oerlikon

Interim Report **2014**

Key figures Oerlikon

First half year 2014 (HY1 2014)

(in CHF million)

	HY1 2014	HY1 2013	Change (abs.)	Change (%)
Order intake	1442	1476	–34	–2
Order backlog	799	888	–89	–10
Sales	1527	1443	+84	+6
EBITDA	250	239	+11	+5
EBIT	178	174	+4	+2
Result from continuing operations	123	109	+14	+13
Net income	122	146	–24	–16
Cash flow from operating activities	85	168	–83	–49
Total assets [1]	4956	4 094	+862	+21
Equity ratio in % [1]	43	51	–8	–
Net cash [1]	2	981	–979	–100
Number of employees [1]	15790	12860	+2930	+23

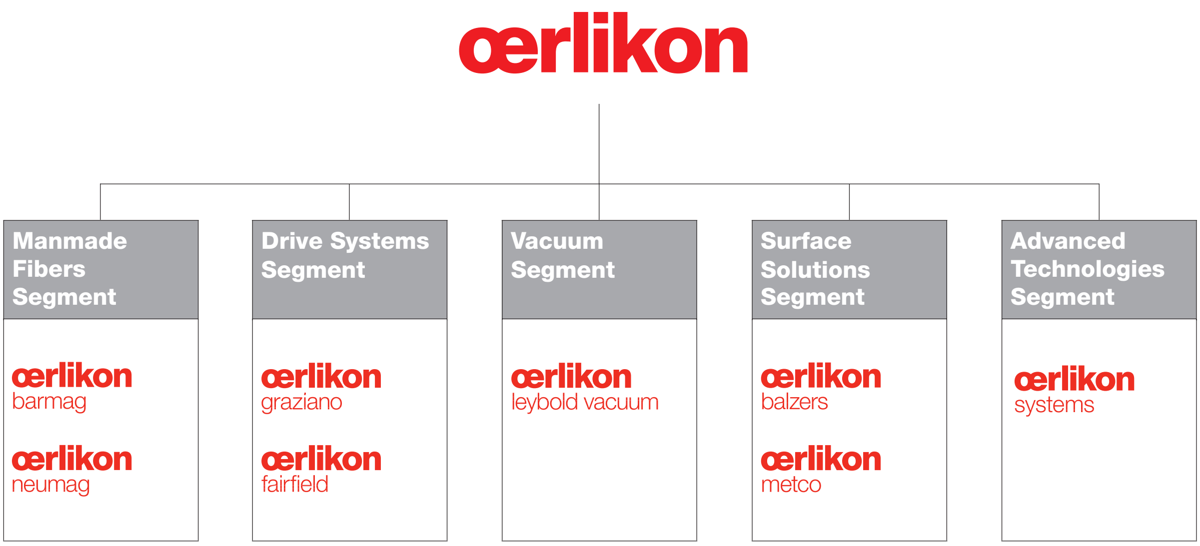
[1] June 30, 2014 / December 31, 2013

Second quarter 2014 (Q2 2014)

(in CHF million)

	Q2 2014	Q2 2013	Change (abs.)	Change (%)
Order intake	745	713	+32	+5
Order backlog	799	888	–89	–10
Sales	807	720	+87	+12
EBIT	91	89	+2	+2

Group Structure[1]



[1] as at June 30, 2014

Letter from the Chairman of the Board of Directors and the Chief Executive Officer

Dear Shareholders,

In the first half of 2014, Oerlikon delivered a solid performance based on sound foundations. In a challenging market environment, we were able to continue the momentum of the past few years operationally, while taking a major strategic step by strengthening our Surface Solutions Segment. Sales climbed in H1 2014 by almost 6 % to CHF 1 527 million (H1 2013: CHF 1 443 million). Our EBITDA margin came in well above 15 %, and the EBIT margin totaled 11.7 %, delivering a double-digit figure for the tenth consecutive quarter. Net income for H1 2014 amounted to CHF 122 million.

After the successful closing of the Metco acquisition at the end of May, Oerlikon Metco for the first time contributed to the financial performance of the Group. In its first month of consolidation, Oerlikon Metco accounted for sales of CHF 62 million. Profitability of the Group was impacted by acquisition-related costs and other one-time accounting effects. Taking these impacts into account, the Group delivered a strong underlying performance.

The main drivers of revenue growth were the margin-generating new Surface Solutions Segment and the Manmade Fibers Segment, which both operate at world-class levels. The Drive Systems Segment has also made progress since last year's comparable period. However, the performances of the Vacuum and the Advanced Technologies Segments were below expectations, and actions are underway to remedy this.

In line with our strategy, we concluded an important milestone in Oerlikon's development in Q2, ahead of schedule: the successful closing of the Metco acquisition. The newly formed Surface Solutions Segment unites Metco with Balzers to create a global technology leader in surface solutions. The two businesses complement each other's product ranges, technological strengths and market access, enabling the new Segment to better meet the needs of our customers. Oerlikon Balzers is the global technology leader in the service-driven PVD Thin Film business, while Metco is the global technology leader in the Thermal Spray and surface applications business. The acquisition will also deepen access in attractive end markets such as aerospace, power generation, and oil and gas, and accelerates growth outside the precision tooling and automotive sectors. Moreover, the acquisition expands our potential sales market in surface solutions to more than CHF 9 billion.

We also strengthened the balance sheet during the first half of 2014, accessing the favorable capital market conditions to successfully place two bond issues totaling CHF 450 million, with terms of five and ten years, respectively. In combination with the prolongation of the existing credit facility through 2016, this step significantly extends the company's debt maturity profile. Together with our strong balance sheet with an equity ratio of 43 %, this creates a solid foundation for Oerlikon's future.

Oerlikon is well positioned to drive future growth, and continued investment in our people, products and services is key. Our expertise in surface solutions, manmade fibers machinery, vacuum technology, drive systems and advanced technologies enables our customers to drive their underlying industries, improving energy efficiency, environmental protection, productivity and manufacturing processes. This equates to enhanced competitiveness and improved performance for our customers.

Investment levels in R&D continued throughout the Group, at around 4 % of revenues, and we introduced new technologies over the period that offer our customers added value. The Vacuum Segment launched the new TURBOVAC i/iX vacuum pump, which enables customers in the analytical instrument and R&D industries to improve their performance with added suction speed and reduced process time. In the Manmade Fibers Segment, we introduced Staple FORCE S 1000 for the production of non-woven materials. The system offers customers exceptionally high production speed, which in turn results in greater productivity as well as simpler and faster processing. And the Surface Solutions Segment continued to expand the footprint of its coating centers by opening two new facilities in Luxembourg and Austria, which now afford more proximate and improved service to our customers.

Oerlikon is focused on growth market segments and geographies. Our strategy centers both on organic growth and acquisition-driven growth, should attractive opportunities arise. The latter will be executed in a deliberate and prudent manner. At the same time, we recognize that there is still potential to improve operationally, and we are continuing our efforts to strengthen our Segments' performance. With the aim of improving customer proximity in the growing Asian market and taking advantage of the region's cost-effectiveness, the Vacuum Segment moved some product lines from France to China. In addition, construction on the Drive Systems Segment's third plant in India is progressing well, with commissioning planned for early 2015.

We believe that future business conditions in our markets will remain challenging overall and growth signals are still weak across many parts of the world due to unresolved issues concerning sovereign debt and monetary policy. Our broad geographical spread, as well as our extensive and diversified customer base, positions Oerlikon well for the future, and we confirm our guidance for the 2014 fiscal year.

On behalf of the Board of Directors and Executive Committee, we would like to thank you for the trust you have placed in us. We are confident that the Oerlikon team will continue to deliver.

Tim Summers
Chairman of the
Board of Directors

Brice Koch
Chief Executive Officer

Interim financial report 2014

Key figures Oerlikon Group

in CHF million	**January 1 to June 30, 2014 unaudited**	January 1 to June 30, 2013 unaudited
Order intake [1]	1 442	1 476
Order backlog [1]	799	888
Sales [1]	1 527	1 443
EBITDA [1]	250	239
– as % of sales	16 %	17 %
EBIT [1]	178	174
– as % of sales	11.7 %	12.1 %
Result from continuing operations	123	109
Result from discontinued operations, net of income taxes	–1	37
Net income	122	146
– as % of equity attributable to shareholders of the parent	6 %	7 %
Cash flow from operating activities [2]	85	168
Capital expenditure for property, plant and equipment and intangible assets	55	65
Total assets (June 30, 2014/December 31, 2013)	4 956	4 094
Equity attributable to shareholders of the parent (June 30, 2014/December 31, 2013)	2 129	2 072
– as % of total assets	43 %	51 %
Net cash (June 30, 2014/December 31, 2013) [3]	2	981
Net operating assets (June 30, 2014/December 31, 2013) [4]	2 772	1 586
Number of employees (June 30, 2014/December 31, 2013)	15 790	12 860
Research and development expenditure [1, 5]	64	58

[1] Continuing operations.

[2] Cash flow from operating activities before changes in net current assets amounts to CHF 222 million (previous year: CHF 247 million).

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

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

[5] Research and development expenditure includes expense recognized as intangible assets in the amount of CHF 8 million (previous year: CHF 7 million).

Consolidated income statement

in CHF million	**January 1 to June 30, 2014 unaudited**	January 1 to June 30, 2013 unaudited
Sales of goods	1 128	1 094
Services rendered	399	349
Total sales	**1 527**	**1 443**
Cost of sales	–1 070	–1 031
Gross profit	**457**	**412**
Marketing and selling	–92	–80
Research and development	–65	–56
Administration	–112	–107
Other income	11	15
Other expense	–21	–10
Result before interest and taxes (EBIT)	**178**	**174**
Financial income	11	11
Financial expense	–23	–26
Result before taxes (EBT)	**166**	**159**
Income taxes	–43	–50
Result from continuing operations	**123**	**109**
Result from discontinued operations, net of income taxes	–1	37
Net income	**122**	**146**
Attributable to:		
Shareholders of the parent	121	145
Non-controlling interest	1	1
Earnings per share in CHF	0.36	0.44
Fully diluted earnings per share in CHF	0.36	0.43
Earnings per registered share continuing operations in CHF	0.36	0.33
Fully diluted earnings per registered share continuing operations in CHF	0.36	0.32
Earnings per registered share discontinued operations in CHF	–0.00	0.11
Fully diluted earnings per registered share discontinued operations in CHF	–0.00	0.11

Consolidated statement of comprehensive income

in CHF million	**January 1 to June 30, 2014 unaudited**	January 1 to June 30, 2013 unaudited
Net income	122	146
Other comprehensive income		
Items that will never be reclassified to the income statement		
Remeasurements of defined benefit plans	–1	2
Income taxes on items that will never be reclassified to the income statement	1	–1
	–	**1**
Items that may be reclassified subsequently to the income statement		
Effective portion of changes in fair value of cash flow hedges	–7	–4
Conversion differences	1	29
Income taxes on items that may be reclassified subsequently to the income statement	2	–
	–4	**25**
Other comprehensive income for the period, net of taxes	**–4**	**26**
Total comprehensive income for the period	**118**	**172**
Attributable to:		
Shareholders of the parent	117	171
Non-controlling interest	1	1

Consolidated balance sheet

Assets

in CHF million	June 30, 2014 unaudited	December 31, 2013
Cash and cash equivalents	803	1 280
Current financial investments and derivatives	10	11
Trade receivables	536	425
Other receivables	115	88
Current tax receivables	29	26
Inventories	595	404
Prepaid expenses and accrued income	26	17
Current assets	**2 114**	**2 251**
Loans and other non-current financial receivables	45	25
Non-current financial investments	7	4
Property, plant and equipment	882	742
Goodwill and intangible assets	1 745	943
Post-employment benefit assets	5	5
Deferred tax assets	158	124
Non-current assets	**2 842**	**1 843**
Total assets	**4 956**	**4 094**

Liabilities and equity

in CHF million	June 30, 2014 unaudited	December 31, 2013
Trade payables	370	314
Current loans and borrowings	40	–
Other current financial liabilities and derivatives	4	2
Other current liabilities	87	56
Accrued liabilities	222	195
Current customer advances	336	407
Current income taxes payable	60	47
Current post-employment benefit provisions	22	22
Other current provisions	69	63
Current liabilities	**1 210**	**1 106**
Non-current loans and borrowings	764	303
Non-current post-employment benefit provisions	569	546
Deferred tax liabilities	199	48
Other non-current provisions	72	7
Non-current liabilities	**1 604**	**904**
Total liabilities	**2 814**	**2 010**
Share capital	340	335
Treasury shares	–6	–10
Retained earnings and reserves	1 795	1 747
Equity attributable to shareholders of the parent	**2 129**	**2 072**
Non-controlling interest	13	12
Total equity	**2 142**	**2 084**
Total liabilities and equity	**4 956**	**4 094**

Consolidated cash flow statement

in CHF million	**January 1 to June 30, 2014 unaudited**	January 1 to June 30, 2013 unaudited[1]
Net income	122	146
Income taxes	43	48
Interest expense (net)	14	17
Depreciation of property, plant and equipment	59	56
Amortization of intangible assets	12	9
Addition to other provisions (net)	23	13
Decrease in post-employment benefit provisions	–5	–8
Income taxes paid	–50	–41
Other non-cash items	4	7
Cash flow from operating activities before changes in net current assets	222	247
Increase in receivables, prepaid expenses and accrued income	–18	–110
Increase in inventories	–39	–77
Increase in payables, accrued liabilities and use of other provisions	3	45
Decrease/increase in customer advances	–78	64
Non-cash impact on net current assets due to hedge accounting	–5	–1
Cash flow from changes in net current assets	–137	–79
Cash flow from operating activities	**85**	**168**
Purchase of property, plant and equipment	–46	–61
Purchase of intangible assets	–9	–13
Acquisition of subsidiaries, net of cash acquired	–914	–
Payments relating to sale of discontinued operations	–12	–
Proceeds from sale of financial investments	–	3
Proceeds from sale of property, plant and equipment	4	30
Interest received	4	3
Dividends received	2	2
Cash flow from investing activities	**–971**	**–36**
Dividends paid	–91	–84
Purchase of treasury shares	–5	–7
Proceeds from capital increase	30	35
Proceeds from issue of financial debt (net of transaction costs)	489	–
Acquisition of non-controlling interest	–	–11
Interest paid	–12	–13
Cash flow from financing activities	**411**	**–80**
Translation adjustments to cash and cash equivalents	–2	8
Decrease/increase in cash and cash equivalents	**–477**	**60**
Cash and cash equivalents at the beginning of the period	1 280	660
Cash and cash equivalents at the end of the period	803	720
Decrease/increase in cash and cash equivalents	**–477**	**60**

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

Consolidated statement of changes in equity

in CHF million	Share capital [1]	Additional paid-in capital	Treasury shares	Conversion differences	Retained earnings	Hedge accounting	Deferred taxes	**Total equity attributable to share-holders**	Non-control-ling interest	**Total share-holders' equity**
Balance at January 1, 2013 (as previously reported)	**326**	**1 424**	**–8**	**–487**	**538**	**7**	**58**	**1 858**	**24**	**1 882**
Restatement for IAS 19 (revised)	–	–	–	–	5	–	–3	2	–	2
Balance at January 1, 2013 (restated)	**326**	**1 424**	**–8**	**–487**	**543**	**7**	**55**	**1 860**	**24**	**1 884**
Net income	–	–	–	–	145	–	–	145	1	146
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	–4	–	–4	–	–4
Remeasurements of defined benefit plans	–	–	–	–	2	–	–1	1	–	1
Conversion differences, net	–	–	–	29	–	–	–	29	–	29
Total other comprehensive income for the period	**–**	**–**	**–**	**29**	**2**	**–4**	**–1**	**26**	–	**26**
Total comprehensive income for the period	**–**	**–**	**–**	**29**	**147**	**–4**	**–1**	**171**	**1**	**172**
Capital increase	6	29	–	–	–	–	–	35	–	35
Dividend distributions	–	–83	–	–	–	–	–	–83	–1	–84
Share-based payments	–	–	–	–	–5	–	–	–5	–	–5
Purchase of treasury shares	–	–	–7	–	–	–	–	–7	–	–7
Transfer and sale of treasury shares	–	–	8	–	–1	–	–	7	–	7
Acquisition of non-controlling interest	–	–	–	–	–10	–	–	–10	–1	–11
Total transactions with owners of the company	**6**	**–54**	**1**	**–**	**–16**	**–**	**–**	**–63**	**–2**	**–65**
Balance at June 30, 2013 (restated)	**332**	**1 370**	**–7**	**–458**	**674**	**3**	**54**	**1 968**	**23**	**1 991**
Balance at January 1, 2014	**335**	**1 384**	**–10**	**–410**	**709**	**7**	**57**	**2 072**	**12**	**2 084**
Net income	–	–	–	–	121	–	–	121	1	122
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	–7	2	–5	–	–5
Remeasurements of defined benefit plans	–	–	–	–	–1	–	1	–	–	–
Conversion differences, net	–	–	–	1		–	–	1	–	1
Total other comprehensive income for the period	**–**	**–**	**–**	**1**	**–1**	**–7**	**3**	**–4**	**–**	**–4**
Total comprehensive income for the period	**–**	**–**	**–**	**1**	**120**	**–7**	**3**	**117**	**1**	**118**
Capital increase	5	25	–	–	–	–	–	30	–	30
Dividend distributions	–	–90	–	–	–	–	–	–90	–1	–91
Change in scope of consolidation	–	–	–	–	–	–	–	–	1	1
Share-based payments	–	–	–	–	–1	–	–	–1	–	–1
Purchase of treasury shares	–	–	–5	–	–	–	–	–5	–	–5
Transfer and sale of treasury shares	–	–	9	–	–3	–	–	6	–	6
Total transactions with owners of the company	**5**	**–65**	**4**	**–**	**–4**	**–**	**–**	**–60**	**–**	**–60**
Balance at June 30, 2014	**340**	**1 319**	**–6**	**–409**	**825**	**–**	**60**	**2 129**	**13**	**2 142**

[1] The share capital of OC Oerlikon Corporation AG, Pfäffikon consists of 339 758 576 registered shares (December 31, 2013: 334 633 258 registered shares) with a nominal value of CHF 1.

Accounting principles

Company operations

OC Oerlikon Corporation AG, Pfäffikon is a Swiss public company located in Freienbach SZ, Churerstrasse 120, Pfäffikon SZ. It is the ultimate parent company of the Oerlikon Group, a leading high-tech industrial group specializing in machine and plant engineering and a provider of innovative industrial solutions and cutting-edge technologies for manmade fibers manufacturing, drive, vacuum, surface solutions, and advanced nanotechnology.

Basis of preparation

The consolidated interim financial statements of OC Oerlikon Corporation AG, Pfäffikon have been prepared in accordance with International Financial Reporting Standards (IFRS) and Swiss company law. These accounting standards have been applied consistently in all periods presented in this report. The reporting period is six months. The consolidated income statement shows operating costs grouped by function. Assets and liabilities in the consolidated balance sheet are classified as current or non-current. The unaudited consolidated interim financial statements for the first half-year of 2014 are presented in a condensed form and are in accordance with IAS 34 Interim Financial Reporting. The consolidated interim financial statements do not include all the details contained in the consolidated annual financial statements and should therefore be read in conjunction with the annual consolidated financial statements as of December 31, 2013. The consolidated interim financial statements were approved by the Board of Directors on August 4, 2014. All amounts in the consolidated interim financial statements are presented in millions of Swiss francs (CHF million) and all amounts (including totals and subtotals) have been rounded according to normal commercial practice. Thus an addition of the figures presented can result in rounding differences.

Judgments, estimates and assumptions

Preparation of the consolidated interim financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the values of reported revenues, expenses, assets, liabilities and contingent liabilities at the reporting date. These estimates and assumptions are constantly being revised. Depending on the issues involved, revision of such assumptions can have an effect on the current period as well as potentially on future periods. These estimates, judgments and assumptions are based on historical experience and other factors that are believed to be reasonable and justified as expectations of future events. However, actual results can differ from these estimates. Despite of assumptions and estimates for business combinations, for which the description is included in the following paragraph, the same significant assumptions and estimates were made by management for these consolidated interim financial statements as for the annual consolidated financial statements as of December 31, 2013.

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

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

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

Seasonality

The Oerlikon Group operates in industries where sales are not subject to significant seasonal or cyclical variations during the financial year.

Significant accounting policies

The accounting policies in this interim financial report match those applied in the audited annual consolidated financial statements as of December 31, 2013, with exception of the changes shown below under “Adoption of new and revised accounting standards”.

Adoption of new and revised accounting standards

The International Accounting Standards Board (IASB) has published a number of new and revised standards and interpretations which have been applied by the Oerlikon Group since January 1, 2014:

- IAS 32 amended – Offsetting Financial Assets and Liabilities
- IFRS 10, IFRS 12 and IAS 27 amended – Investment Entities
- IAS 39 amended – Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21 – Levies

The new and revised accounting standards and interpretations have no material impact on the Group’s results or financial position.

Newly published accounting standards not early adopted

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

Standard/interpretation	Impact level	Effective date	Planned application by Oerlikon
IAS 19 amended – Employee Contributions	*	July 1, 2014	Reporting year 2015
Annual Improvements to IFRSs 2010-2012 Cycle	**	July 1, 2014	Reporting year 2015
Annual Improvements to IFRSs 2011-2013 Cycle	*	July 1, 2014	Reporting year 2015
IFRS 15 – Revenue Recognition	***	January 1, 2017	Reporting year 2017
IFRS 9 – Financial Instruments	***	January 1, 2018	Reporting year 2018

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

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

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

Segment reporting

The segment reporting of the Oerlikon Group is in accordance with the "Management Approach" and based on the internal structure and reporting. The Executive Committee is an advisory body to the Chief Executive Officer (CEO). The CEO performs the function of the Chief Operating Decision Maker (CODM) and assesses performance and makes resource allocation decisions. The internal reporting to the "Executive Committee" and the Board of Directors is based on uniform Group accounting principles which correspond to those used in the consolidated financial statements.

According to the internal segment reporting the Group consists of the following reportable segments:

- The Manmade Fibers Segment develops and manufactures equipment and plants for the production of manmade fibers.
- The Drive Systems Segment manufactures gearing solutions and transmission systems for off-highway equipment, transportation and high-end automotive vehicles.
- The Vacuum Segment develops vacuum pumps and solutions for applications in the process, energy/coating and R&D/analytics industry.
- The Surface Solutions Segment (formerly Coating Segment) supplies Thin Film and Thicker Layer coatings that increase the performance and wear resistance of tools and components.
- The Advanced Technologies Segment develops niche applications for the production or semiconductors and mobile devices.

Segment information

in CHF million	Manmade Fibers Segment 2014	Manmade Fibers Segment 2013	Drive Systems Segment 2014	Drive Systems Segment 2013	Vacuum Segment 2014	Vacuum Segment 2013	Surface Solutions Segment 2014	Surface Solutions Segment 2013
Order intake	**468**	**540**	**414**	**408**	**193**	**206**	**327**	**251**
Order backlog	**416**	**599**	**191**	**152**	**79**	**85**	**86**	**–**
Sales								
Sales to third parties	570	563	402	389	192	196	328	251
Sales to other segments	–	–	–	–	2	2	–	1
Eliminations	–	–	–	–	–2	–2	–	–1
	570	**563**	**402**	**389**	**192**	**196**	**328**	**251**
Sales by market region to third parties								
Asia / Pacific	411	406	39	42	67	74	97	73
Europe	35	94	217	200	82	86	163	125
North America	84	43	126	125	39	33	49	33
Other regions	40	20	20	22	4	3	19	20
	570	**563**	**402**	**389**	**192**	**196**	**328**	**251**
Sales by location to third parties								
Asia / Pacific	145	152	56	59	58	63	86	72
thereof China	143	150	13	12	30	30	22	17
Europe	416	401	211	215	92	99	175	128
thereof Switzerland	–	–	–	–	–	–	34	26
Germany	416	401	–	–	92	99	78	51
Italy	–	–	209	213	–	–	9	7
North America	9	7	135	115	42	34	50	33
Other regions	–	3	–	–	–	–	17	18
	570	**563**	**402**	**389**	**192**	**196**	**328**	**251**
Capital expenditure for property, plant and equipment and intangible assets								
Asia / Pacific	1	1	6	9	2	–	2	5
Europe	5	9	8	12	6	6	16	15
North America	–	–	4	4	–	–	3	2
Other regions	–	–	–	–	–	–	1	1
	6	**10**	**18**	**25**	**8**	**6**	**22**	**23**
EBITDA	**123**	**98**	**42**	**34**	**19**	**29**	**62**	**73**
EBIT	**113**	**89**	**20**	**11**	**12**	**23**	**33**	**51**
Other material items								
Research and development expense	–14	–15	–8	–6	–13	–10	–20	–16
Depreciation and amortization	–9	–9	–22	–23	–7	–7	–29	–23
Restructuring costs	–1	–1	–	–	–2	–	–	–
Net operating assets	**30/06/14**	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13
Operating assets [2]	650	676	1 153	1 115	289	269	1 690	417
Operating liabilities [3]	–559	–662	–226	–190	–83	–74	–247	–67
	91	**14**	**927**	**925**	**206**	**195**	**1 443**	**350**
Number of employees	**30/06/14**	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13
Asia / Pacific	931	883	2 334	2 294	400	370	1 482	1 070
Europe	1 548	1 559	1 951	1 951	1 084	1 056	3 159	1 635
North America	40	38	1 034	912	87	86	998	335
Other regions	–	–	–	–	7	–	305	238
	2 519	**2 480**	**5 319**	**5 157**	**1 578**	**1 512**	**5 944**	**3 278**

[1] Discontinued operations include the Natural Fibers and Textile Components Business Units (for 2014 and 2013).

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

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

Advanced Technologies Segment		Total Segments		Group / Eliminations		Total from continuing operations		Discontinued operations [1]		Total including discontinued operations	
2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
40	**71**	**1 442**	**1 476**	**–**	**–**	**1 442**	**1 476**	**–**	**596**	**1 442**	**2 072**
27	**52**	**799**	**888**	**–**	**–**	**799**	**888**	**–**	**398**	**799**	**1 286**
35	44	1 527	1 443	–	–	1 527	1 443	–	470	1 527	1 913
–	–	2	3	–2	–3	–	–	–	–	–	–
–	–	–2	–3	2	3	–	–	–	–	–	–
35	**44**	**1 527**	**1 443**	**–**	**–**	**1 527**	**1 443**	**–**	**470**	**1 527**	**1 913**
16	26	630	621	–	–	630	621	–	294	630	915
10	14	507	519	–	–	507	519	–	94	507	613
9	4	307	238	–	–	307	238	–	28	307	266
–	–	83	65	–	–	83	65	–	54	83	119
35	**44**	**1 527**	**1 443**	**–**	**–**	**1 527**	**1 443**	**–**	**470**	**1 527**	**1 913**
–	–	345	346	–	–	345	346	–	83	345	429
–	–	208	209	–	–	208	209	–	69	208	278
27	40	921	883	–	–	921	883	–	358	921	1 241
16	27	50	53	–	–	50	53	–	38	50	91
11	13	597	564	–	–	597	564	–	316	597	880
–	–	218	220	–	–	218	220	–	–	218	220
8	4	244	193	–	–	244	193	–	27	244	220
–	–	17	21	–	–	17	21	–	2	17	23
35	**44**	**1 527**	**1 443**	**–**	**–**	**1 527**	**1 443**	**–**	**470**	**1 527**	**1 913**
–	–	11	15	–	–	11	15	–	1	11	16
1	1	36	43	–	–	36	43	–	8	36	51
–	–	7	6	–	–	7	6	–	–	7	6
–	–	1	1	–	–	1	1	–	–	1	1
1	**1**	**55**	**65**	**–**	**–**	**55**	**65**	**–**	**9**	**55**	**74**
–6	**–1**	**240**	**233**	**10**	**6**	**250**	**239**	**–5**	**38**	**245**	**277**
–8	**–3**	**170**	**171**	**8**	**3**	**178**	**174**	**–5**	**38**	**173**	**212**
–10	–9	–65	–56	–	–	–65	–56	–	–21	–65	–77
–2	–2	–69	–64	–2	–1	–71	–65	–	–	–71	–65
–	–	–3	–1	–	–	–3	–1	–	–1	–3	–2
30/06/14	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13
119	124	3 901	2 601	42	47	3 943	2 648	–	–	3 943	2 648
–23	–25	–1 138	–1 018	–33	–44	–1 171	–1 062	–	–	–1 171	–1 062
96	**99**	**2 763**	**1 583**	**9**	**3**	**2 772**	**1 586**	**–**	**–**	**2 772**	**1 586**
30/06/14	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13	**30/06/14**	31/12/13
–	–	5 147	4 617	–	–	5 147	4 617	–	–	5 147	4 617
177	183	7 919	6 384	230	230	8 149	6 614	–	–	8 149	6 614
19	17	2 178	1 388	–	–	2 178	1 388	–	–	2 178	1 388
–	–	312	238	4	3	316	241	–	–	316	241
196	**200**	**15 556**	**12 627**	**234**	**233**	**15 790**	**12 860**	**–**	**–**	**15 790**	**12 860**

Notes to the consolidated interim financial statements

Acquisitions and divestments

Acquisition of Metco from Sulzer AG
On June 2, 2014, Oerlikon completed the acquisition of all outstanding equity interests of the Metco Division from the Sulzer Group. Together with Oerlikon's existing Coating business, Metco forms the new Surface Solution Segment and serves industries such as power generation, aviation, automotive and other specialized markets. Metco is complementary to Oerlikon Balzers in terms of its technological strengths, business models, market access and geographical footprint. As a result of the transaction, Oerlikon's addressable growth market in surface solutions is expanding.

The total consideration was CHF 957 million in cash and there are no further variable purchase price components.

The goodwill of CHF 354 million arising from the acquisition is mainly attributable to the value of expected synergies and economies of scale expected from combining the operations of Metco and Oerlikon Balzers. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

Consideration at the date of acquisition

in CHF million	June 2, 2014
Cash	752
Settlement of pre-existing Metco intragroup financings	198
Total consideration transferred	**950**
Consideration payable within six months of closing	7
Total consideration	**957**

Recognized amounts of identifiable assets acquired and liabilities assumed

in CHF million	June 2, 2014
Cash and cash equivalents	36
Trade and other receivables	131
Inventories	154
Property, plant and equipment	157
Intangible assets	457
Other non-current assets	23
Trade and other payables	–100
Provisions	–69
Other non-current liabilities	–47
Income taxes payable	–19
Deferred tax liabilities, net	–120
Total identifiable net assets	**603**
Goodwill	354
Total	**957**

The above amounts represent the preliminary allocation of the purchase price. Due to the timing of the acquisition, certain information required to complete the final purchase price allocation remains outstanding.

Acquisition-related costs, amounting to CHF 13 million, have been recognized under other expense in the consolidated income statement for the six-month period ended June 30, 2014.

Since June 2, 2014, the acquired business has contributed CHF 62 million in total sales and CHF –3 million in net income to the Oerlikon Group. Had the transaction taken place at January 1, 2014, the Group's total sales and net income for the six-month period ended June 30, 2014 would have amounted to approximately CHF 1 827 million and CHF 134 million, respectively. These amounts have been determined based on the assumption that the fair value adjustments at the acquisition date, determined provisionally, would have been the same at January 1, 2014.

Contingent liabilities of CHF 62 million have been recognized primarily due to environmental liabilities as well as certain litigation and potential tax risks. Any potential cash outflow is estimated to occur during the next 20 years. The selling shareholders of Metco have contractually agreed to indemnify Oerlikon for an amount up to CHF 20 million related to certain of these environmental liabilities. There has been no change in the amount recognized for the contingent liabilities and the indemnification asset as of June 30, 2014, as there has been no change in the range of outcomes or assumptions used to develop the estimates.

Divestment of the Natural Fibers and Textile Components Business Units
On December 3, 2012, the Oerlikon Group signed an agreement with the Jinsheng Group of China to divest the Natural Fibers and Textile Components Business Units from its Textile Segment. The sale was closed on July 3, 2013. The final determination of the sales price was subject to a customary financial adjustment mechanism. This process was closed in the second quarter 2014, the respective income statement effect for OC Oerlikon amounted to CHF 1 million (expenses). In connection with the divestment, Oerlikon has assumed certain customary obligations like warranty obligations and indemnifications. The indemnification obligations cover in particular employment-, intellectual property- and environment-related topics. The duration and overall liability caps for these indemnifications vary, but are customary for transactions of this nature.

Loans and borrowings

The terms and conditions of outstanding loans are as follows:

in CHF million	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
					June 30, 2014 unaudited
Syndicated loan / Revolving Credit Facility	CHF	Libor + 2.00 %	2016	20	20
Syndicated loan / Revolving Credit Facility	GBP	Libor + 2.50 %	2016	20	20
Bond [1]	CHF	4.25 %	2016	300	299
Bond [2]	CHF	1.25 %	2019	300	299
Bond	CHF	2.625 %	2024	150	150

in CHF million	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
					December 31, 2013
Bond [1]	CHF	4.25 %	2016	300	299

[1] Face value differs from book value, because CHF 1 million (originally CHF 2 million) of directly attributable transaction costs related to the financing of the bond were deducted and are being expensed over the term of the bond.

[2] Face value differs from book value, because CHF 1 million of directly attributable transaction costs related to the financing of the bond were deducted and are being expensed over the term of the bond.

Syndicated loan facility
The unsecured syndicated credit facility includes a CHF 700 million credit facility consisting of a revolving cash facility of CHF 450 million and an ancillary facility of CHF 250 million with a maturity in 2015. A part of the unsecured syndicated credit facility in the amount of CHF 684 million was extended for one year with an additional one-year extension option.

The interest rates of the loan under the syndicated credit facility is Libor plus a margin, subject to a downward ratchet based on the ratio of net debt to EBITDA (with a range of 2 % and 3 %).

As of June 30, 2014 the syndicated credit facility contains the following financial covenants, which are tested quarterly:
– Total Equity
– Total Borrowings / EBITDA
– EBITDA / Net Interest Expense

Bonds
On July 13, 2012 the Oerlikon Group issued a 4 year CHF 300 million straight bond with a nominal interest of 4.25 %.
On June 17, 2014 the Oerlikon Group issued a 5 year CHF 300 million straight bond with a nominal interest of 1.25 % and a 10 year CHF 150 million straight bond with a nominal interest of 2.625 %

Loan with the European Investment Bank (EIB)
On December 13, 2013 Oerlikon signed an unsecured EUR 120 million loan facility with the European Investment Bank (EIB) to finance research and development costs of selected segments in Germany and Liechtenstein. The facility has a tenor of four to five years and the interest rate is Libor plus 1.06 %. The loan has to be drawn within twenty four months after contract signing. After the twenty four months the undrawn amount will expire. It contains the same financial covenants as in the syndicated credit facility and they are also tested quarterly. As of June 30, 2014 the loan facility balance was zero.

Financial instruments

The carrying amounts and fair values of financial assets and liabilities as of June 30, 2014, including their levels in the fair value hierarchy, are as follows:

	Carrying amount					Fair value			
in CHF million	Fair value – held for trading	Fair value – hedging instruments	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value									
Forward exchange contracts	–	5	–	–	**5**	–	5	–	**5**
Debt and equity securities	3	–	–	–	**3**	3	–	–	**3**
Total	**3**	**5**	**–**	**–**	**8**	**3**	**5**	**–**	**8**
Financial assets not measured at fair value[1]									
Cash and cash equivalents	–	–	803	–	**803**				
Deposits	–	–	2	–	**2**				
Trade and other financial receivables	–	–	544	–	**544**				
Loans and other long-term financial receivables		–	45	–	**45**				
Total	**–**	**–**	**1 394**	**–**	**1 394**				
Financial liabilities measured at fair value									
Forward exchange contracts	–	2	–	–	**2**	–	2	–	**2**
Total	**–**	**2**	**–**	**–**	**2**	**–**	**2**	**–**	**2**
Financial liabilities not measured at fair value[1]									
Bond	–	–	–	748	**748**	772	–	–	**772**
Syndicated loan / Revolving Credit Facility	–	–	–	40	**40**				
Finance lease liabilities	–	–	–	7	**7**				
Trade payables	–	–	–	370	**370**				
Accrued financial liabilities	–	–	–	116	**116**				
Other loans and borrowings	–	–	–	11	**11**				
Total	**–**	**–**	**–**	**1 292**	**1 292**				

The carrying amounts and fair values of financial assets and liabilities as of December 31, 2013, including their levels in the fair value hierarchy, are as follows:

	Carrying amount					Fair value			
in CHF million	Fair value – held for trading	Fair value – hedging instruments	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value									
Forward exchange contracts	–	6	–	–	**6**	–	6	–	**6**
Debt and equity securities	3	–	–	–	**3**	3	–	–	**3**
Total	**3**	**6**	**–**	**–**	**9**	**3**	**6**	**–**	**9**
Financial assets not measured at fair value[1]									
Cash and cash equivalents	–	–	1 280	–	**1 280**				
Deposits	–	–	2	–	**2**				
Trade and other financial receivables	–	–	440	–	**440**				
Loans and other long-term financial receivables	–	–	25	–	**25**				
Total	**–**	**–**	**1 747**	**–**	**1 747**				
Financial liabilities measured at fair value									
Forward exchange contracts	–	1	–	–	**1**	–	1	–	**1**
Total	**–**	**1**	**–**	**–**	**1**	**–**	**1**	**–**	**1**
Financial liabilities not measured at fair value[1]									
Bond	–	–	–	299	**299**	319	–	–	**319**
Finance lease liabilities	–	–	–	4	**4**				
Trade payables	–	–	–	314	**314**				
Accrued financial liabilities	–	–	–	99	**99**				
Other loans and borrowings	–	–	–	1	**1**				
Total	**–**	**–**	**–**	**717**	**717**				

[1] With the exception of the bond, the Group has not disclosed the fair values for financial assets and liabilities not measured at fair value because their carrying amounts are a reasonable approximation of fair values.

Financial instruments

Measurement of fair values

The different levels of fair values have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: inputs for the asset or liability that are not based on oberservable market data (unobservable inputs)

Level 1 fair values
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume providing information on an ongoing basis. Instruments included in level 1 comprise investments in various debt and equity instruments via investment funds.

Level 2 fair values

The following table shows the valuation techniques used in measuring Level 2 fair values:

Type of financial instrument	Valuation technique
Forward exchange contracts	The fair values of forward exchange contracts and interest rate swaps are based on broker quotes. Similar contracts traded in an active market and the quotes reflect the actual transactions in similar instuments.
Other financial assets and liabilities	Discounted cash flows.

Level 3 fair values

No financial instruments were included in Level 3 fair values.

Transfers between Level 1 and 2

There were no transfers between Level 1 and 2 during the year.

Provisions

in CHF million	Product warranties	Acquiree's contingent liabilities [1]	Restruc-turing [2]	Other provisions [3]	**Total**
Balance at January 1, 2014	49	–	3	18	**70**
Conversion differences	–1	–	–	–	**–1**
Change in the scope of consolidated companies	5	62	1	2	**70**
Additions	20	–	3	4	**27**
Amounts used	–17	–	–2	–2	**–21**
Amounts reversed	–2	–	–	–2	**–4**
Balance at June 30, 2014	**54**	**62**	**5**	**20**	**141**
Of which:					
Due within 1 year	52	–	5	12	**69**
Due beyond 1 year	2	62	–	8	**72**

[1] Acquiree's contingent liabilities pertain to the Segment Surface Solutions. Contingent liabilities of CHF 62 million have been recognized primarily due to environmental liabilities as well as certain litigation and potential tax risks. Any potential cash outflow is estimated to occur during the next 20 years.

[2] The restructuring provisions pertain to the Segments Vacuum (CHF 2 million), Manmade Fibers (CHF 2 million) and Surface Solutions (CHF 1 million).

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

Subsequent events

No events occurred between the balance sheet date and the date on which this report was approved by the Board of Directors which could have a significant impact on the consolidated interim financial statements as of June 30, 2014.