

Financial Report

Key figures

- 83 Key figures Group
- 84 Key figures by segment

Group

- 85 Consolidated income statement
- 86 Consolidated balance sheet as at December 31
- 87 Consolidated cash flow statement
- 88 Consolidated statement of changes in equity

Notes

- 89 Accounting principles
- 94 Notes to the consolidated financial statements
- 120 Segment information 2006–2005
- 122 Companies by country

- 125 Report of the Group Auditors
- 126 Key figures 2006–2002

OC Oerlikon Corporation AG, Pfäffikon

- 128 Income statement of OC Oerlikon Corporation AG, Pfäffikon
- 129 Balance Sheet as at December 31 of OC Oerlikon Corporation AG, Pfäffikon
- 130 Notes to the financial statements of OC Oerlikon Corporation AG, Pfäffikon
- 133 Proposal of the Board of Directors
- 134 Report of the Statutory Auditors
- 135 Legal structure

- 136 Agenda, Contact

Key figures¹

Key figures Oerlikon Group		
in CHF million	January 1 to December 31 2006	January 1 to December 31 2005
Orders received	2 631	1 455
Orders on hand	1 557	355
Sales	2 291	1 605
EBITDA	423	128
– as % of sales	18%	8%
EBIT	329	34
– as % of sales	14%	2%
Net profit	302	21
– as % of sales	13%	1%
– as % of equity attributable to shareholders of the parent	20%	2%
Cash flow from operating activities ²	355	84
Capital expenditure for fixed and intangible assets	237	91
Total assets	6 034	1 979
Equity attributable to shareholders of the parent	1 482	1 001
– as % of total assets	25%	51%
Net liquidity ³	–589	706
Net assets ⁴	3 001	510
EBIT as % of net assets (RONA)	11%	7%
Number of employees	19 267	6 434
Personnel expenses	737	600
Research and development expenses ⁵	162	148

¹ A multiple year comparison of key figures 2002–2006 may be found on page 126.

² Before changes in net current assets.

³ Net liquidity includes marketable securities and treasury shares at market value as per December 31, 2006.

⁴ Net assets include operating assets fixed and current, (excluding cash and financial assets) less operating liabilities (excluding financial liabilities and tax provisions).

⁵ Research and development expenses include expenses recognized as intangible assets CHF 49 million (prior year: CHF 0 million)

Key share-related figures ⁶		
CHF	January 1 to December 31 2006	January 1 to December 31 2005
Share price		
High	605	198
Low	191	114
Year-end	603	198
Total shares outstanding	14 142 437	14 142 437
Market capitalization in millions	8 521	2 799
EBIT	25.75	2.52
Net income for the period	23.44	1.43
Net cash flow	12.73	–22.51
Shareholders' equity	116.01	73.47
Dividends ⁷	0.00	0.00

⁶ Average number of shares with voting and dividend rights.

⁷ Dividend 2006: proposal of the Board of Directors.

Business development by segment

in CHF million	January 1 to December 31 2006	January 1 to December 31 2005
Oerlikon Balzers Coating		
Orders received	1 195	642
Orders on hand	478	100
Sales	816	806
EBITDA	176	35
EBIT	135	-20
- as % of sales	17%	-3%
Net assets	592	444
Number of Employees	3 463	3 363
Oerlikon Leybold Vacuum		
Orders received	444	390
Orders on hand	59	45
Sales	430	383
EBITDA	56	5
EBIT	47	-4
- as % of sales	11%	-1%
Net assets	-72	-92
Number of Employees	1 378	1 479
Oerlikon Saurer Textile¹		
Orders received	398	
Orders on hand	825	
Sales	438	
EBITDA	35	
EBIT	24	
- as % of sales	6%	
Net assets	535	
Number of Employees	7 822	
Oerlikon Graziano Drive Systems¹		
Orders received	154	
Orders on hand	0	
Sales	154	
EBITDA	24	
EBIT	14	
- as % of sales	9%	
Net assets	615	
Number of Employees	4 759	
Oerlikon Components		
Orders received	436	423
Orders on hand	195	210
Sales	450	416
EBITDA	75	14
EBIT	59	-8
- as % of sales	13%	-2%
Net assets	199	197
Number of Employees	1 620	1 526
Others		
Orders received	3	0
Sales	3	0
EBITDA	57	73
EBIT	51	68
Net assets	1 132	-39
Number of Employees	225	66

¹ Because the Saurer Group was consolidated for the first time as from November 1, 2006, no comparative figures for 2005 are shown.

Net assets include operating current and non-current assets (excluding cash, cash equivalents and financial assets), less operating liabilities (excluding financial liabilities and tax provisions).

Consolidated income statement

in CHF million	Note	January 1 to December 31 2006	January 1 to December 31 2005 restated ¹
Sales of goods		1 781	1 137
Services rendered		510	469
Total sales	3	2 291	1 605
Cost of sales		-1 517	-1 104
Gross profit		773	501
Marketing and selling		-198	-215
Research and development		-113	-148
Administration		-223	-189
Other income and expenses	5	90	85
EBIT	4, 6	329	34
Result from associated companies		-2	0
Finance cost, net	7	-24	12
Profit before taxes (EBT)		303	46
Income taxes	9	-1	-25
Net profit		302	21
Attributable to:			
Shareholders of the parent		300	20
Minority interests		2	2
Earnings per registered share in CHF	11	23.49	1.43
Fully diluted earnings per registered share in CHF	11	23.44	1.43

¹ For restatement 2005 see page 90.

Consolidated Balance Sheet as at December 31

Assets

in CHF million	Note	2006	2005 restated ¹
Cash and cash equivalents	12	486	324
Marketable securities	13	95	106
Receivables	14	867	377
Current tax receivables		38	11
Inventories	15	970	237
Prepaid expenses and accrued income	16	34	22
Current assets		2 490	1 076
Loans receivable		20	0
Investments in associated companies		12	0
Other investments	8	34	28
Property, plant and equipment	17	1 336	567
Intangible assets	18	1 949	214
Post-employment benefit assets		22	10
Deferred tax assets	20	171	83
Non-current assets		3 544	903
Total assets		6 034	1 979

Equity and liabilities

in CHF million	Note	2006	2005 restated ¹
Payables	22	854	130
Accrued liabilities	23	386	188
Current customer advances	24	222	56
Current financial debt	25	1 548	1
Current income tax provisions	10	174	21
Current post-employment benefit provisions	19	15	15
Current other provisions	26	202	133
Current liabilities		3 400	545
Non-current customer advances	24	46	34
Non-current financial debt	25	256	2
Non-current post-employment benefit provisions	19	629	286
Deferred tax provisions	21	96	23
Other non-current provisions	26	102	82
Non-current liabilities		1 128	426
Total liabilities		4 528	971
Share capital		283	283
Treasury shares		-183	-244
Reserves and retained earnings		1 382	962
Equity attributable to shareholders of the parent		1 482	1 001
Minority interests		24	7
Total equity		1 506	1 008
Total equity and liabilities		6 034	1 979

¹ For restatement 2005 see page 90.

Consolidated Cash Flow Statement

in CHF million	Note	January 1 to December 31 2006	January 1 to December 31 2005 restated ¹
Net profit		302	21
Depreciation of property, plant and equipment	17	98	89
Amortization of intangible assets	18	6	3
Impairment losses on property, plant and equipment	17	-11	0
Addition to (+) / release of (-) other provisions	26	-7	54
Increase (+) / decrease (-) in post-employment benefit provisions	19	-5	-4
Expense (+) / income (-) from deferred taxes	9, 21	-30	8
Losses (+) / gains (-) from investment in associated companies		2	0
Losses (+) / gains (-) from sale of non-current assets		-2	-73
Other non-cash income/expense		4	2
Conversion losses (+) / gains (-) on intercompany positions		-2	-18
Cash flow from operating activities (before change in net current assets)		355	84
Decrease (+) / increase (-) in receivables / accrued assets		86	-30
Decrease (+) / increase (-) in inventories	15	-54	195
Increase (+) / decrease (-) in payables / accrued liabilities and use of other provisions		-62	-167
Increase (+) / decrease (-) in customer advances	24	44	-104
Non-cash impact on net current assets due to hedge accounting		4	-12
Cash flow from changes in net current assets		18	-117
Cash flow from operating activities		373	-34
Capital expenditure for property, plant and equipment	17	-161	-88
Investment in non-consolidated subsidiaries	8	0	-26
Investment in associated companies	1	-14	0
Capital expenditure for intangible assets	18	-76	-3
Decrease (+) / increase (-) in loans receivable		-9	21
Decrease (+) / increase (-) in marketable securities	13	59	-104
Increase (+) / decrease (-) in cash from purchase/sale of subsidiaries		-1 534	86
Proceeds from sales of property, plant and equipment		22	25
Cash flow from / used by investing activities		-1 713	-89
Dividends paid		-1	-1
Sale (+) / purchase (-) of treasury shares		189	-202
Increase in financial debt	25	1 317	6
Cash flow from / used by financing activities		1 505	-197
Conversion adjustments to cash and cash equivalents	12	-2	13
Increase (+) / decrease (-) in cash and cash equivalents	12	163	-307
Cash and cash equivalents at the beginning of the year		324	630
Cash and cash equivalents at the end of the year		486	324
Increase (+) / decrease (-) in cash and cash equivalents		163	-307
Additional information: Interest paid		11	0
Interest received		6	5
Taxes paid		28	27

¹ For restatement 2005 see page 90.

Statement of recognized income and expenses

in CHF million	2006	2005
Fair value adjustments IAS 39		23
Realization under IAS 39		-68
Actuarial gains / losses under IAS 19		-10
Conversion differences		60
Net result recognized directly in equity	-10	5
Group net profit	302	21
Total recognized income and expenses in equity	292	27
- of which attributable to group shareholders	289	25
- of which attributable to minority interests	3	2

Consolidated statement of changes in shareholders' equity

in CHF million	Share capital ²	Additional paid-in capital ³	Treasury shares ⁴	Conversion differences	Retained earnings	Hedge accounting	Fair value adjustments	Deferred taxes	Total equity allocable to shareholders	Minority interests	Total shareholder's equity
Balance at January 1, 2005	283	622	-42	-98	406	9	41	-6	1215	6	1221
Restatement of pension liabilities (IAS 19) ¹					-40			9	-31		-31
Balance at Jan 1, 2005 after restatement	283	622	-42	-98	366	9	41	3	1184	6	1 190
Total recognized income and expenses				60	-2	-12	-39	18	25	2	27
Dividend distributions									0	-1	-1
Share-based compensation					2				2		2
Purchase of treasury shares			-248						-248		-248
Sale of treasury shares			46		-8				39		39
Balance at December 31, 2005	283	622	-244	-38	359	-3	1	22	1 001	7	1 008
Balance at January 1, 2006	283	622	-244	-38	359	-3	1	22	1001	7	1008
Total recognized income and expenses				-19	312	5	-1	-8	289	3	292
Dividend distributions									0	-1	-1
Change in scope of consolidation									0	16	16
Share-based compensation					-				0		0
Purchase of treasury shares			-3						-3		-3
Sale of treasury shares			65		130				195		195
Balance at December 31, 2006	283	622	-183	-58	802	2	0	14	1 482	24	1 506

¹ Restatement 2005 see page 90.

² The share capital of OC Oerlikon Corporation AG, Pfäffikon consists of 14 142 437 registered shares of nominal value CHF 20.

³ Additional paid-in capital includes CHF 57 million which are not distributable for legal reasons.

⁴ Treasury shares held at cost in coverage of potential obligations associated with stock option plans of OC Oerlikon Corporation AG, Pfäffikon:

Detail of footnote 4	Number of shares	Price per share in CHF	Cost in CHF million	Fair value in CHF million	Result in CHF million
Balance at December 31, 2004	223 581	189	42		-3
Exercise of employee share options	-239 366	187	-45	-37	-7
Sale 2005 due to employee share purchase plan	-7 530	187	-1	-1	0
Purchase 2005	1 343 917	173	232	232	0
Repurchase of employee shares	92 092	178	16	16	0
Balance at December 31, 2005	1 412 694	173	244		-8
Sale 2006	-351 040	173	-61	-187	126
Sale 2006 due to employee purchase plan	-21 243	173	-4	-7	4
Repurchase of employee shares	9 601	350	3	3	0
Balance at December 31, 2006	1 050 012	174	183		130

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.

Effect of adjustments

Income statement

in CHF million	2005 Annual report	IAS 19 Employee benefits	Adjustment of EBIT definition	2005 restated
Sale of goods	1 137			1 137
Sale of services	469			469
Sales	1 605			1 605
Cost of sales	-1 105	1		-1 104
Gross profit	500	1		501
Marketing and sales	-215			-215
Research and development	-148			-148
Administration	-192	3		-189
Other income and expences	21	2	62	85
EBIT	-34	5	62	34
Net financial expense	11		1	12
Gain on sale of investments	62		-62	0
Earnings before tax (EBT)	40	6	0	46
Taxes on income	-21	-3		-25
Net profit	18	3		21
Earnings per share in CHF	1.21	0.22		1.43
Diluted earnings per share in CHF	1.21	0.22		1.43

Balance sheet

in CHF million	2005 Annual report	IAS 19 Employee benefits	2005 restated
Current assets	1 076		1 076
Non-current assets	907	-4	903
Total assets	1 983	-4	1 979
Short-term liabilities	544	1	545
Long-term liabilities	393	33	426
Total liabilities	937	34	971
Equity	1 046	-38	1 008
Total equity and liabilities	1 983	-4	1 979

Accounting standards issued but not yet implemented

- IFRS 8 Operating segments (effective date January 1, 2007)
- IFRIC 9 Reassessment of embedded derivatives (effective date June 2006)
- IFRIC 10 Interim reporting and impairment (effective date November 2006)

No effects for Oerlikon Group accounts are expected.

Future developments in IFRS accounting principles

The International Accounting Standards Board (IASB) has published a number of new and revised standards and interpretations which come into force from January 1, 2007 and have not been implemented in the attached accounts:

- IFRS 7 Financial Instruments: Disclosures (effective date January 1, 2007)¹
- IAS 1 Presentation of Financial Statements: Capital disclosures (effective date January 1, 2007)¹
- IFRIC 11 IFRS2 – Group and treasury share transactions (effective date March 1, 2007)²
- IFRIC 12 Service Concession Arrangements (effective date January 1, 2008)²

It is planned to implement these new standards in the years in which they come into force.

¹ Additional disclosure requirements expected in consolidated financial statements.

² No significant effects for Oerlikon Group accounts are expected.

Consolidation Principles

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 percent 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. Minority interests are recorded 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 consolidated investments held are shown in the organization chart at the end of this report.

Changes in scope of consolidation and group structure

Acquisition of the Saurer Group, Switzerland

The Saurer group was included in the consolidation as from November 1, 2006. As at December 31, 2006 Oerlikon Group held 85.9% of the shares of Saurer AG, Arbon. A liability has been recognized in respect of the outstanding shares to be acquired after the year-end under the terms of the public tender offer. This acquisition adds two new segments: Oerlikon Saurer Textile and Oerlikon Graziano Drive Systems. The Oerlikon Saurer Textile segment is a provider of yarn processing solutions for the textile industry - natural and synthetic fibers. The Oerlikon Graziano Drive Systems segment develops and manufactures transmission systems for motor vehicles (see also Note 1).

Oerlikon Balzers Coating segment

Acquisition of Gold Star Coatings, USA

On May 1, 2006 Oerlikon Group acquired the assets and the PVD coating business of Gold Star Coatings (see also Note 1).

Oerlikon Components segment, business unit Space

Acquisition of Snecma Moteurs, France

On January 23, 2006 Oerlikon Group acquired from the French Snecma Moteurs their business in developing and manufacturing high-precision machinery for use in spacecraft. Their main activity is manufacture of Solar Array Drive Mechanisms (SADM), a key component of energy provision for spacecraft (see also Note 1).

Oerlikon Components segment, business unit Optics

Acquisition of Exitech Ltd., GB

On November 14, 2006 Oerlikon Group acquired the assets of Exitech Ltd. Exitech specializes in sale of nano and micro laser systems worldwide (see also Note 1).

Acquisition of associated company

On June 13, 2006 Oerlikon Group acquired 21% of the shares of Novalux Inc., USA. Novalux specializes in development of semiconductor laser technology. With this contract Oerlikon acquired two non-exclusive worldwide trading licenses, and agreement was reached on joint future development of Novalux's solid state laser technology.

Business combinations and goodwill

The equity consolidation follows the purchase method. At the time of their initial consolidation the assets, liabilities and contingent liabilities of subsidiaries are restated to fair value. The difference between the purchase price and the equity of the acquired company at fair value is capitalized in the books of the subsidiary company. Goodwill denominated in foreign currencies is translated into Swiss francs at the rates prevailing on the balance sheet date. Since January 1, 2005, capitalized goodwill may no longer be systematically amortized, but instead is tested annually for possible value impairment.

Translation of foreign currencies

Assets and liabilities of foreign subsidiaries are translated into Swiss francs at the exchange rate prevailing on the balance sheet date; income and expenses of foreign subsidiaries are translated into Swiss francs using average rates for the year. Differences resulting from the application of different exchange rates are added to or deducted from equity with no impact on the income statement. 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 also cred-

ited or charged directly to equity. In the year that a foreign company is divested, the cumulative translation differences recorded directly in equity are included in the income statement as part of the gain or loss on sales of investments.

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.

Valuation principles

The group accounts are prepared on a historical cost basis, with the exception of monetary assets available for sale and certain financial assets and liabilities which are held at market values (in particular financial instruments).

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.

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.

Financial instruments are recorded at fair value on their respective settlement dates. Exceptions to this are financial investments held to maturity as well as receivables, credits and financial liabilities, which 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 equity until such investments are sold or dis-posed 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.

Derivative financial instruments: 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 values. 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, i. e. 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 equity with no impact on the income statement.

Securities: these are assets of high price volatility. They are held at fair values, with their values adjusted as required through profit and loss. For the valuation of unquoted securities, standard methods are used, with value adjustment also through profit and loss.

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 overhead. Recognizable reductions in value resulting from excess inventory, declines in replacement cost or sales price and the like are taken into account through appropriate write-downs of inventory items. Customer advances are credited proportionally to inventory.

Investments: investments in associated companies (20 to 50 percent 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 OC Oerlikon Corporation AG, Pfäffikon. Unrealized changes in fair value of other investments (under 20 percent ownership of voting rights) that have been classified as available for sale are recorded in equity and transferred to financial income/loss upon the sale or disposal of the given investment.

Property, plant and equipment: 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 electrically powered 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 the rental contract (max. 20 years) or, if shorter, individual useful life
– Plant and administrative buildings used in Group operations	20–60 years

Estimated useful life and residual worth are examined annually.

Fixed assets under financial lease agreements are treated identically to fixed assets owned. Non-operating properties available for sale are carried at the lower of their net book value or estimated net realizable value (less sale-related costs).

Intangible assets (excluding goodwill): intangible assets are identifiable non-monetary assets without physical substance from which future economic benefits are expected to flow to the Group. Intangible assets are amortized on a straight line basis over their useful lives, when the useful lives can be clearly determined. For example software over two to three years, development costs generally over five years. If the useful life cannot be determined, an annual impairment test of the intangible asset is conducted as at the balance sheet date.

Impairment of assets: assets are tested for potential impairment of value at least once per annum, to establish whether a value impairment is indicated. Should this be the case, possibly as a result of a triggering event, and regarding assets of significant value, an impairment test is carried out in order to determine if and to what extent an adjustment might be needed to reduce the asset to its value in use. The test uses estimates of future cash flows to be expected from use of the assets concerned, or from their possible sale, if such is intended. If a value adjustment is called for, the impairment loss is recorded against the assets concerned and charged to the income statement. In cases where a previously recorded impairment loss is no longer justified (with the exception of impairment losses on goodwill), it is reversed and credited to the income statement.

Goodwill and other intangible assets with an indeterminate useful life are subjected to an annual impairment test as at the balance sheet date.

Discontinued operations and long-term assets held for sale: a business unit or segment is reclassified into “discontinued operations” if it is sold, or at an earlier date, if it fulfills the criteria for being classified as “held for sale”. Long-term 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 booked to the income statement.

Provisions: provisions are set up if the future outflow of resources is likely and reliably predictable for obligations arising from past events. In this regard, the “more likely than not” principle is applied. 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 is discounted at normal market rates.

– Restructuring provisions: provisions are set up 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 set up when estimated costs to fulfill a contract exceed the related contract revenues. The difference between the two is calculated and 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 set up for known customer claims and also for latent warranty exposure.
- Product liability: provisions are set up for known claims; latent exposure is not provided.
- Employee Benefits: provisions are set up in accordance with IAS 19. The interest component of pension costs for unfunded plans is shown as financial expense.

Contingent liabilities: these 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 can not reliably be quantified. IAS 37 states that such obligations should not be set up as liabilities on the balance sheet.

Participation plans: OC Oerlikon Corporation AG, Pfäffikon offers members of the Board of Directors and Executive Board, 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 until the option vests. The fair value is recorded as personnel expense, with a corresponding increase in equity (equity settlement), or as financial debt (cash settlement). The company holds treasury shares that were acquired in accordance with a share buyback program and may be used in the future for employee option plans and potential acquisitions. The acquisition cost of these treasury shares is deducted directly from equity.

Post-employment benefit plans: Oerlikon companies operate various plans for providing employees with post-employment benefits, which conform to local circumstances and practice in the countries concerned. These include defined benefit and defined contribution plans, under which benefits are provided through separate funds, insurance plans or unfunded arrangements. For defined benefit plans, the amount charged to the income statement consists of current service cost, which includes the normal cost of financing benefits in respect of future years of service, as well as net interest on the assets or obligations. Contributions to defined contribution pension schemes are charged to the income statement as incurred. For funded plans, plan assets are held separately from those of the group in independently administered funds. The group's liability to pay future post-employment benefits is determined using the “projected unit credit method” in accordance with IAS 19 (revised), and is provided in the Group's balance sheet.

As from 2006, all actuarial gains and losses (and the related deferred income taxes) are recognized immediately in the balance sheet and reported as an equity movement in the statement of recognized income and expenses. The restatement of opening balances as at January 1, 2005 called for recognition of actuarial losses for defined benefit plans in the amount of CHF 38 million, increasing the provision for post-employment benefits and reducing equity. The related deferred taxes amounted to CHF 9 million. In the 2006 income statement a cost reduction of CHF 6 million was recorded (2005: CHF 6 million), with a deferred tax expense of CHF 3 million (2005: CHF 2 million). In accordance with IAS19 §58(b) the amount of net assets from pension plans recognized in the balance sheet may not exceed the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The effect of this limit in IAS19 §58(b) is also recorded as an equity movement in the statement of recognized income and expenses. Previously it was recorded in the income statement.

Assets and liabilities shown in the balance sheet for defined-benefit pension plans are based on statistical and actuarial calculations. The present value of the future benefit obligation depends on assumptions concerning the discount rate used to arrive at the present value, future salary expectations and possible increases in social costs of employment. Other factors included in the calculation are statistical data for employee turnover and life expectancy. These actuarial assumptions can vary substantially from reality as a result of market forces (e.g. higher or lower turnover rates or life expectancy of employees, changes in the economic or regulatory environment etc.). Such variances could affect the assets and liabilities shown in the balance sheet for defined-benefit pension plans in future periods. Actuarial calculations are performed generally on an annual basis.

Financial Liabilities: the financial liabilities consist mainly of loans with floating interest rates. Bonds are valued at cost, whereby the difference between the nominal amount repayable on maturity and the fair value less transaction costs of the bond when issued is recognized over the life of the bond as additional interest expense.

Income statement

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 Oerlikon Group.

Operating expenses are recognized as a charge to income as they are incurred.

Sales of goods: sales of goods, after deduction of sales taxes and credits for returns and rebates, are recorded when the utility and risks of the sold goods have essentially transferred to the customer. In the business unit Oerlikon Solar (Oerlikon Balzers Coating segment) and the business unit Oerlikon Space (Oerlikon Components segment) revenue accruals for long-term manufacturing and services contracts are accomplished via the percentage of completion method. For Oerlikon Solar, the percentage of completion is determined on the basis of direct contract-related costs, after factoring out cost of materials. The Oerlikon Space business unit uses the milestone method.

Services rendered: revenues from services that have been rendered are recorded on the income statement according to the level of completion at the balance sheet date.

Interest on financial debt: interest expense is charged to the income statement without restriction. Borrowing costs of construction are not capitalized.

Research and development: development costs are recognized as intangible assets if they meet the criteria for such recognition set forth in IAS 38. A new system for control of development costs has been introduced throughout Oerlikon group, 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.

Taxes: current-year income taxes (Note 9) 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. 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 few years, by offset against taxable profits of group companies individually or in tax pools. In countries or companies where realization of the losses is not probable, 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.

Wherever local company tax values differ from Group values (temporary differences), deferred taxes are determined and recorded by applying current effective local tax rates to the differences (liability method). Taxes on dividends from subsidiaries are only accrued when distributions are contemplated. In the case of goodwill, investments in subsidiaries, and other assets and liabilities which do not affect taxable profits, no deferred taxes are set up.

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

Financial risk management/financial instruments

Due to its international activities, the Group is faced with various financial risks, such as those associated with fluctuations in foreign exchange and interest rates. Management continuously monitors and steers such risks with the support of Corporate Treasury. As a fundamental rule, no speculative transactions are conducted in the areas of foreign exchange or interest rates.

Foreign exchange risks: the Group's consolidated financial statements are reported in Swiss francs. Due to its most significant markets, the Group is primarily exposed to price risks versus the US dollar and Euro. When the expenses and revenues of Group companies are incurred in differing or non-local currencies, the underlying business transactions are hedged on a centrally coordinated basis by means of commonly used financial instruments (see "Derivative financial instruments").

Liquidity risks: on the basis of a consolidated, rolling liquidity plan, Corporate Treasury determines the Group's required liquidity and is responsible for ensuring its availability as well as the centralized financing of Group companies.

Interest rate risks: risks related to fluctuations in interest rates are monitored by Corporate Treasury and in certain instances hedged at the Group level.

Default risks: as a fundamental principle, the Group places funds only with first-rate domestic and foreign banking institutions.

The credit or default risk associated with operating receivables is monitored locally by the individual Group companies (see "Receivables"). Generally, these risks are reduced by means of customer prepayments, letters of credit and other instruments.

Related-party transactions

Members of the Board of Directors or Executive Board, significant shareholders and companies or associated companies controlled by any of those individuals are deemed to be related parties.

Segment reporting

The primary segment reported corresponds to the operational and management-related structure of the Group. Secondary segment reporting is geographic, based on the group's principal locations and markets. The segments were realigned in 2006 as part of the Oerlikon Group re-branding program and also to integrate Saurer. These changes led to a re-grouping of core competencies and business units into five segments. Group reporting has been adjusted to reflect the new structure.

The individual segments of the Group are managed separately because the products they produce and market are clearly distinct from one another.

Intersegment sales are transacted at normal market conditions, and the related cost allocations are made systematically to the Group company that incurred the costs. The net operating assets of the business units consist of the operating assets such as receivables, inventories, PP&E and intangible assets, less any operating liabilities.

Oerlikon Balzers Coating: this segment consists of the business units Coating Services, Coating Systems and Solar. Coating Services (Balzers) is a global leader in the coating of precision components, especially for the automotive industry, as well as tools used in metal and plastics processing. The most important business field for Coating Services is contract coating services, which are offered via a continually growing network of coating centers in Europe, the Americas and Asia. Coating Services also operates in-house coating centers at customer sites and markets coating equipment. Coating Systems includes the previous business units Data Storage and Wafer Processing. These cover the market sectors optical storage media, hard discs, mask etching and wafer coating. The business unit Solar is active in the photovoltaic market and among other things is the only global provider of turnkey production equipment for volume manufacture of large surface thin-film coated solar panels made from amorphous Silizium.

Oerlikon Leybold Vacuum: the segment is divided into the two business units Oerlikon Leybold Vacuum Systems and Oerlikon Leybold Vacuum Services. Systems offers vacuum solutions used in a broad range of modern production and analytical processes as well as for research purposes. Services offers consulting services and individual service for complete vacuum systems. The segment's core competency lies in the development of systems for making vacuum and conveying process gases.

Oerlikon Components: is a segment comprising Oerlikon Optics, Oerlikon Assembly Equipment (previously Oerlikon ESEC Semiconductor), Oerlikon Solutions (previously Mecanovis) and Oerlikon Space. Oerlikon Optics is specialized in the area of optical components and modules. Highly precise optical thin film depositions, as well as complex optomechanical and optoelectronic modules, represent the business unit's core competencies. Oerlikon Assembly Equipment offers chip bonding equipment and system solutions for the semiconductor industry. Their machines are used in the back-end area of chip manufacturing. Oerlikon Solutions builds specialized turnkey equipment, mechanical component and high-vacuum systems, with the main focus on supplies to other business units within Oerlikon. Space Technology is the world's leading provider of payload fairings made of composite materials for space launch vehicles. Additional products produced by the unit are structures and precision mechanisms for satellites, instruments used in space exploration, and laser terminals for optical data transmission between telecommunications satellites.

Oerlikon Saurer Textile: this segment offers total solutions in the area of textile machinery and equipment, covering the complete textile value chain. The range of products and services offered includes plant design, equipment for manufacture of chemical fibers and non-wovens, ring-spinning, rotor-spinning and winding.

Oerlikon Graziano Drive Systems: this segment develops and manufactures transmission systems for motor vehicles. Oerlikon Graziano Drive Systems offers complete transmission systems, synchronizer units and gearboxes all over the world. Its product portfolio includes gearboxes for high-performance cars, components for all-wheel drive transmissions and agricultural vehicles and also heavy-duty planetary transmissions.

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		Change 05/06	Year-end rates		Change 05/06
	2006	2005		2006	2005	
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		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.

Segment Information 2006–2005

in CHF million	Oerlikon Balzers Coating		Oerlikon Leybold Vacuum		Oerlikon Saurer Textile ²	
	2006	2005	2006	2005	2006	2005
Order intake	1 195	642	444	390	398	
Orders on hand	478	100	59	45	825	
Sales						
Sales to third parties	816	806	430	383	438	
Sales to group companies	1	1	5	4	0	
	816	807	434	387	438	
Sales by market region						
Japan and Asia/Pacific	249	309	110	93	237	
Europe	405	319	219	205	118	
North America	154	173	98	83	56	
Other regions	8	5	3	2	28	
	816	806	430	383	438	
Sales by location						
Japan and Asia/Pacific	143	119	84	78	56	
Europe	499	501	258	234	359	
North America	131	150	88	71	21	
Other regions	43	37	0	0	2	
	816	806	430	383	438	
Capital expenditure for fixed and intangible assets						
Japan and Asia/Pacific	19	11	3	2	4	
Europe	57	29	10	6	28	
North America	16	14	0	0	0	
Other regions	7	14	0	0	0	
	100	69	12	8	32	
Number of employees						
Japan and Asia/Pacific	568	546	219	203	2 389	
Europe	1 987	2 035	1 075	1 189	5 054	
North America	551	462	78	82	304	
Other regions	357	319	6	5	75	
	3 463	3 363	1 378	1 479	7 822	
Assets (only third-party)						
Japan and Asia/Pacific	106	89	39	41	206	
Europe	445	393	143	129	1 223	
North America	214	205	27	21	55	
Other regions	53	51	0	0	7	
	819	739	209	191	1 491	
Liabilities (only third-party)	226	295	281	283	955	
Net Assets (only third-party)¹	592	444	-72	-92	535	
Assets including intercompany relationships	820	740	210	194	1 491	
Liabilities including intercompany relationships	240	299	284	283	955	
Net assets including intercompany relationships¹	580	441	-74	-90	535	
Research and development expenses	44	71	23	31	20	
Earnings before depreciation and amortization (EBITDA)	176	35	56	5	35	
Depreciation and amortization	-50	-56	-9	-9	-11	
Reversal of impairment on Property, Plant & Equipment	9	0	0	0	0	
EBIT	135	-20	47	-4	24	

¹ Net assets include all current and non-current operating assets (excluding cash and financial assets), less operating liabilities (excluding financial liabilities and tax provisions).

² Because Saurer was included in the consolidation as from November 1, 2006 for the first time, no comparative values for 2005 are shown.

Oerlikon Graziano Drive Systems ²		Oerlikon Components		Others and consolidation		Elimination		Total Oerlikon Group	
2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	154	436	423	3	0			2 631	1 455
	0	195	210	0	0			1 557	355
	154	450	416	3	0			2 291	1 605
	0	52	37	0	0	-58	-41	0	0
	154	502	453	3	0	-58	-41	2 291	1 605
	8	237	210	0	0			840	611
	85	144	133	3	0			974	657
	62	66	72	0	0			435	329
	0	2	1	0	0			41	8
	154	450	416	3	0			2 291	1 605
	6	76	89	0	0			365	286
	105	297	247	3	0			1 521	982
	43	76	80	0	0			360	301
	0	0	0	0	0			45	37
	154	450	416	3	0			2 291	1 605
	1	5	4	0	0			32	17
	5	27	8	45	0			173	44
	3	1	1	5	0			25	15
	0	0	0	0	0			7	14
	10	33	13	50	0			237	91
	1 102	414	369	0	0			4 692	1 118
	2 616	1 110	1 074	221	63			12 062	4 362
	1 041	97	83	4	3			2 075	630
	0	0	0	0	0			438	324
	4 759	1 620	1 526	225	66			19 267	6 434
	72	36	47	0	0			459	177
	447	330	317	1 344	98			3 932	938
	388	16	23	17	10			716	260
	0	0	0	0	0			60	51
	906	382	387	1 361	109			5 167	1 425
	292	182	191	229	148			2 166	915
	615	199	197	1 132	-39			3 001	510
	906	388	391	1 373	111	-21	-9	5 167	1 425
	292	185	192	231	150	-21	-9	2 166	915
	615	203	198	1 142	-40	0	0	3 001	510
	4	23	47	0	0			113	148
	24	75	14	57	73			423	128
	-10	-18	-22	-7	-6			-105	-93
	0	2	0	0	0			11	0
	14	59	-8	51	68			329	34

Companies by country

Country	Production Distribution R&D Service	Name, registered office	Share capital in local currency	Group owns %	Number of employees
Austria	■ ■	Oerlikon Balzers Coating Austria GmbH, Kapfenberg	EUR 350 000	100	62
	■ ■ ■ ■	Neumag Saurer Austria GmbH, Leonding	EUR 600 000	100	139
	■	Saurer Holding GmbH, Leonding	EUR 35 000	100	0
Belgium	■ ■	Oerlikon Balzers Coating Benelux N.V., St. Truiden	EUR 620 000	100	53
Brazil	■ ■	Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiá-São Paulo	BRL 15 358 000	99	156
	■ ■	Saurer do Brasil Máquinas Ltda., São Leopoldo	BRL 18 588 000	100	41
Cayman Islands	■	Saurer Group Investments Ltd., George Town, Grand Cayman	CHF 474 469 301	100	0
China	■ ■	Oerlikon (Shanghai) Co. Ltd., Shanghai	CNY 99 321 000	100	201
	■ ■	Balzers Coating (Suzhou) Co., Ltd., Suzhou	CNY 49 087 000	100	50
	■ ■	Oerlikon Leybold Vacuum (Tianjin) Co. Ltd., Tianjin	CNY 41 026 000	100	89
	■	Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Tianjin	CNY 1 656 000	100	47
	■ ■	Jintan Texparts Component Company Ltd., Jintan	USD 5 062 289	70	200
	■ ■ ■	Saurer (China) Technology Co. Ltd., Suzhou	USD 23 908 500	100	886
	■	Saurer China Equity Ltd.; Hong Kong	HKD 253 910 000	100	0
	■	Saurer China Investments Ltd., Hong Kong	HKD 266 052 000	100	0
	■ ■	Saurer Far East, Hong Kong	HKD 100 000	100	28
	■ ■ ■ ■	Saurer Jintan Textile Machinery Company Ltd., Jintan	USD 22 482 422	70	493
	■ ■ ■ ■	Saurer Textile Machinery (Beijing) Co. Ltd., Beijing	CNY 6 619 000	60	152
	■ ■ ■ ■	Saurer Textile Machinery (Wuxi) Co. Ltd., Wuxi	CNY 58 059 000	100	167
	■	Saurer Trading and Services Ltd., Hong Kong	HKD 275 200	100	0
	■	Textile Components Far East Ltd., Hong Kong	HKD 10 000	100	7
Czech Republic	■ ■	Graziano Trasmissioni Czech s.r.o., Prag	CZK 110 000 000	100	62
		Saurer Czech Republic s.r.o., Cerveny Kostelec	CZK 30 000 000	100	514
Denmark	■ ■ ■ ■	Neumag Denmark a/s, Horsens	DKK 42 000 000	100	28
France	■	Oerlikon France Holding SAS, St. Thibault des Vignes	EUR 4 000 000	100	0
	■ ■	Oerlikon France SAS, Palaiseau	EUR 762 000	100	12
	■ ■	Oerlikon Balzers Coating France SAS, St. Thibault des Vignes	EUR 7 108 000	100	204
	■ ■ ■	Oerlikon Leybold Vacuum France SAS, Courtabœuf	EUR 3 095 000	100	189
Germany	■	Oerlikon Deutschland Holding GmbH, Munich	EUR 30 680 000	99.5	10
	■	Oerlikon Deutschland Vertriebs GmbH, Munich	EUR 26 000	99.5	39
	■ ■ ■	Unaxis Optics Deutschland GmbH, Geisenheim	EUR 5 150 000	99.5	0
	■ ■	Oerlikon Balzers Coating Germany GmbH, Bingen	EUR 511 000	99.5	413
	■	Oerlikon Real Estate GmbH, Cologne	EUR 50 000	99.5	6
	■	Oerlikon Vermietungs- und Verwaltungs- Gesellschaft mbH, Cologne	EUR 25 000	99.5	0
	■	Halde 189 Vermögens-Verwaltungs GmbH, Ulm	EUR 25 000	100	0
	■ ■	Oerlikon Leybold Vacuum Dresden GmbH, Dresden	EUR 100 000	99.5	88
	■ ■ ■	Oerlikon Leybold Vacuum GmbH, Cologne	EUR 1 200 000	99.5	737
	■	Oerlikon IT Solutions GmbH, Cologne	EUR 25 000	99.5	56
	■ ■ ■	Accotex-TEXParts GmbH, Fellbach	EUR 51 400	100	312
	■ ■ ■ ■	Autefa automation GmbH, Friedberg	EUR 25 000	60	90
	■	Barmag Liegenschaften GmbH & Co. KG, Remscheid	EUR 5 000 000	100	0
	■ ■ ■	Enka tecnica GmbH, Heinsberg	EUR 511 300	100	184
	■ ■ ■	ERMAFA Kunststofftechnik Chemnitz GmbH, Chemnitz	EUR 50 000	100	41
	■	Saurer Beteiligungs AG, Mönchengladbach	EUR 250 000	49	0
	■ ■ ■ ■	Saurer GmbH & Co. KG, Mönchengladbach	EUR 41 000 000	100	3 253
■	Saurer IP GmbH, Remscheid	EUR 250 000	100	0	
■	Saurer Verwaltungs GmbH, Mönchengladbach	EUR 250 000	49	0	
■ ■ ■	Temco Components GmbH, Hammelburg	EUR 25 000	100	95	
■	W. Reiners Verwaltungs GmbH, Mönchengladbach	EUR 75 000 000	100	0	
Great Britain	■	Unaxis IT (UK) Ltd., Monmouth	GBP 1 000	100	4
	■ ■	Oerlikon Balzers Coating UK Ltd., Milton Keynes	GBP 2 000 000	100	62
	■	Oerlikon Leybold Vacuum UK Ltd., London	GBP 300 000	100	21
	■	Oerlikon Optics UK Ltd., London	GBP 1	100	32
	■ ■ ■	Fibrevision Ltd., Macclesfield	GBP 3	25	14
■	Graziano Trasmissioni UK Ltd., Cambridge	GBP 40 000	100	6	

Country	Production Distribution R&D Service	Name, registered office	Share capital in local currency	Group owns %	Number of employees
India	■ ■	Balzers (India) Ltd., Bhosari, Pune	INR 70 000 000	100	123
	■	Leybold Vacuum India Pte. Ltd.	INR 2 000 000	100	6
	■ ■ ■	Fairfield Atlas Ltd., Belgaum	INR 273 205 400	76	665
	■ ■	Graziano Trasmissioni India Ltd., New Delhi	INR 280 000 000	100	408
	■ ■ ■	Saurer India (Private) Ltd., Mumbai	INR 57 360 000	100	223
	■ ■ ■	Saurer Precicomp Private Ltd., Bangalore	INR 16 000 000	76	18
Italy	■ ■ ■ ■	Zinser Textile Systems Private Ltd., Ahmedabad	INR 45 500 000	70	33
		Oerlikon Balzers Coating Italy S.p.A., Brugherio, Milan	EUR 130 000	100	105
	■	Oerlikon Leybold Vacuum Italy S.p.A., Milan	EUR 1 041 000	100	14
	■ ■	Graziano Trasmissioni Engineering S.p.A., Cascine Vica Rivoli	EUR 1 500 000	100	62
	■	Graziano Trasmissioni Group S.p.A., Cascine Vica Rivoli	EUR 50 000 000	100	2
	■ ■ ■	Graziano Trasmissioni S.p.A., Cascine Vica Rivoli	EUR 44 300 000	100	2 306
Japan	■ ■	I.T.T. Industria Trattamenti Termici S.r.l., Cervere	EUR 2 600 000	100	175
	■ ■ ■ ■	Neumag Italy S.p.A., Biella	EUR 1 609 758	100	106
	■ ■	Oerlikon Japan Co. Ltd., Tokyo	JPY 450 000 000	100	36
	■ ■	Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka	JPY 100 000 000	100	127
	■	Oerlikon Leybold Vacuum Japan Co. Ltd., Yokohama	JPY 450 000 000	100	31
	Liechtenstein	■ ■ ■ ■	OC Oerlikon Balzers AG, Balzers	CHF 30 000 000	100
■ ■		Oerlikon Balzers Coating Luxembourg S.A.R.L., Differdange	EUR 1 000 000	60	13
Luxembourg	■ ■	Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro	MXN 71 458 000	100	78
Mexico	■ ■	Oerlikon Nederland B.V., Utrecht	EUR 37 000	100	7
The Netherlands	■	Oerlikon Leybold Vacuum Nederland B.V., Utrecht	EUR 463 000	100	8
	■	SAC Saurer Automotive Components BV, Rotterdam	EUR 11 344 505	100	0
Panama	■	S.B. Holding Inc., Panama	USD ¹	100	0
Philippines	■	Unaxis (Philippines) Inc., Manila	PHP 5 250 000	100	0
Poland	■ ■	Oerlikon Balzers Coating Poland Sp.z.o.o., Polkowice-Dolne	PLZ 5 000 000	100	34
Singapore	■ ■ ■ ■	Unaxis Singapore Pte. Ltd., Singapore	SGD 15 000 000	100	179
	■ ■	Oerlikon Balzers Coating Singapore Pte.Ltd., Singapore	SGD 6 000 000	100	44
	■	Oerlikon Leybold Vacuum Singapore Pte. Ltd., Singapore	SGD 300 000	100	
	■	Oerlikon SEA Pte. Ltd., Singapore	SGD 250 000	100	0
	■ ■ ■	Texparts Manufacturing Singapore Pte. Ltd., Singapore	SGD 1 000 000	100	187
South Korea	■ ■	Oerlikon Korea Ltd., Seoul	KRW 1 220 000 000	100	32
	■ ■	Oerlikon Balzers Coating Korea Co. Ltd., Pyong Taek, Kyonggi-Do	KRW 6 000 000 000	89.9	198
	■	Oerlikon Leybold Vacuum Korea Ltd., Seoul	KRW 7 080 000 000	100	21
Spain	■ ■	Oerlikon Balzers-ELAY Coating S.A., Antzuola	EUR 150 000	51	69
	■	Leybold Vacuum Spain S.A., Sant Feliu de Llobregat	EUR 168 000	100	6
Sweden	■ ■	Oerlikon Balzers Sandvik Coating AB, Stockholm	SEK 11 600 000	51	55
	■	Oerlikon Leybold Vacuum Scandinavia AB, Göteborg	SEK 800 000	100	10
Switzerland	■	OC Oerlikon Corporation AG, Pfäffikon	CHF 282 849 000	100	0
	■	OC Oerlikon Management AG, Pfäffikon	CHF 2 000 000	100	86
	■ ■ ■	Oerlikon Assembly Equipment AG, Steinhausen	CHF 2 400 000	100	338
	■	Oerlikon Solar-Lab SA, Neuchâtel	CHF 1 000 000	100	10
	■	Oerlikon Trading AG, Trübbach	CHF 8 000 000	100	0
	■ ■	Oerlikon Balzers Coating SA, Brügg	CHF 2 000 000	100	36
	■	Oerlikon Leybold Vacuum Schweiz AG, Zürich	CHF 300 000	100	7
	■	Oerlikon IT Solutions AG, Pfäffikon	CHF 500 000	100	43
	■	Unaxis Corporation AG, Pfäffikon	CHF 100 000	100	0
	■	Contraves Space AG, Zürich	CHF 100 000	100	0
	■ ■ ■ ■	Oerlikon Space AG, Zürich	CHF 15 000 000	100	278
	■ ■ ■	Oerlikon Solutions AG, Trübbach	CHF 100 000	100	152
	■	InnoDisc AG, Windisch	CHF 100 000	100	0
	■	Aktiengesellschaft Adolph Saurer, Arbon	CHF 10 000 000	100	4
	■	GTG-Graziano Trasmissioni Group AG, Arbon	CHF 250 000	100	2
■	Heberlein Fasertechnologie AG, Wattwil	CHF 1 000 000	100	17	
	■ ■ ■ ■	Saurer Arbon AG, Arbon	CHF 14 160 000	100	297
	■	Saurer Ltd., Arbon	CHF 112 019 600	85.3	0
	■	Saurer Management AG, Winterthur	CHF 100 000	100	18

¹ No par stock

Country	Production Distribution R&D Service	Name, registered office	Share capital in local currency	Group owns %	Number of employees
Taiwan	■	Oerlikon Taiwan Ltd., Hsin Chu	TWD 20 000 000	100	65
	■	Oerlikon Leybold Vacuum Taiwan Ltd., Hsin Chu	TWD 20 000 000	100	26
	■	ESEC Pacific North (Taiwan) Ltd., Hsin Chu Sein	TWD 5 000 000	100	29
Thailand	■ ■	Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi	THB 80 000 000	100	21
Turkey	■ ■	Saurer Middle East Tekstil Makinalari A.S., Istanbul	TRY 650 000	100	34
USA	■ ■ ■ ■	Oerlikon USA Holding Inc., New York, NY	USD 24 980 000	100	1
	■ ■ ■ ■	Oerlikon USA Inc., St. Petersburg, FL	USD 14 730 000	100	198
	■ ■	Oerlikon Optics USA Inc., Golden, CO	USD 1 000	100	85
	■ ■	Oerlikon Balzers Coating USA Inc., Elgin, IL	USD 20 000	100	365
	■ ■ ■ ■	Oerlikon Leybold Vacuum USA Inc., Export, PA	USD 1 375 000	100	78
	■ ■ ■ ■	Contraves Inc. (CINC), Pittsburgh, PA	USD 500 000	100	3
	■ ■ ■ ■	Accotex Inc., Greenville, SC	USD 100	100	58
	■ ■ ■ ■	Fairfield Manufacturing Company Inc., Lafayette, IN	USD 10 000	100	1033
	■ ■ ■ ■	Graziano Trasmissioni North America Inc., Duluth, GA	USD 1	100	8
	■ ■ ■ ■	Melco Industries Inc., Denver, CO	USD 2 407 000	100	108
	■ ■ ■ ■	Saurer Financing LP, Charlotte, NC	USD 2 000 000	100	1
	■ ■ ■ ■	Saurer Holding Inc., Denver, CO	USD 5 058 000	100	0
	■ ■ ■ ■	Saurer Inc., Charlotte, NC	USD 3 000 000	100	138

Report of the Group Auditors

Report of the Group Auditors to the General Meeting of

OC Oerlikon Corporation AG, Pfäffikon, Pfäffikon SZ

(formerly known as Unaxis Holding AG, Pfäffikon SZ)

As group auditors, we have audited the consolidated financial statements (income statement, balance sheet, statement of recognised income and expense, statement of changes in equity, cash flow statement and notes on pages 85 to 124) of OC Oerlikon Corporation AG, Pfäffikon for the year ended 31 December 2006.

These consolidated financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing (ISA), which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

KPMG Ltd



Herbert Bussmann
Swiss Certified Accountant
Auditor in Charge



Thomas Affolter
Swiss Certified Accountant

Zurich, 22 March 2007

Key figures 2006–2002

in CHF million	2006	2005	2004	2003	2002
Order intake	2 631	1 455	1 778	1 788	1 494
Orders on hand	1 557	355	494	575	409
Sales	2 291	1 605	1 850	1 610	1 490
EBITDA	423	128	-3	157	71
- as % of sales	18%	8%	0%	10%	5%
EBIT	329	34	-329	16	-83
- as % of sales	14%	2%	-18%	1%	-6%
Net profit	302	21	-372	32	-39
- as % of sales	13%	1%	-20%	2%	-3%
- as % of equity attributable to shareholders of the parent	20%	2%	-31%	2%	-3%
Cash flow from operating activities ¹	355	84	114		
Capital expenditure for fixed and intangible assets	237	91	240	98	77
Total assets	6 034	1 979	2 411	2 550	2 525
Equity attributable to shareholders of the parent	1 482	1 001	1 215	1 488	1 476
- in % of total assets	25%	51%	50%	58%	58%
Net liquidity ²	-589	706	669	728	734
Net assets ³	3 001	510	488	1 032	1 075
EBIT as % of net assets (RONA)	11%	7%	-67%	2%	-8%
Number of employees	19 267	6 434	6 844	6 456	6 544
Personnel expenses	737	600	629	595	634
Research and development expense ⁴	162	148	180	154	157

¹ Before change in net current assets.

² Net liquidity includes marketable securities and treasury shares at market values as at December 31, 2006.

³ Net assets include all current and non-current operating assets (excluding cash and financial assets), less operating liabilities (excluding financial liabilities and tax provisions).

⁴ Research and development 2006 expense includes CHF 49 million recognized as intangible assets (prior years: CHF 0 million).

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**OC Oerlikon
Corporation AG, Pfäffikon**

Income Statement of OC Oerlikon Corporation AG, Pfäffikon

in CHF	Note	2006	2005
Income from investments in subsidiaries	2	4 524 862	61 175 552
Financial income	3	228 460 130	31 891 120
Other income		4 091 739	2 314 187
		237 076 731	95 380 859
Financial expense	4	-39 815 822	-10 884 814
Other expense		-32 641 936	-32 468 819
		164 618 973	52 027 226
Gain on sale of investments		0	112 242 454
Change in value adjustments to loans and investments in subsidiaries	5	-63 210 195	-159 838 822
Net income		101 408 778	4 430 858

Assets

in CHF	Note	2006	%	2005	%
Cash and cash equivalents	6	226 993 998	7.9	212 321 481	16.8
Marketable securities	7	48 963 600	1.7	103 248 047	8.2
Treasury shares	8	182 932 007	6.4	245 471 728	19.4
Receivables					
– from third parties		1 060 242	0.0	762 573	0.1
– from affiliated companies		3 309 698	0.1	4 995 402	0.4
Prepaid expenses and accrued income		12 946	0.0	62 130	0.0
Current Assets		463 272 491	16.2	566 861 361	44.8
Investments	9	1 998 259 828	69.7	359 848 166	28.4
Loans to affiliated companies	10	393 139 487	13.7	338 452 467	26.8
Loans to third parties		12 490 000	0.4	0	0.0
Non-current assets		2 403 889 315	83.8	698 300 633	55.2
Total assets		2 867 161 806	100.0	1 265 161 994	100.0

Equity and liabilities

in CHF	Note	2006	%	2005	%
Current payables					
– to third parties		3 489 300	0.1	329 373	0.0
– to affiliated companies		19 765 949	0.7	17 423 595	1.4
Accrued liabilities		15 965 300	0.6	550 000	0.0
Short-term deposits from affiliated companies	11	384 520 426	13.4	204 512 600	16.2
Short-term bank loans	12	1 316 612 165	45.9	0	0.0
Provisions	13	115 727 409	4.0	132 673 946	10.5
Liabilities		1 856 080 549	64.7	355 489 514	28.1
Share capital	14	282 848 740	9.9	282 848 740	22.4
Legal reserve		197 587 992	6.9	136 361 129	10.8
Free reserve		235 000 000	8.2	235 000 000	18.6
Reserve for treasury shares	15	182 932 007	6.4	244 158 871	19.3
Retained Earnings					
– Balance brought forward		11 303 740	0.4	6 872 882	0.5
– Net income		101 408 778	3.5	4 430 858	0.4
Total equity	17	1 011 081 257	35.3	909 672 480	71.9
Equity and liabilities		2 867 161 806	100.0	1 265 161 994	100.0
Contingent liabilities	16	58 211 000		47 554 947	

General**Reporting basis (1)**

The financial statements of OC Oerlikon Corporation AG, Pfäffikon, formerly Unaxis Holding AG, are prepared in compliance with Swiss Corporate Law. They are a supplement to the consolidated financial statements (pages 85 through 124) 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 (pages 128 through 129) relates to the ultimate parent company alone. The retained earnings reported in these financial statements provide the basis for the decision regarding the distribution of earnings to be made during the annual general meeting of shareholders.

Income Statement**Income from investments in subsidiaries (2)**

The income from investments in subsidiaries consists mainly of dividend income from foreign subsidiaries.

Financial income (3)

Financial income includes the profit on sale of treasury shares, dividends received from marketable securities and interest income from intercompany loans.

Financial expense (4)

Financial expense includes interest expense and foreign exchange losses. The increase over the prior year results mainly from increased bank charges relating to the Saurer acquisition.

Change in value adjustments to loans and investments in subsidiaries (5)

Restructuring contributions of CHF 60 million were made to OC Oerlikon Balzers AG. Further restructuring contributions were made to subsidiary companies in Shanghai, China and in Brazil.

Balance sheet**Cash and cash equivalents (6)**

This item consists of current balances denominated in CHF and EUR and held with European banks.

Marketable securities (7)

Marketable securities are short-term money market securities. They are reported at market value.

Treasury shares (8)

The number of treasury shares fell from 1 412 694 to 1 050 012 (7.4% of the share capital). At year-end the shares had a market value of approximately CHF 633 million (2005: CHF 280 million).

During 2006, a total of 351 040 shares were sold (2005: purchase of 1 104 551 and 21 243 shares were given to employees. 9 601 shares (2005: 92 092) were repurchased from employees. The purchase prices ranged from CHF 190.00 to 529.00. No shares were offered to employees at preferential prices (2005: 7 530). Further information on treasury share transactions can be found in the consolidated statement of changes in equity.

Investments (9)

The significant equity interests in subsidiary companies listed on page 131 were included in the investment portfolio of OC Oerlikon Corporation AG, Pfäffikon as at December 31, 2006. An overview of all companies in which OC Oerlikon Corporation AG, Pfäffikon has either a direct or indirect equity interest is shown at the end of this report. These investments are recorded at historical cost less any value adjustments. The increase of CHF 1 638 million versus the prior year results mainly from the acquisition of Saurer AG.

Loans to affiliated companies (10)

These loans are granted at prevailing market conditions and are denominated mainly in USD, EUR, CHF and GBP.

Short-term deposits from affiliated companies (11)

These are short-term deposits made with OC Oerlikon Corporation AG by affiliated companies.

Bank loans (12)

In 2006, bank loans amounting to CHF 1 317 million were taken up to finance the acquisition of Saurer AG. As collateral for these loans the investment in Saurer itself has been pledged, together with treasury shares having a book value of CHF 123 million and various consolidated subsidiaries having a book value of CHF 1 635 million.

Provisions (13)

The reduction versus prior year arises from a reduced requirement for provisions combined with usage of provisions set up previously.

Share capital (14)

The share capital of CHF 282 848 740 consists of 14 142 437 registered shares, each with a par value of CHF 20. On the balance sheet date, conditional capital amounted to CHF 47 million.

Shareholders registered as holding more than 5% as at December 31, 2006 were: 28.6% (published shareholding 34.2%) Victory Industriebeteiligung AG, Vienna (2005: 46.5%) and 5.2% Bank Austria Creditanstalt. Further shareholders holding over 5% known to the company from official notices were: Zürcher Kantonalbank 17.7%, Renova Holding Ltd., 10.3% and Merrill Lynch Group 5.1%.

Reserve for treasury shares (15)

This reserve represents the acquisition cost of 1 050 012 (2005: 1 412 694) treasury shares (see also Note 8).

Contingent Liabilities (16)

Contingent liabilities relate primarily to performance guarantees and guarantees for bank loans of affiliated companies.

Changes in shareholders' equity (17)

See table on page 132.

Net release of hidden reserves

No hidden reserves were released in 2006 (2005: CHF 78 million).

Investments

Company	Currency	Share capital 2006	Investment in % 2006
Balzers (India) Ltd., Bhosari, Pune/IN		INR 70 000 000	78.00
Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN		CNY 49 087 000	100.00
Contraves Space AG, Zürich/CH		CHF 100 000	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 (Shanghai) Co. Ltd., Shanghai/CN		CNY 99 321 000	100.00
Oerlikon Assembly Equipment AG, Steinhausen/CH		CHF 2 400 000	100.00
Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH		THB 80 000 000	100.00
Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT		EUR 350 000	100.00
Oerlikon Balzers Coating Italy S.p.A., Brughiero, Milan/IT		EUR 130 000	100.00
Oerlikon Balzers Coating Korea Co. Ltd., Pyong Taek, Kyonggi-Do/KR		KRW 6 000 000 000	89.90
Oerlikon Balzers Coating Luxembourg S.A.R.L., Differdange/LU		EUR 1 000 000	60.00
Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX		MXN 71 458 000	100.00
Oerlikon Balzers Coating Poland Sp. z o.o., Polkowice-Dolne/PL		PLZ 5 000 000	100.00
Oerlikon Balzers Coating SA, Brügg bei Biel/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/GB		GBP 2 000 000	100.00
Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí-São Paulo/BR		BRL 15 358 000	99.00
Oerlikon Balzers Sandvik Coating AB, Stockholm/SE		SEK 11 600 000	51.00
Oerlikon Balzers-ELAY Coating S.A., Antzuola/ES		EUR 150 000	51.00
Oerlikon Deutschland Holding GmbH, Munich/DE		EUR 30 680 000	99.50
Oerlikon France Holding SAS, St. Thibault des Vignes/FR		EUR 4 000 000	100.00
Oerlikon IT Solutions AG, Pfäffikon, Freienbach SZ/CH		CHF 500 000	100.00
Oerlikon Japan Co. Ltd., Tokyo/JP		JPY 450 000 000	100.00
Oerlikon Korea Ltd., Seoul/KR		KRW 1 220 000 000	100.00
Oerlikon Leybold Vacuum Taiwan Ltd., Hsin Chu/TW		TWD 20 000 000	100.00
Oerlikon Nederland B.V., Utrecht/NL		EUR 37 000	100.00
Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP		JPY 100 000 000	100.00
Oerlikon Optics UK Ltd., Oxford/GB		GBP 1	100.00
Oerlikon SEA Pte. Ltd., Singapore/SG		SGD 250 000	100.00
Oerlikon Solar-Lab SA, Neuchâtel/CH		CHF 1 000 000	100.00
Oerlikon Solutions AG, Trübbach/CH		CHF 100 000	100.00
Oerlikon Space AG, Zürich/CH		CHF 15 000 000	100.00
Oerlikon Trading AG, Trübbach/CH		CHF 8'000 000	100.00
Oerlikon USA Holding Inc., New York/NY		USD 24 980 000	100.00
Pilatus Flugzeugwerke AG, Stans/CH		CHF 10 000 000	13.97
Saurer AG, Arbon/CH		CHF 112 019 600	85.92
Unaxis Corporation AG, Freienbach SZ/CH		CHF 100 000	100.00
Unaxis IT (UK) Ltd., Monmouth/GB		GBP 1 000	100.00
Unaxis Singapore Pte. Ltd., Singapore/SG		SGD 15 000 000	100.00

Changes in shareholders' equity

in CHF million	Share capital	Legal reserve	Free reserve	Reserve for treasury shares	Retained earnings	Total shareholders' equity
Balance at January 1, 2004	263.4	133.5	345.0	44.0	338.8	1 124.7
Capital increase	19.4					19.4
Merger loss (ESEC)			-52.0			-52.0
Allocation to free reserve			305.0		-305.0	0.0
Payment of dividend for financial year 2003					-27.7	-27.7
Elimination of reserve for treasury shares		2.8		-2.8		0.0
Net loss 2004					-159.2	-159.2
Balance at December 31, 2004	282.8	136.3	598.0	41.2	-153.1	905.2
Transfer from free reserve			-160.0		160.0	0.0
Elimination of reserve for treasury shares			-203.0	203.0		0.0
Net profit 2005					4.4	4.4
Balance at December 31, 2005	282.8	136.3	235.0	244.2	11.3	909.6
Elimination of reserve for treasury shares		61.3		-61.3		0.0
Net profit 2006					101.4	101.4
Balance at December 31, 2006	282.8	197.6	235.0	182.9	112.7	1 011.0

Proposal of the Board of Directors

The Board of Directors proposes to the General Meeting to be held on May 8, 2007, that the available earnings from the financial year namely:

in CHF	2006	2005
Net profit	101 408 778	4 430 858
Balance brought forward from previous year	11 303 740	6 872 882
Available earnings	112 712 518	11 303 740

be appropriated as follows:

Balance to be carried forward	112 712 518	11 303 740
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Pfäffikon SZ, March 22, 2007

On behalf of the Board of Directors
Chairman

Georg Stumpf

Report of the Statutory Auditors to the General Meeting of

OC Oerlikon Corporation AG, Pfäffikon, Pfäffikon SZ

(formerly known as Unaxis Holding AG, Pfäffikon SZ)

As statutory auditors, we have audited the accounting records and the financial statements (balance sheet, income statement and notes on pages 128 to 133) of OC Oerlikon Corporation AG, Pfäffikon for the year ended 31 December 2006.

These financial statements are the responsibility of the board of directors. Our responsibility is to express an opinion on these financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards, which require audit be planned and performed to obtain reasonable assurance about whether the statements are free from material misstatement. We have examined on a test basis supporting the amounts and disclosures in the financial statements. We have also assessed accounting principles used, significant estimates made and the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accounting records and financial statements and the proposed appropriation of available earnings comply with Swiss law and the company's articles of incorporation.

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

KPMG Ltd



Herbert Bussmann
Swiss Certified Accountant
Auditor in Charge



Thomas Affolter
Swiss Certified Accountant

Zurich, 22 March 2007

As at December 31, 2006

OC Oerlikon Corporation AG, Pfäffikon SZ/CH

- OC Oerlikon Management AG, Pfäffikon SZ/CH
- Oerlikon Assembly Equipment AG, Steinhausen/CH
- Oerlikon IT Solutions AG, Pfäffikon/CH
- Oerlikon Solar-Lab SA, Neuchâtel/CH
- Oerlikon Solutions AG, Trübbach/CH
- Oerlikon Space AG, Zurich/CH
- Oerlikon Trading AG, Trübbach/CH
- Contraves Space AG, Zurich/CH
- InnoDisc AG, Windisch/CH
- Saurer AG, Arbon/CH
- Unaxis Corporation AG, Pfäffikon/CH
- Oerlikon Deutschland Holding GmbH, Munich/DE
 - Oerlikon Deutschland Vertriebs GmbH, Munich/DE
 - Unaxis Optics Deutschland GmbH, Geisenheim/DE
 - Oerlikon Balzers Coating Benelux N.V., St. Truiden/BE
 - Oerlikon Balzers Coating Germany GmbH, Bingen/DE
 - Oerlikon Vermietungs- und Verwaltungsgesellschaft mbH, Cologne/DE
 - Oerlikon Real Estate GmbH, Cologne/DE
 - Oerlikon Leybold Vacuum GmbH, Cologne/DE
 - Oerlikon Leybold Vacuum Schweiz AG, Zurich/CH
 - Oerlikon Leybold Vacuum Dresden GmbH, Dresden/DE
 - Leybold Vacuum Spain S.A., Sant Feliu de Llobregat/ES
 - Oerlikon Leybold Vacuum France SAS, Courtabœuf/FR
 - Oerlikon Leybold Vacuum UK Ltd., London/GB
 - Oerlikon Leybold Vacuum Italy S.p.A., Milan/IT
 - Oerlikon Leybold Vacuum Nederland B.V., Utrecht/NL
 - Oerlikon Leybold Vacuum Scandinavia AB, Göteborg/SE
 - Oerlikon Leybold Vacuum (Tianjin) Co. Ltd., Tianjin/CN
 - Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Tianjin/CN
 - Leybold Vacuum India Pte. Ltd., Maharashtra/IN
 - Oerlikon Leybold Vacuum Japan Co. Ltd., Yokohama/JP
 - Oerlikon Leybold Vacuum Singapore Pte. Ltd., Singapore/SG
 - Oerlikon IT Solutions GmbH, Cologne/DE
 - Halde 189 Vermögens-Verwaltungs GmbH, Ulm/DE
 - Oerlikon Leybold Vacuum Korea Ltd., Seoul/KR
- Oerlikon France Holding SAS, St. Thibault des Vignes/FR
 - Oerlikon France SAS, Palaiseau/FR
 - Oerlikon Balzers Coating France SAS, St. Thibault des Vignes/FR
- Unaxis IT (UK) Ltd., Monmouth/GB
- Oerlikon Optics UK Ltd., Oxford/GB
- OC Oerlikon Balzers AG, Balzers/LI
- Oerlikon (Shanghai) Co. Ltd., Shanghai/CN
- Oerlikon Japan Co. Ltd., Tokyo/JP
- Oerlikon Korea Ltd., Seoul/KR
- Unaxis Singapore Pte. Ltd., Singapore/SG
 - Unaxis (Philippines) Inc., Manila/PH
- Oerlikon SEA Pte. Ltd., Singapore/SG
- Oerlikon Balzers Coating SA, Brugg bei Biel/CH
- Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT
- Balzers Coating (Suzhou) Co., Ltd., Suzhou/CN
- Oerlikon Balzers-ELAY Coating S.A., Antzuola/ES
- Oerlikon Balzers Coating UK Ltd., Milton Keynes/GB
- Oerlikon Balzers Coating Italy S.p.A., Brugherio, Milan/IT
- Oerlikon Balzers Coating Luxembourg S.A.R.L., Differdange/LU
- Oerlikon Nederland B.V., Utrecht/NL
 - Oerlikon Taiwan Ltd., Hsin Chu/TW
 - ESEC Pacific North (Taiwan) Ltd., Hsin Chu Sein/TW
- Oerlikon Balzers Coating Poland Sp. z o.o., Polkowice-Dolne/PL
- Oerlikon Balzers Sandvik Coating AB, Stockholm/SE
- Balzers (India) Ltd., Bhosari, Pune/IN
- Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP
- Oerlikon Balzers Coating Korea Co. Ltd., Pyong Taek, Kyonggi-Do/KR
- Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH
- Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG
- Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiá-São Paulo/BR
- Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX
- Oerlikon Leybold Vacuum Taiwan Ltd., Hsin Chu/TW
- Oerlikon USA Holding Inc., New York/NY
 - Oerlikon USA Inc., St. Petersburg, FL/US
 - Oerlikon Optics USA Inc., Golden, CO/US
 - Oerlikon Balzers Coating USA Inc., Elgin, IL/US
 - Oerlikon Leybold Vacuum USA Inc., Export, PA/US
 - Contraves Inc. (CINC), Pittsburgh, PA/US

Agenda, Contact

Agenda

March 27, 2007
Media and analysts' conference on 2007 annual results,
Park Hyatt, Zurich

April 24, 2007
Key figures for the first quarter 2007

May 8, 2007
General meeting of shareholders 2007
Lucerne Culture and Convention Center (KKL)

August 28, 2007
Publication of the 2007 semi-annual report

October 23, 2007
Key figures for the third quarter 2007

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Index of pictures

CERN	Page 32
Corbis	Page 17
David Franck	Pages 9, 11, 12, 13, 15, 20, 26, 30, 34, 38, 42, 47, 48, 49, 67
ESA	Pages 19, foldout 1 (page 3 bottom)
Forschungszentrum Karlsruhe GmbH	Pages 2 (bottom right), 31
Getty Images	Pages 18, 51, 57, foldout 2 (page 1 bottom left)
Michael Reinhard Photography	Page 45 (left)
Volker Dautzenberg	Page 16

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**This financial report is a translation from the original German version.
In case of inconsistencies the German version prevails.**