 the relatively high losses provoked a shift in tax expense as compared with the pre-tax result. Also, in 2005, substantial non-taxable income was generated from restructuring contributions made within the group. These were reduced to a minimum in 2006.

Current income tax provisions

in CHF million	2006	Due within 1 year	beyond 1 year	2005
Total	174	174	0	21

Note (10)

Earnings per share

in CHF million	2006	2005
Net profit	302	21
Minority interests	2	2
Net profit attributable to shareholders	300	20
Earnings per registered share in CHF ¹	23.49	1.43
Diluted earnings per registered share in CHF ¹	23.44	1.43

Note (11)

¹ Earnings per share of CHF 23.49 has been calculated on the basis of a net profit of CHF 300 million attributable to shareholders (previous year: CHF 20 million) and the average weighted number of outstanding shares (issued shares less treasury shares). In 2006, the average weighted number of shares entitled to vote and receive dividends amounted to 12 773 290 (previous year: 13 622 057). Fully diluted earnings per share amounted to CHF 23.44. The average weighted number of shares used in the calculation of fully diluted earnings per share amounted to 12 801 455 (previous year: 13 628 356).

Number of outstanding shares	2006	2005
Total shares outstanding at year-end	14 142 437	14 142 437
Weighted annual average number of shares outstanding ²	12 773 290	13 622 057
Effect of potential exercise of option rights	28 165	6 299
Weighted average number of shares outstanding on December 31	12 801 455	13 628 356

² The change results from repurchase of treasury shares.

Cash and cash equivalents

Note (12)

in CHF million	2006	2005
Cash, postal and bank current accounts	431	257
Time deposits	55	66
Total	486	324

CHF 61 million (previous year: 25 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 disposition within a reasonable period of time.

Cash and cash equivalents are held in the following currencies:

Currency in CHF million	2006	2005
CHF	170	157
EUR	182	89
USD	68	32
Others	66	46
Total	486	324

Securities

Note (13)

in CHF million	2006	2005
Total	95	106

The securities consist almost entirely of short-term investments.

Receivables

Note (14)

in CHF million	2006	2005
Trade accounts receivable ¹	774	349
Trade notes receivable	21	18
Other receivables	100	28
Allowance for doubtful accounts	-28	-18
Total	867	377

¹ Breakdown of trade receivables by currency:

in CHF million	2006	2005
CHF	54	54
USD	153	140
EUR	496	109
Other	70	46
Total	774	349

No clustered risks to the Group are anticipated from the outstanding receivables.

Inventories

Note (15)

in CHF million	2006			2005		
	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Raw materials and components	362	-53	309	87	-20	67
Work in progress	386	-19	367	97	-5	92
Finished goods	266	-59	207	82	-30	52
Trade merchandise	43	-11	32	29	-10	19
Advances paid for inventories	39	0	39	7	0	7
Accrued sales under percentage of completion (POC) method	16	0	16	0	0	0
Total	1 112	-142	970	301	-65	237

Amounts charged to income for write-down of inventories in the reporting year were CHF 19 million (prior year CHF 142 million.)

The accrued sales under the POC method pertain to customer orders in the segment Oerlikon Balzers Coating (business unit Oerlikon Solar) and the segment Oerlikon Components (business unit Oerlikon Space), which can be summarised as follows:

in CHF million	2006	2005
Realised POC sales	222	173
Realised POC project costs	-109	-137
Realised contribution from POC projects	113	36
POC project costs included in work-in-progress as at December 31	5	22
Customer advances received for POC projects	128	137
Offset with POC revenue accruals ¹	-60	-53
Net amount of customer advances for POC projects	68	84

¹ See note 24.

Prepaid expenses and accrued income

Note (16)

in CHF million	2006	2005
Derivative financial instruments	7	2
Other prepaid expenses and accrued income	26	20
Total	34	22

In accordance with hedge accounting as per IAS 39, the non-cash gains/losses on derivative hedges of underlying business transactions that have been recorded in shareholders' equity but have yet to be recognized are reflected in the statement of recognized income and expenses.

Property, plant and equipment

Note (17)

in CHF million	Plant, equipment and furniture	Production and administration	Developed land	Advances and facilities under construction	Non-operating real estate	2006 Total
Cost						
Balance at January 1, 2006	1 019	422	32	10	43	1 525
Conversion differences	2	6	1			9
Changes in Group companies	337	262	87	22		708
Additions	114	8	1	44		167
Disposals	-48	-8	-3		-11	-70
Transfers	36	10	2	-52		-3
Balance at December 31, 2006	1 460	699	120	24	32	2 336
Accumulated depreciation and impairment losses						
Balance at January 1, 2006	714	216	0	0	28	958
Conversion differences	2	2				4
Changes in Group companies						0
Depreciation	84	14			1	98
Impairment losses reversed ¹	-5	-6				-11
Disposals	-39	-3			-9	-51
Transfers						0
Balance at December 31, 2006	755	223	0	0	20	999
Net Group values as at December 31, 2005	304	206	32	9	15	567
Net Group values as at December 31, 2006	705	476	119	24	12	1 336
Of which, assets held under finance leases	2	44				47
Insured values in the event of fire	3 091	1 636		6	47	4 780
Estimated fair value					33	

¹ In the segments Oerlikon Balzers Coating and Oerlikon Components, certain operating assets were brought back into service and previously recognized value impairments could be reversed.

Open purchase commitments for property, plant and equipment at the end of 2006 amounted to CHF 15 million (prior year: CHF 2 million).

Property, plant and equipment

Note (17 cont.)

in CHF million	Plant, equipment and furniture	Production and administration	Developed land	Advances and facilities under construction	Non-operating real estate	2005 Total
Cost						
Balance at January 1, 2005	936	423	33	15	70	1 477
Conversion differences	40	8	1	1	1	51
Changes in Group companies					-22	-22
Additions	45	4		39		88
Disposals	-45	-14	-3		-5	-67
Transfers	43	1	1	-45		0
Balance at December 31, 2005	1 019	422	32	10	43	1 525
Accumulated depreciation and impairment losses						
Balance at January 1, 2005	655	209	0	0	46	910
Conversion differences	23	2				26
Changes in Group companies					-17	-17
Depreciation	77	11			1	89
Impairment losses	0					0
Disposals	-42	-6			-3	-51
Transfers	1					1
Balance at December 31, 2005	714	216	0	0	28	958
Net Group values as at December 31, 2004	281	214	33	14	24	566
Net Group value as at December 31, 2005	304	206	32	9	15	567
Of which, assets held under finance leases		1				1
Insured values in the event of fire	1 030	552		6	66	1 654
Estimated fair value					50	

Intangible assets

in CHF million	Purchased goodwill of Group companies	Purchased Software	Purchased ¹ other intangible assets	Development costs	2006 Total
Cost					
Balance at January 1, 2006	209	32	2	0	243
Conversion differences	-8		-3		-11
Changes in Group companies	1 518	8	146		1 672
Additions		9	23	49	81
Disposals		-6			-6
Balance at December 31, 2006	1 719	44	167	49	1 979
Accumulated amortization and impairment losses					
Balance at January 1, 2006	0	28	1	0	29
Amortization		4	2		6
Impairment losses					0
Disposals		-6			-6
Balance at December 31, 2006	0	26	3	0	30
Net Group values as at December 31, 2005	209	4	0	0	214
Net Group values as at December 31, 2005	1 719	18	164	49	1 949

¹ Other intangible assets include brands with unlimited life in the amount of CHF 18 million.

The increase in goodwill arises mainly from the Saurer acquisition.

Goodwill is attributed to the segments as follows:

Segment in CHF million	2006	2005
Oerlikon Balzers Coating	112	116
Oerlikon Components	100	93
Other ²	1 507	
Total	1 719	209

² Final allocation of goodwill to the segments will follow when the purchase accounting for the Saurer acquisition is finalised.

Testing for potential impairment of other intangible assets with unlimited life and of goodwill values is based on the value in use. To assess the sustained values, the revised year-end budget and strategy plans approved by management for the years 2007 to 2009 were examined. As part of this analysis, future segment cash flows were discounted with an average pre-tax cost of capital of 12 to 18.4%. This capital cost was determined via the Capital Asset Pricing Model (CAPM). The test indicated that no impairment of goodwill values was necessary for the year 2006; this was further confirmed by sensitivity analysis using a very conservative growth rate of 0%.

In 2006 the criteria set forth in IAS 38 for recognition of development costs as intangible assets were met for the first time. The development costs so recognized are incurred over a variety of technology-related projects and products. A new system for control of development costs was introduced throughout Oerlikon group in the first half of 2006, under which development costs may be recognized as assets when it can be shown that all IAS 38 criteria have been met. The cost thus 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.

Intangible assets

Note (18 cont.)

in CHF million	Purchased goodwill of Group companies	Purchased Software	Purchased other intangible assets	Development costs	2005 Total
Cost					
Balance at January 1, 2005	739	32	1	0	772
Conversion differences	15				15
Additions		2			2
Disposals		-2			-2
Transfers ¹	-545	1			-545
Balance at December 31, 2005	209	32	2	0	242
Accumulated amortization and impairment losses					
Balance at January 1, 2005	545	27	1	0	573
Amortization		3			3
Impairment losses					0
Disposals		-2			-2
Transfers ¹	-545				-545
Balance at December 31, 2005	0	28	1	0	28
Net Group values as at December 31, 2004	193	5	1	0	199
Net Group values as at December 31, 2005	209	4	0	0	214

¹ IFRS 3 requires to net the cumulative amortization of goodwill and the residual value. The corresponding adjustment is shown in the row transfers.

Post-employment benefit provisions

Note (19)

in CHF million	2006	Due		2005
		within 1 year	beyond 1 year	
Total	644	15	629	301

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

Summary of post-employment benefit plans	2006			2005		
	Total	Defined benefit	Defined contribution	Total	Defined benefit	Defined contribution
Number of plans						
Funded plans	46	35	11	23	12	11
Unfunded plans	21	18	3	11	8	3
Number of insured members						
Active members	13 608	11 741	1 961	6 014	4 799	1 349
Retirees	11 259	11 256	3	2 161	2 156	5
in CHF million						
Pension cost (operative)	20	17	3	19	16	3
Pension cost (financial)	13	13	0	11	11	0
Total post-employment benefit plan cost	32	29	3	30	27	3
Post-employment benefit provisions	644	643	1	301	300	2
Post-employment benefit assets	22	22	0	10	10	0

Defined benefit plans	2006			2005		
	Total	Plan assets		Total	Plan assets	
in CHF million		Funded	Unfunded		Funded	Unfunded
Plan assets at market values ¹	1 010	1 010	0	508	508	0
Present benefit obligation (PBO)	-1 556	-1 015	-541	-781	-501	-280
Assets in excess of/below PBO	-546	-5	-541	-273	7	-280
Post-employment benefit provisions	643	102	541	300	19	280
Post-employment benefit assets	-22	-22	0	-10	-10	0
Unrecognized gains/losses	75	75	0	16	16	0
of which:						
- Past service costs	8	8	0	9	9	0
- Actuarial gains/losses (effect of capitalisation limit IAS 19.58 b)	67	67	0	7	7	0

¹ Plan assets include:

Equity instruments	280	280
Bonds and other obligations	320	320
Real estate	106	106
Other	304	304
Total plan assets	1 010	1 010

Following revisions to IAS19 the plan assets are shown at fair values by asset category for the first time in 2006.

in CHF million

	2006	2005
Plan assets at market value as at January 1	508	481
Return on plan assets	30	41
Employee contributions	12	12
Employer contributions	34	31
Conversion differences	-15	10
Amounts paid out	-73	-68
Changes in Group companies	515	0
Plan assets at market value as at December 31	1 010	508
Present value of benefit obligation (PBO) as at January 1	781	748
Service cost	36	34
Interest cost	33	28
Actuarial (gains) losses	-15	35
Plan extensions (curtailments)	2	-11
Conversion differences	-6	13
Amounts paid out	-73	-68
Changes in Group companies	798	0
Present value of benefit obligation (PBO) as at December 31	1 556	781
Current service cost after deduction of employee contributions		
Pension cost – defined benefit plans	24	22
+ Interest costs	33	28
- Expected return on plan assets	-26	-22
- Effect of plan mutations	-1	-1
+/- (Gains) / losses from terminations and curtailments	0	-1
Total pension cost	29	27
Actuarial (gains)/losses recognized in equity		
Accumulated values as at January 1	62	40
Actuarial (gains)/losses recognized during year	-13	22
Accumulated values as at December 31	49	62
Effect of capitalisation limit IAS 19 58(b)	4	6

Note (19 cont.)

Actuarial assumptions

in %	2006	2005
(weighted average rates)		
Discount rate	4.0	3.7
Salary progression	2.1	2.1
Benefit progression	1.0	0.9
Return on plan assets	4.8	4.6

Note (19 cont.)

Development of plan assets

in CHF million	2006	2005
Plan assets at market value	1 010	508
Present value of benefit obligation (PBO)	-1 556	-781
Experience adjustments to obligations	-2	
Experience adjustments to plan assets	1	

Experience adjustments are shown for the first time in 2006, following IAS 19 revisions.

Deferred tax assets

Note (20)

in CHF million	2006	2005
Total	171	83
Unrecognized deferred tax assets resulting from tax loss carryforwards of CHF 942 million (previous year: CHF 1 013 million)	174	183
Unrecognized deferred tax assets resulting from negative timing differences of CHF 3 million (previous year: CHF 5 million)	0	1

The composition of deferred tax assets is shown in Note 21. Reference is also made to the comments in Note 9.

Tax losses are available for offset against taxable profits as follows:

in CHF million	Tax losses not capitalised as deferred tax assets	Total tax loss carryforwards
1 year	7	7
2 years	89	89
3 years	236	236
4 years	147	147
5 years	193	193
over 5 years	271	605
Total	942	1 276

Deferred tax provisions

Note (21)

in CHF million	2006		2005	
		Due within 1 year	Due beyond 1 year	
Total	96	0	96	23
Composition of deferred taxes (including deferred tax assets; see note 20)				
in CHF million	2006		2005	
	Deferred tax balances Assets	Deferred tax balances Liabilities	Deferred tax balances Assets	Deferred tax balances Liabilities
Cash, cash equivalents and securities	0	0	0	1
Trade accounts receivable	12	2	2	1
Other receivables and accruals	12	4	0	1
Inventories	10	9	4	3
Post-employment benefit assets	0	5	0	4
Financial assets	2	8	4	4
Property, plant and equipment	22	83	7	33
Intangible assets	50	104	3	0
Assets	108	216	20	48
Trade accounts payable	0	2	0	0
Other current and long-term liabilities	65	9	9	3
Financial debt	3	0	4	0
Provisions	49	3	44	1
Liabilities	118	14	57	5
Subtotal	226	230	77	53
Netting within each subsidiary company	-52	-52	-8	-8
Subtotal	174	178	69	45
Of which, unrecognized deferred tax assets	0	0	-1	0
Tax loss carryforwards recognized ¹	79	0	37	0
Netting within tax group	-83	-83	-23	-23
Total (net)	171	96	83	23
Of which, deferred taxes recognized in equity	-16	1	-23	0

¹ Total of timing differences based on tax losses recognized as assets in 2006: CHF -334 million (prior year: -CHF 101 million)

Payables

Note (22)

in CHF million	2006	2005
Trade accounts payable ¹	455	92
Trade notes payable	4	3
Outstanding shares of Saurer AG ²	277	0
Other payables	118	35
Total	854	130

¹ Breakdown of trade payables by currency:

in CHF million	2006	2005
EUR	299	34
CHF	50	34
USD	37	14
Others	69	10
Total	455	92

² A liability of CHF 277 million was set up at December 31, 2006, to cover payment for outstanding shares of Saurer AG under the terms of the public tender offer.

Accrued liabilities

Note (23)

in CHF million	2006	2005
Derivative financial instruments	6	9
Accrued personnel costs	167	70
Accrued cost of sales	56	39
Other accrued liabilities	157	70
Total	386	188

The statement of recognized income and expenses reflects the results from derivative hedges on underlying business transactions that have yet to be entered in the balance sheet and, in accordance with hedge accounting, have been recorded in shareholders' equity with no effect on the income statement (IAS 39).

Customer advances

Note (24)

in CHF million	2006	Due within 1 year	1 to 5 years	beyond 5 years	2005
Total	267	222	46	0	90

In the period under review, customer advances received at the project level have been offset against POC revenue accruals. This reclassification amounted to CHF 60 million as at December 31, 2006 (prior year: CHF 53 million).

Financial debt/net liquidity

Note (25)

in CHF million	2006 total	Due			2005
		within 1 year	1 to 5 years	beyond 5 years	
Bank current accounts	7	7			1
Other financial liabilities	1	1			0
Loans payable ¹	1 566	1 532	32	2	2
Mortgages	3	1	2	0	0
Financial lease obligations	29	7	22	0	1
Bonds ²	198	0	0	198	0
Total financial debt	1 803	1 548	56	200	3
- Less cash and cash equivalents	-486				-324
Net liquidity	-1 317				320
Future financial lease payments	32				1
- of which, financial costs	3				0

¹ Loans payable includes CHF 1 268 million pertaining to the financing of the Saurer acquisition. The total credit available for this transaction amounts to CHF 1 525 million, at a floating interest rate and valid until June 30, 2007. The average interest rate for financing drawn down within this credit line was 3.2% for the year ended December 31, 2006. Various securities, treasury shares and subsidiary companies are pledged as collateral for these loans. The company was in compliance with covenants relating to this financing as at December 31, 2006.

² On August 28, 2006, Saurer AG issued a 3.5% Bond 2006–2013 for a nominal value of CHF 200 million, valued on the amortized cost basis. On December 31, 2006 the market value of the loan was quoted at 100.75% of the nominal value.

81.4% of the total financial debt is denominated in CHF, 11.1% in USD, 7.1% in EUR and 0.3% in JPY. 88.9% of the financial debt is owed to banks; the remainder consists of the Saurer bond with a fixed coupon. 88.6% of the financial debt is at variable interest rates. Across all currencies, interest rates vary from 0.9 to 5.85% per annum.

Other provisions

Note (26)

in CHF million	2006	Due		2005
		within 1 year	beyond 1 year	
Total	303	202	102	215

Other Provisions in CHF million	Product warranties	Product liability	Onerous contracts	Long-term employee benefits	Restructuring	Other provisions ¹	2006 Total
Balance at January 1, 2006	45	4	53	20	33	61	215
Conversion differences			1	1	1	1	3
Changes in Group companies	43		37	16	21	47	164
Additions	20		5	8	12	20	65
Amounts used	-24		-10	-6	-20	-12	-72
Amounts reversed	-12	-3	-18	-1	-14	-24	-72
Balance at December 31, 2006	72	0	68	38	32	93	303
Of which:							
Due within 1 year	66		52	2	29	52	202
Due beyond 1 year	5		16	36	3	41	102

¹ 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. The reversal of CHF 24 million arises from a legal settlement, and various smaller reversals spread among a number of companies.

Changes in provisions arise mainly from the increase in consolidation scope pertaining to the acquisition of Saurer.

During preparation of the financial statements, a systematic reassessment of the project risks was conducted and appropriate changes 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". That 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.

Financial instruments

Note (27)

in CHF million	2006			2005		
	Contract amounts	Fair value positive	negative	Contract amounts	Fair value positive	negative
Currency derivatives	1 048	7	6	445	2	9
Interest-rate derivatives	28	0	0	50	0	0
Total	1 076	7	6	495	2	9

Based on the business activities, the following main currencies are hedged: USD, EUR and JPY. Positive and negative changes in fair values of currency derivatives (see Notes 16 and 23) 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.

The reported fair value amount of net CHF 1 million, CHF 2 million was recorded directly in equity with no effect on net income, and CHF -1 million was recorded in the income statement.

Maturity structure of open foreign exchange contracts as at December 31 (in CHF million):

Interest-rate derivatives ¹	2006		2005	
	Contract amounts in CHF million	in %	Contract amounts in CHF million	in %
Up to 3 months	4	14.3	0	0.0
3 to 12 months	0	0.0	50	100.0
Beyond 12 months	24	85.7	0	0.0

Currency derivatives	2006		2005	
	Contract amounts in CHF million	in %	Contract amounts in CHF million	in %
Up to 3 months	833	79.4	254	57.0
3 to 12 months	195	18.6	177	39.7
Beyond 12 months	20	1.9	14	3.1

¹ Interest-rate derivatives are used by Saurer in connection with a "sale and leaseback" real-estate transaction for an Italian subsidiary.

Amounts shown in the balance sheet for receivables and payables, loans receivable and short-term financial debt correspond to fair values. Risks associated with interest rate changes on financial debt can be assessed from the information in Note 25.

In 2005 Saurer acquired a call option to acquire a 75% holding in a company in the textile components business in 2009 or 2010, at a price based on the higher of a multiple of the company's EBITDA in 2008 or 2009 and GBP 4 million. At the same time Saurer granted a put option which obliges it to acquire a 75% holding in the company at a price based on the lower of a multiple of the company's EBITDA in 2008 or 2009 and GBP 6 million. The multiple is considered to be a reasonable estimation of the fair value. Therefore, neither option has a value, and hence no asset or liability was recognized.

Oerlikon participation plans

Note (28)

The following plans are in existence, pursuant to which the holder is entitled to purchase one share of OC Oerlikon Corporation AG, Pfäffikon for each option held:

- Since 1998, members of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon receive a portion of their compensation by means of a stock option plan (exercise period: 3 to 4 years). Since 2004, Board members may opt to take a part or all of their compensation in the form of shares. Such shares are subject to a blocking period of 2 years. Members of the Board have a choice as to the type of compensation they receive (cash or equity settlement). No such plan existed in 2006.
- As a long-term bonus, members of the Executive Board and senior management may receive a portion of their compensation in the form of options on OC Oerlikon Corporation AG, Pfäffikon shares (exercise period: 4 or, as the case may be, 7 years). For employees who are still employed by the Company, a blocking period of 2, 3 or 4 years may apply.

The income statement for the reporting period has been charged with CHF 1 million (previous year: CHF 1 million)

As at December 31, 2006, the following outstanding options had been issued under these plans:

Board of Directors								
Allotment	Options outstanding at 1.1.	Additions in 2006	Exercised in 2006	Expired in 2006 ^{1,2}	Options outstanding at 31.12.	Exercise price in CHF	Exercise period from to	
2002	1 144			-1 144	0	225	13.5.04	12.5.06
2004	20 807		-20 807		0	150	6.6.06	3.6.08
Total	21 951		-20 807	-1 144	0			

¹ Options granted to employees in 2002 and not exercised expired on May 13, 2006.

² A number of options granted to employees in the years 2001 through 2004 expired in 2006 when the relevant employees left the company.

For those options exercised in the 2006 financial year, the weighted average share price upon exercise amounted to CHF 338.

Non-executive Board Members were granted 1 169 shares at a price of CHF 750. The shares have no blocking period.

Employees

Note (28 cont.)

Allotment	Options outstanding at 1.1.	Additions in 2006	Exercised in 2006	Expired in 2006 ^{1,2}	Options outstanding at 31.12.	Exercise price in CHF	Exercise period from to	
2001	3 770		-2 485	- 247	1 038	315	29.5.03	28.5.08
	911			- 911	0	315	1.4.05	31.3.06
	634		- 634		0	315	1.1.04	31.12.06
	3 783		-2 489	- 249	1 045	315	29.5.04	28.5.08
	911			- 911	0	315	1.4.05	31.3.06
	634		- 634		0	315	1.1.04	31.12.06
2002	2 777			-2 777	0	225	13.5.04	12.5.06
	9 079		-5 012	-1 710	2 357	189.5	14.5.04	13.5.09
	444		- 444		0	189.5	1.4.05	31.3.06
	1 853			-1 853	0	189.5	1.4.05	31.3.06
	818		- 818		0	189.5	1.1.04	31.12.06
	9 103		-5 025	-1 711	2 367	189.5	14.5.05	13.5.09
	444		- 444		0	189.5	1.4.05	31.3.06
	1 853			-1 853	0	189.5	1.4.05	31.3.06
	818		- 818		0	189.5	1.1.04	31.12.06
2003	321				321	110	24.5.05	23.5.10
2004	380		- 380		0	176	7.1.06	7.1.11
	380				380	176	7.1.07	7.1.11
2006		40 000			40 000	250	1.1.09	31.12.09
Total	38 913	40 000	-19 183	-12 222	47 508			

¹ Options granted to employees in 2002 and not exercised expired on May 13, 2006.

² A number of options granted to employees in the years 2001 through 2004 expired in 2006 when the relevant employees left the company.

Members of the Executive Board were granted a total of 7 000 Oerlikon shares in the 2006 financial year (5 000 shares as at January 1, 2006, at a price of CHF 198, and 2 000 shares on November 21, 2006, at a price of CHF 528), and 40 000 options valid for four years at an exercise price of CHF 250. The options were granted on January 1, 2006, and are subject to a blocking period of 3 years.

In addition, on November 21, 2006, Executive Board Members were granted 6 000 shares at a price of CHF 528 for the 2007 business year.

The shares have no blocking period.

The employee stock options are valued based on the Black-Scholes option pricing model. For the calculation volatility rates were based on historically observed prices of the underlying equity, and risk-free interest rates were based on Swiss Government bonds with similar maturities.

The employee options plan entitles the beneficiary to acquire shares (equity settlement). The expense booked in 2006 amounted to CHF 0 million (previous year: CHF 2 million). Shareholders' equity was charged accordingly.

For options exercised in the 2006 financial year, the weighted average share price upon exercise amounted to CHF 359.

The potential obligation to issue shares to cover the exercise of outstanding options is covered exclusively through the purchase of Oerlikon shares in the open market. Social security contributions related to options are chargeable only as of the exercise date. The social security expense recorded in the income statement in 2006 as the result of the exercise of options amounts to CHF 0 million.

Other option plans

Beside Oerlikon's own option plans, the following plans exist for Saurer AG.

Saurer maintains a long-term program for employee stock options. The shares required to cover this program were purchased on the market. As at December 31, 2006 the total number of treasury shares reserved for this purpose was 81 250. The conditional capital, which is also available for this program, has not been used to date. The options outstanding as at December 31, 2006 have exercise prices of CHF 19.45 and CHF 48.45. The exercise prices correspond to the market prices at the time of issue. They are not adjusted (no repricing), except for reductions equal to the reductions of the nominal share value (dilution protection). When issued, half of the options are blocked for 2 and the other half for 3 years. All options expire after 5 years.

Each option entitles the owner to cash compensation for the difference between the market price of one Saurer share and the exercise price. The Board of Directors of Saurer agreed with OC Oerlikon Corporation AG, Pfäffikon to tender all underlying Saurer shares held to hedge the employee stock options in the public tender offer process on January 4, 2007, at the official offer price of CHF 135. Employees were compensated accordingly in January 2007 (CHF 7 million).

Contingent liabilities

Note (29)

in CHF million	2006	2005
Debt guarantees	8	2
Discounted bills of exchange	8	3
Total	16	6

The contingent liabilities from guarantee of debt are mainly guarantees of debt to banks. In addition, bills of exchange discounted with banks amounted to CHF 1 million.

Payments under non-cancellable leases

Note (30)

in CHF million	2006	2005
Due in 1st year	34	19
Due in 2nd year	28	16
Due in 3rd year	22	12
Due in 4th year	17	10
Due in or beyond 5th year	46	33
Total	148	90

These amounts primarily relate to rental contracts for buildings. The largest amounts pertain to the facilities of Oerlikon Holding in USA (CHF 23 million), Oerlikon Balzers Coating USA Inc. (CHF 15 million), Oerlikon Assembly Equipment AG in Steinhausen (CHF 11 million) and Oerlikon Holding in Germany (CHF 8 million).

The expense of operating leases charged to the income statement amounted to CHF 24 million (prior year: CHF 21 million).

Related party transactions

Note (31)

Primary shareholder

The share capital of OC Oerlikon Corporation AG, Pfäffikon consists of 14 142 437 shares. As at December 31, 2006, the following primary shareholder is entered in the share register:

Shareholder	Share ownership as per mandatory disclosure	
	Number of shares	In % ¹
Victory Industriebeteiligung AG, Vienna, Austria ²	4 831 192	34.16

¹ Basis: 14 142 437 outstanding shares

² Beneficial ownership as at December 31, 2006:

- 50% Millennium Privatstiftung, Praterstrasse 62-64, 1020 Vienna, Austria
- 50% RPR Privatstiftung, Seilerstätte 18-20, 1010 Vienna, Austria

Compensation of non-executive board members

In a normal year, non-executive members of the Board of Directors receive compensation in roughly equal portions of cash and options and/or shares.

In the 2006 financial year, the total compensation paid to non-executive members of the Board of Directors (excluding employer contributions to social security) amounted to CHF 1.67 million, including 1 169 shares granted at a price of CHF 750. Non-executive Board members were granted no options.

Compensation of members of the Executive Board

The compensation paid to members of the Executive Board consists of a fixed base salary and a variable component. In addition, members of the Executive Board receive shares and/or options in the sense of a long-term bonus.

Total compensation (including all employer pension fund contributions, but excluding employer social security contributions) paid in the 2006 financial year to members of the Executive Board amounted to CHF 4.2 million, of which CHF 2.6 million was in the form of base salary, CHF 0.9 million as bonus, CHF 0.4 million as pension fund contributions, and CHF 0.3 million as expense reimbursements.

Members of the Executive Board were granted a total of 7 000 Oerlikon shares with a value of CHF 2 million in the 2006 financial year and 40 000 options with a value of CHF 0.9 million. In addition, on November 21, 2006, Executive Board Members were granted 6 000 shares at a price of CHF 528 for the 2007 business year.

Compensation paid to former related parties

In 2006 a total of CHF 1.2 million was paid to former members of management. Of this, CHF 1.1 million was in the form of base salary, with CHF 0.1 million as bonus.

No severance payments were made to former Board members.

Group and associated companies

An overview of the Group subsidiary companies can be found on page 122. 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.

Participation plans: see Note 28.

During the year under review, there were no other related party transactions.

Pledged assets

Note (32)

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

in CHF million	2006	2005
Property, plant & equipment	49	1
Securities	48	0
Other financial assets	33	
Total	130	1

Assets are pledged as security for bank loans. A major part of Property, plant & equipment pledged relates to a sale-and-leaseback transaction.

Events subsequent to the balance sheet date

Note (33)

Following the completion of the acquisition of Saurer by OC Oerlikon Corporation AG, Pfäffikon on January 10, 2007 Oerlikon held 99.45% of all Saurer Shares. Oerlikon is in the process of suing for the invalidation of the remaining publicly held Saurer Shares. Only until the completion of the invalidation process Saurer remains listed on the SWX Swiss Exchange. Saurer's Board of Directors has assigned the operating management of Saurer Ltd. to OC Oerlikon from January 2007 on and has therefore regulated various aspects in a mandate contract between the new controlling shareholder and each Member of the Board of Directors.

No further significant events occurred after the balance sheet date, which could be important in evaluating these accounts.