innovation
has a name
oerlikon

on a
new level

Annual Report **2011**

Key figures Oerlikon Group 2011

(in CHF million)

	2011	2010	Change (abs.)	Change (%)
Sales	**4 182**	**3 601**	**+581**	**+16**
Order intake	**4 043**	**4 520**	**–477**	**–11**
EBITDA	**605**	**278**	**+327**	**>100**
EBIT	**419**	**51**	**+368**	**>100**
Operating cash flow*	**541**	**354**	**+187**	**+53**
Net profit	**224**	**5**	**+219**	**>100**

Key figures Oerlikon Group

in CHF million	**January 1 to December 31 2011**	January 1 to December 31 2010
Order intake	4 043	4 520
Order backlog	1 481	1 702
Sales	4 182	3 601
EBITDA	605	278
– as % of sales	14 %	8 %
EBIT[1]	419	51
– as % of sales	10 %	1 %
Net profit	224	5
– as % of sales	5 %	0 %
– as % of equity attributable to shareholders of the parent	14 %	0 %
Cash flow from operating activities before changes in net current assets[2]	541	354
Capital expenditure for fixed and intangible assets	167	150
Total assets	4 573	4 475
Equity attributable to shareholders of the parent	1 586	1 430
– as % of total assets	35 %	32 %
Net debt[3]	86	274
Net Operating Assets[4]	2 205	2 196
Number of employees	17 227	16 657
Personnel expense	984	1 015
Research and development expenditures[5]	213	239

[1] EBIT before restructuring and impairment of goodwill amounts in 2011 to CHF 422 million (previous year: CHF 103 million).

[2] Cash flow from operating activities (after changes in net current assets) amounts to CHF 435 million (previous year: CHF 511 million).

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

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

[5] Research and development expenditures include expenses recognized as intangible assets in the amount of CHF 24 million (previous year: CHF 32 million).

Key share-related figures[1]

in CHF	**January 1 to December 31 2011**	January 1 to December 31 2010
Share price		
High	7.85	12.30
Low	4.06	3.69
Year-end	5.03	4.90
Total shares outstanding	323 124 010	323 085 471
Market capitalization in million	1 625	1 583
EBIT per share	1.30	0.25
Earnings per share	0.68	0.01
Cash flow from operating activities per share*	1.68	1.71
Equity per share[2]	4.91	6.92
Dividend per share[3]	0.20	0.00

[1] Average number of shares with voting and dividend rights.
[2] Attributable to shareholders of the parent.
[3] Dividend 2011: proposal of the Board of Directors.

* Before changes in net current assets.

Vision

Oerlikon creates
innovative industrial solutions
for a better life.

Mission

Oerlikon strives to be your
most reliable business partner,
worldwide.

We increase value
through high-quality
innovative industrial solutions,
continuously.

We engage highly
qualified professionals.

Our commitment
is your success!

Core Values

Integrity

Everything we build,
we build on trust.

Team Spirit

I care about the team,
the team cares about me.

Excellence

What we do, we do best.

Innovation

Ideas come from everybody
and from everywhere
in the organization.

Oerlikon's Segments in brief

Textile

Key figures

in CHF million	**2011**	2010
Orders received	**1 977**	2 509
Order backlog	**1 053**	1 197
Sales (to third parties)	**2 037**	1 653
EBIT	**183**	21
Employees	**6 230**	6 294

Oerlikon Textiles' businesses are the market leaders in the areas of man-made fibers, natural fibers and textile components. Oerlikon innovations are continuously setting new standards in global textile production. The Segment provides comprehensive solutions from plant design for the production of man-made fibers and nonwovens, to facilities for ring spinning, rotor spinning, winding, twisting and embroidery. Oerlikon covers the entire value chain in the textile sector.

Applications and products

- Filament yarn plants
- Texturizing systems
- Staple fiber plants
- Carpet yarn plants
- Allma and Volkmann twisting systems
- Melco and Saurer embroidery systems
- Spinning preparation systems
- Rotor spinning systems
- Zinser ring spinning systems
- Winding systems
- Components for the textile machine industry

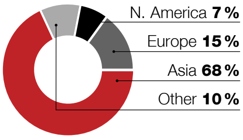
Clients and partners (selection)

Alok, Beyteks, Forster Rohner AG, Guxiandao, Hangzhou Jinfeng, Hengli, Huaya Group, Kordsa, Nahar Industrial, Radiant, Reliance, Shaw Industries, Shenghong Chemical, Tiangsheng, Vardhmann, Wellknown Polyesters, Zhejiang Xinao Textile

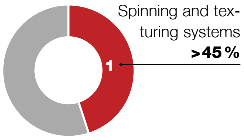
Competitors

CTMC
Lakshmi
Murata Textile
Rieter Textile
Savio
TMT Machinery

2011 sales by region



Selected market share and position in 2011



Drive Systems

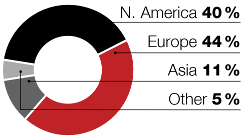
in CHF million	**2011**	2010
Orders received	**892**	792
Order backlog	**213**	137
Sales (to third parties)	**821**	733
EBIT	**49**	–27
Employees	**5 471**	5 141

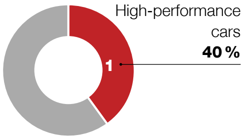
Oerlikon Drive Systems is a leading provider of gear and transmission solutions for a wide range of markets and applications including agricultural machinery, construction equipment, energy and mining, high-performance auto, and similar on/off highway and industrial market segments. Drive Systems' portfolio of solutions includes dual clutch and continuously variable transmissions, transmission synchronizers, axles, Torque-Hub® planetary final drives and precision gear components and assemblies.

- Agricultural equipment
- Construction equipment
- Mining equipment
- Passenger cars
- High-performance cars
- All-wheel vehicles
- Zero-emission vehicles
- Material handling and ground support equipment
- City buses
- Rail and transportation
- Offshore oil and gas
- Wind power
- Specialty industrial

AGCO, Allison, Aston Martin Lagonda, Audi, Bombardier, CAT, CNH, Fiat, General Electric, Gusto, Hitachi, JLG-Oshkosh, John Deere, Lamborghini, Maserati, McLaren, SPX-Marley, Terex, VW

Bonfiglioli Transmital
Borg Warner
Bosch Rexroth
Carraro
Cattini
ZF





Vacuum

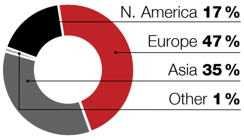
in CHF million	**2011**	2010
Orders received	**400**	438
Order backlog	**77**	84
Sales (to third parties)	**409**	410
EBIT	**59**	30
Employees	**1 472**	1 453

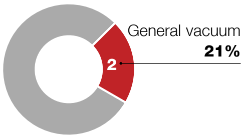
Oerlikon Vacuum offers a wide range of vacuum components for industrial manufacturing, analytical technology, and research and development purposes. Oerlikon Vacuum delivers standard and fully customized vacuum solutions which offer customers high efficiency, quality and flexibility. A global sales and service network complements the consulting and engineering expertise.

- Fore- and high-vacuum pumps
- Consulting and engineering of vacuum solutions
- Vacuum gauges
- Leak detecting
- Instruments
- Fittings and valves
- After-sales service and training

AB Applied Biosystems, Advanced Sterilization Products, Bystronic Laser AG, CERN, JEOL Angelantoni, Kingyoup, Seagate

Busch
Edwards
Pfeiffer Vacuum
Ulvac





Solar

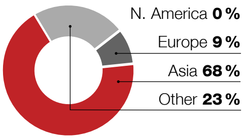
in CHF million	**2011**	2010
Orders received	**202**	230
Order backlog	**130**	255
Sales (to third parties)	**323**	254
EBIT	**–10**	–59
Employees	**660**	648

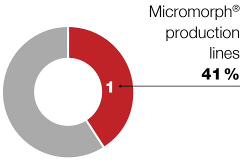
Oerlikon Solar provides field-proven equipment and end-to-end manufacturing lines for the mass production of environmentally sustainable thin film silicon solar modules. With its leading technology, Oerlikon Solar has increased the efficiency of thin film silicon and created innovative end-to-end turnkey manufacturing solutions for thin film PV. Oerlikon Solar leads the thin film solar equipment sector with 15 customers in production in seven countries, and more than 5 million modules with 450 MW of capacity produced worldwide.

- Amorphous thin film silicon PV technology
- Micromorph® tandem technology
- High-precision laser scribing
- Transparent Conductive Oxide (TCO)
- Plasma-enhanced chemical vapor deposition (PECVD)
- End-to-end solutions for the mass production of thin film silicon solar modules

Astronergy, Auria Solar, Bosch Solar, DongXu, Gongchuang, Hevel, Inventux, Pramac, Schott Solar, Sun Well, Tianwei

Apollo Solar
Ulvac





Coating

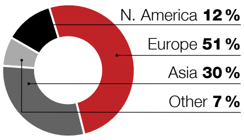
in CHF million	**2011**	2010
Orders received	**484**	422
Order backlog	**–**	–
Sales (to third parties)	**484**	422
EBIT	**97**	52
Employees	**2986**	2711

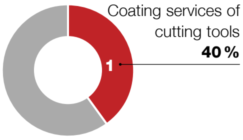
Oerlikon Coating is the world's leading supplier of PVD coatings for tools and precision components. The coatings – deposited with state of the art equipment from Oerlikon Balzers – increase performance and therefore productivity. Coating services are offered through a network of 87 centers in 32 countries.

High-performance coatings for:
- Cutting tools
- Punching and forming tools
- Dies and molds
- Precision components for engine and fluid technology and mechanical drives

Audi, Bosch, Ceratizit, Continental, Daimler, Ford, Hitachi, Iscar, Kennametal, Mahle, OSG, Samputensili, Sandvik, Siemens, SKF, VW, ZF

Cemecon
Eifeler
Hauzer
Ionbond
Kobelco
Platit





Advanced Technologies

in CHF million	**2011**	2010
Orders received	**88**	129
Order backlog	**8**	29
Sales (to third parties)	**108**	129
EBIT	**11**	10
Employees	**200**	196

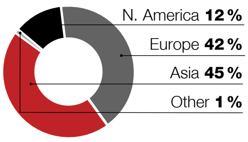
Oerlikon Advanced Technologies offers cost-efficient and flexible thin film deposition systems and processes to the semiconductor, optical data storage and advanced nanotechnology markets. Applications for the semiconductor market include advanced packaging, power devices, read/write heads for hard disks, LEDs and Micro-Electro-Mechanical Systems (MEMS). Solutions in the advanced nanotechnology sector comprise photovoltaics, touch panels and thermoelectrics.

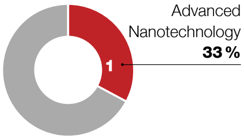
Semiconductor deposition production equipment for:
- Read/Write heads for hard drives
- Advanced packaging/3D
- Thin wafer processing for backside metal
- MEMS and solid state lighting (LED)

Deposition production equipment for:
- c-Si solar cells
- energy harvesting applications
- thermoelectric generators

ABB, Amkor, ASE, Bosch, CREE, Fairchild, Hewlett Packard, Infineon, NXP, Osram, Panasonic, PV Industry, Ritek, Seagate, SMIC, Sony, ST, TI, TSMC

Applied Materials
Centrotherm
Nexx
SPTS
Ulvac





On a new level

2011 was a year of significant progress and improvement. We went through a fundamental process of change, marking the beginning of a multi-year agenda to rebuild processes at the very foundations of the organization.

Contents

I. Operational review

II. Financial report

III. Moving ahead

I. Operational review

We achieved a strong increase in profitability in 2011 driven by solid sales growth, innovative technology and by an improved underlying performance. The focus on Operational Excellence will remain our top priority and will provide the basis for building best-in-class positions.

1.0

Shareholders’ letter

Dear Shareholders,

I am pleased to report on a very positive year for Oerlikon in 2011. The business is developing well, putting us in a strong position to build for the future. The management team has done an excellent job, and much progress has been made across the company. We still have challenges ahead, but I am confident we can meet them head-on and continue to deliver further improvements in the coming year.

The company is focused on profitable sales growth based on innovative technology underpinned in all areas by a culture of Operational Excellence. We have streamlined our businesses, moved decision-making closer to our key markets, and are operating more efficiently in 2011.

The management team’s agenda of continuous improvement through Operational Excellence, which is fully supported by the Board, is key to our long-term success, and will take time to fully embed across the company. In the uncertain macroeconomic and political environment we currently face it is important that we stay the course with this agenda and continually assess performance against our peers.

Overall, we are pleased with our progress relative to our peers, particularly regarding profitability. Pleased, but not satisfied. This sentiment drives restlessness in the management team to question, to innovate, and to search for new ways to deliver for our customers. In order to better serve customers and reflect our market focus, we took a major decision to headquarter one of our segments in Asia during the year. This decision was not taken lightly. About half of the company’s revenues are now generated in Asia and, although Group Headquarters remain in Switzerland, our business is truly international. This trend to Asia is likely to continue for some of our businesses, and we must embrace it to remain competitive.

Our share price held up well in 2011, and although it does not yet reflect the value we see in the company, it did significantly outperform the equity markets in general.

The balance sheet now gives us a solid basis for managing the company prudently through difficult economic conditions. Financial strength, combined with a diversified business portfolio across a range of geographies, will help the company to withstand uncertainty through the different business cycles, and within different markets.

To reflect this prudence, and reinforce a disciplined use of cash, the Board has put in place a dividend policy. Up to 40 % of net profit, subject to available funds, will be available for potential distribution to shareholders. I am pleased to recommend a dividend payment in respect of 2011 results of CHF 0.20 per share to shareholders at the Annual General Meeting in April.

As the Board looks to the future, there are a few clear priorities. We must be persistent in our technology development and our pursuit of continual operational improvement. We must be efficient. We must remain competitive, and close the gap to best-in-class companies in each of our sectors. We must increase our connection to key markets and stay in tune with customers’ changing needs. And we must stay focused on total shareholder return.

It is clear that we are facing economic uncertainty in many interrelated markets, not least of which is close to home in Europe. The company is well placed to meet these challenges, and our continued focus on innovation with Operational Excellence puts us on course to navigate through these times.

On behalf of the Board, I would like to thank our shareholders, our employees, customers and business partners for the commitment and support you have invested in Oerlikon. We have an exciting future ahead of us.

1 March 2012

Sincerely,

Tim Summers
Chairman of the Board of Directors

Dear Shareholders,

2011 was a breakthrough year for Oerlikon, regaining good financial results and an EBIT of CHF 419 million. Our EBIT margin of 10 % exceeds the target we set at the beginning of the year and climbed above the record level ever achieved by the Oerlikon Group. Despite the strong Swiss franc, sales rose by 16 % to CHF 4182 million; adjusted for currency effects, Oerlikon's sales would have grown by 30 %. As forecasted, 2011 order intake of CHF 4043 million was less than in 2010 (CHF 4520 million), but still on a high level. Strong operating cash flow of CHF 541 million enabled us to lower the company's net debt to CHF 86 million. With significant investments of CHF 213 million into research and development we continued to strengthen our innovation power. Our balance sheet gained further solidity by enhancing the equity ratio from 32 % to 35 %.

The operating results of 2011 were fueled by Oerlikon's Textile, Vacuum and Coating Segments in particular, each of which produced record margins. Advanced Technologies also achieved record margins and the Drive Systems Segment made huge strides in profitability. Oerlikon Solar faced difficult market conditions.

Supported by stable global demand in the markets for agricultural products, manmade fibers, automotive, infrastructure and process industry, Oerlikon gained new strength in 2011. The three primary drivers of this recovery were:

- Operational Excellence: The systematic execution of our 3-Year Business Plan and strategic initiatives significantly improved our operating performance. Just to mention one example, we raised the On Time Delivery of our suppliers from around 70 % to 97 % in the course of the year, which is clear proof of the enhanced quality of our processes. Operational Excellence will remain a topic with high priority in 2012.
- Innovation: The extensive investment in research and development, maintained even during difficult times and with strong focus on value generation, yielded a world-class range of products, services and solutions. In 2011, we introduced in all segments new, partly groundbreaking products which are characterized by highest efficiency, quality and environmental friendliness.
- Growth markets: In 2011, Oerlikon continued to expand its position in important growth markets, particularly in Asia and especially in China. Existing production capacities were significantly expanded, new coating centers opened and the new plant of Oerlikon Drive Systems in Suzhou, China, built up. Based on these achievements we will in future also strengthen our presence in the other BRIC markets, Brazil and Russia, as well as in other emerging markets.

Overall, we are working at a substantially higher performance level today than we were a year ago, and we can now shape our destiny with our own resources. We intend to take advantage of this earned flexibility, pragmatically and realistically.

We believe in the company's potential to further boost underlying performance, generate profitable growth and bolster its market positions with highly innovative industrial solutions. The profitability achieved in 2011 is only an intermediate step. Our goal is to increase it further and to become best-in-class in each of our peer groups along the way. To achieve this goal we will continue to focus on optimizing our operational processes, gaining competitive advantage through innovation and by concentrating on growth markets with the aim of creating a well-balanced regional portfolio. Our strong performance during the year enables us to extend our efforts to areas such as sustainability, human resources development (including workforce diversity), the introduction of a dividend policy and the reduction of financing costs.

I would like to express my gratitude to our entire team of dedicated and highly skilled employees around the world for their hard work and continued support. This is the key to our success.

1 March 2012

Sincerely,

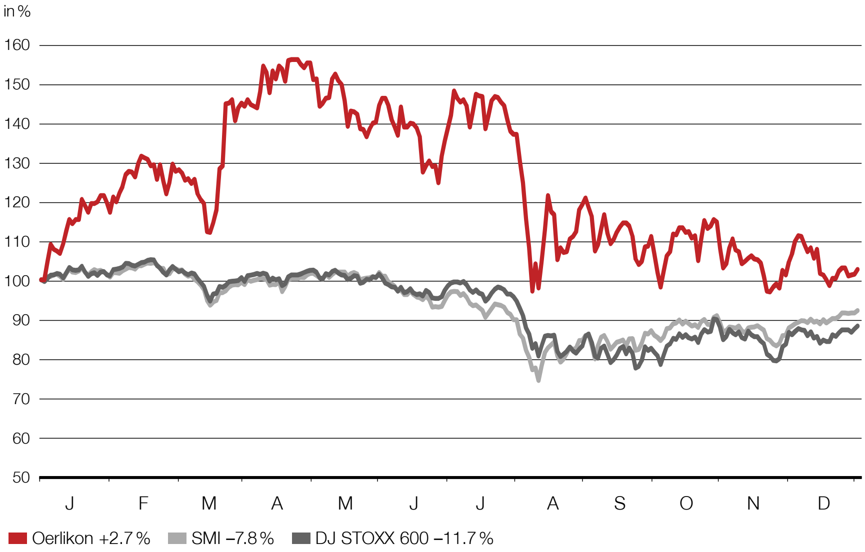
Dr. Michael Buscher
Chief Executive Officer

2.0
Information for investors

1. Oerlikon's continued improvements in profitability resulted in an outperformance of the shares compared to the indices and the peer group. In 2011, the shares gained 3 % and closed the year at CHF 5.03.
2. The Board of Directors introduced a dividend policy that enables the distribution of up to 40 % of net profit to shareholders.
3. Transparency is key: Oerlikon held about 130 individual meetings with investors in 2011.

Development of the Oerlikon share price 2011

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



Solid performance of Oerlikon shares

Capital market and share performance in 2011

The Swiss Market Index (SMI), which comprises the 20 largest and most liquid company shares traded on the Swiss stock market, lost 8 % in 2011 from its closing level for 2010, closing at 5 936.23 for the year. The European DJ STOXX 600 index fell by 12 %, closing at 244.54. These indices recorded their yearly lows in August and September, respectively: by August 10, the SMI had tumbled about 26 % to 4 791.96, and the European DJ STOXX 600 by about 22 % to 241.89 by September 22. The indices had reached their yearly highs in February as the SMI traded in positive territory, up 4 % (February 18: 6 717.25), and the European DJ STOXX 600 up 5 % (February 17: 291.16).

Oerlikon shares performed well in this challenging and particularly volatile market environment and outperformed the indices throughout 2011. During the first half of the year in particular, the shares climbed sharply as a result of the company's significantly improved operational and financial performance in the 2010 financial year and the positive outlook for 2011. On April 18, the shares hit an intraday annual high of CHF 7.85, a 60 % rise over the 2010 closing price. Despite further gains in the Group's profitability and sequential increases in the company's guidance for the 2011 financial year, Oerlikon shares were not immune from the overall decline triggered by the macroeconomy. The shares hit their 2011 low of 4.06 in intraday trading on August 9, having shed 17 % from the closing price for 2010. The shares recovered from this level over the remainder of the year and finished 2011 up at CHF 5.03 on December 30, 2011, compared with CHF 4.90 on the 2010 reporting date (+3 % for the year).

Oerlikon as a member of key indices

The company is a member of the SPI, SPI Extra, SPI ex SLI, Swiss All Share Index and UBS 100 Index.

Trading volume and liquidity

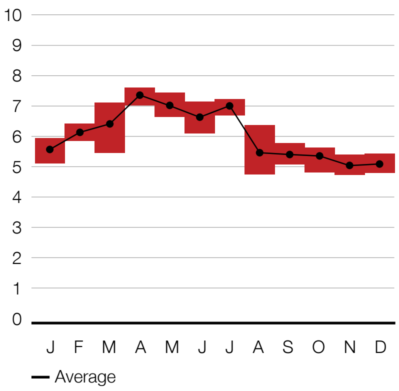
Interest and trading in the Oerlikon share increased last year. During the 254 trading days of 2011, the average daily volume nearly doubled in comparison with the previous year. On average, 1 600 078 shares (0.5 % of the issued shares) were traded daily in comparison with an average of just 879 630 shares during 2010. The monthly average trading volume fluctuated between a high of 3.1 million shares in August 2011 and 0.8 million shares in December 2011 (previous year: 0.15 million shares to 3.94 million shares).

Market capitalization

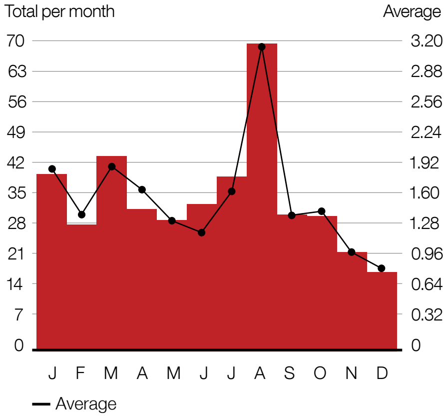
At the end of 2011, Oerlikon's market capitalization totaled CHF 1 625 million, compared with CHF 1 583 million in the previous year. As a result of the volatile share price performance, the company's valuation ranged between CHF 1 312 million in August 2011 and CHF 2 537 million in April 2011.

Shareholder structure

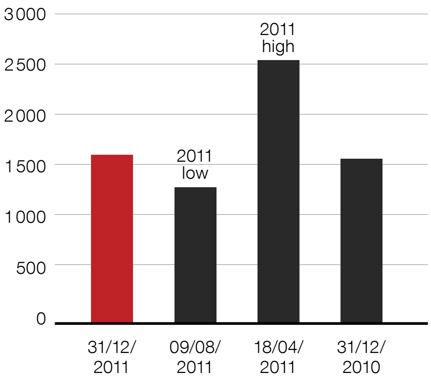
Oerlikon's primary shareholder structure remained broadly unchanged in 2011. With a stake of 47.98 % (previous year: 46.11 %), the Renova Group continues to be the main shareholder. In 2011, RB Capital East (previously: Victory Industriebeteiligung GmbH), fell below the threshold of 3.00 % (end of 2010: 3.49 %). At the end of 2011, Oerlikon had some 0.6 million treasury shares (end of 2010: 0.3 million), equivalent to approximately 0.18 % of the issued shares.



Trading range 2011
in CHF



Monthly trading volume in 2011 (SIX)
in million shares



Stock market capitalization
in CHF million

The remaining shares, 51.84 %, are held by institutional and private investors. The number of registered shareholders increased by about 1%, rising from 17 500 in 2010 to about 17 700 shareholders in 2011.

An analysis of the shareholder structure conducted in January 2012 revealed that around 11 % of the share capital is held by private shareholders, the majority of whom are Swiss residents. 10 % is held by Swiss insurance companies and pension funds. About 17 % of the share capital is attributed to institutional investors, of which 57 % are of Swiss domicile. The share of institutional investors from North America totals about 19 %, and 12 % of shareholders reside in the United Kingdom and Ireland. Institutional investors located in the rest of the world represent around 12 %.

Annual General Meeting

More than 400 shareholders attended the 38th Annual General Meeting held on May 10, 2011, at the Culture and Convention Center in Lucerne. The share of voting capital present at the meeting totaled about 54 %.

Shareholders approved all of the proposals submitted by the Board of Directors by large majorities (>95 %). A focal point of the meeting was the election of Tim Summers as a new member of the Board of Directors. He replaced Vladimir Kuznetsov, who did not seek reelection. All other members of the Board of Directors were reelected for another year. In its meeting following the 2011 Annual General Meeting, the Board of Directors elected Tim Summers to the position of Chairman.

The 39th Annual General Meeting will be held on April 12, 2012, at the Culture and Convention Center in Lucerne.

Dividend policy

To reinforce the disciplined use of cash, the Board of Directors has introduced a dividend policy that enables up to 40 % of net profit to be distributed as dividends, subject to available funds.

The Board of Directors will recommend a dividend of CHF 0.20 per share for the financial year 2011 distributed from the reserve from capital contribution to the 2012 Annual General Meeting. Oerlikon's last dividend was distributed for the 2003 financial year.

Ongoing dialogue and increased transparency

As a publicly listed company, Oerlikon is required to provide complete and timely information to shareholders, potential investors, financial analysts, customers, suppliers, the media and interested members of the public. In meeting this requirement, particular focus is placed on adhering to the rules and regulations of the Swiss stock exchange where Oerlikon shares are listed. Oerlikon fosters a strong relationship with its shareholders and provides them with up-to-date information about all important developments in the company. As part of its investor relations work, Oerlikon keeps its shareholders and analysts abreast of developments through quarterly statements along with half-year and annual reports. The CEO and CFO also remain in close contact with investors through roadshows and conferences. The CEO and CFO also comment on the performance of, and outlook for, the Oerlikon Group at the Annual General Meeting and analyst conferences or conference calls held following the release of the annual, half-year and interim quarterly reports.

In 2011, the management team spent a total of 28 days participating in bank conferences, roadshows and trade fairs in order to speak with investors and potential investors. These activities took place primarily in Switzerland (30 %) and the United States (30 %), followed by Great Britain (21 %) and other European countries (19 %). This focus reflects the current regional distribution of institutional shareholders and the large number of Swiss institutional investors, but underscores Oerlikon's efforts to address investor groups outside of Switzerland. During 2011, around 130 personal meetings took place in the financial centers of Europe and North America or at the Group's headquarters in Pfäffikon SZ, Switzerland.

Oerlikon will intensify its communications with the financial community and further increase transparency. A first step in this direction was the launch of our "Capital Market Days" in August 2011. All presentations are available on the Investor Relations Internet site (www.oerlikon.com/ir).

Analyst recommendations

As of December 31, 2011, nine financial analysts were covering Oerlikon (2010: eight). They regularly publish reports on financial and operational performance and on notable company transactions. The reports also typically place Oerlikon's business model within the broader macroeconomic context and analyze the markets and market trends of the Segments' businesses. Oerlikon values the communication with financial analysts and believes these individuals provide vital support in the effort to improve investor knowledge and understanding. A broad, multifaceted spectrum of opinions in the capital market raises visibility and enriches the dialogue with investors and potential investors. For this reason, Oerlikon is striving to increase the number of institutions and analysts covering the company on a regular basis.

Key share-related figures

		2011	2010	2009[1]	2008[1]
Share trading					
Price at year-end	in CHF	5.03	4.90	31.68	69.00
High	in CHF	7.85	12.30	86.20	472.00
Low	in CHF	4.06	3.69	20.82	66.50
Average trading volume SWX Europe (12 months)	in thousands	1 600	879	98	90
Shares outstanding	number	323 124 010	323 085 471	14 142 437	14 142 437
Stock market capitalization at year-end	in CHF million	1 625	1 583	448	976
Per share data[2]					
Earnings per share (diluted)	in CHF	0.68	0.01	–54.27	–17.69
Earnings per share (undiluted)	in CHF	0.68	0.01	–54.27	–17.69
Dividend per share[3]	in CHF	0.20	0.00	0.00	0.00
Equity per share[4]	in CHF	4.91	6.92	38.44	85.26
Cash flow from operating activities per share[5]	in CHF	1.68	1.71	–7.17	32.06

[1] Continuing operations
[2] Average number of shares with voting and dividend rights
[3] Dividend 2011: proposal of the Board of Directors
[4] Attributable to the shareholders of the parent
[5] Before change in net current assets

Listing on the stock exchange

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

Securities symbol	OERL
Securities number	81 682
Security type	Registered share
ISIN International Stock Identification Number	CH0000816824
Settlement currency	CHF
Stock exchange	SIX Swiss Exchange
First trading day	22.12.1975
Bloomberg ticker symbol	OERL S
Reuters ticker symbol	OERL.S

Weighting of the Oerlikon share in indices

on December 31, in %

	2011	2010
SPI	0.10104	0.08278
SPI Extra	0.66936	0.47459
SPI ex SLI	0.92962	0.67189
Swiss All Share	0.10005	0.08197
UBS 100 Index	0.10261	0.08430

Kepler Capital Markets, Zurich, and Credit Suisse AG, Zurich, initiated coverage in 2011. In the same year, Goldman Sachs International, London, ceased coverage after changes were made to their analyst team. At the end of 2011, four analysts issued buy recommendations (buy/accumulate) for the Oerlikon share (end of 2010: two). Three analysts (end of 2010: six) recommended holding the shares (hold/neutral), and two analysts (end of 2010: zero) viewed the share as underperforming (underperform/underweight).

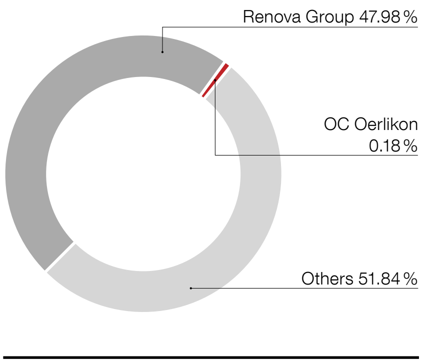
As of December 31, 2011, when Oerlikon shares stood at CHF 5.03, the average analyst target price was CHF 6.75. One year prior, when Oerlikon shares traded at CHF 4.90, the average target price was just CHF 5.45. This suggests that analysts now have greater confidence in Oerlikon's underlying performance.

Institution	**Recommendation**[1]	**Target price in CHF**[1]
AlphaValue, Paris	Buy	8.57
Bank am Bellevue AG, Zurich	Hold	4.80
Credit Suisse AG, Zurich	Underperform	4.50
Helvea SA, Geneva	Accumulate	8.10
Kepler Capital Markets, Zurich	Hold	7.80
MainFirst Schweiz AG, Zurich	Buy	6.50
UBS AG, Zurich	Buy	6.60
Bank Vontobel AG, Zurich	Hold	7.10
Zürcher Kantonalbank, Zurich	Underweight	n/a
Average		**6.75**

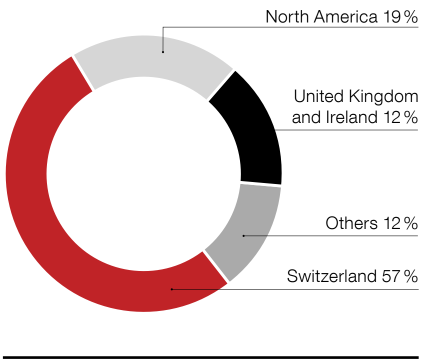
[1] As of December 31, 2011

Continually updated analyst recommendations on the Oerlikon share are available at www.oerlikon.com/ir.

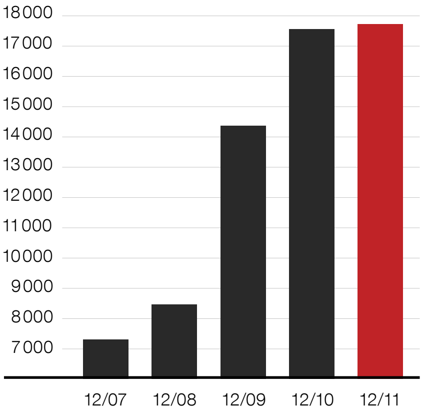
Shareholder structure
as of December 31, 2011



Regional distribution of institutional investors



Number of shareholders



Shareholder structure

Shareholder	Dec. 2011 No. of shares	in %	Dec. 2010 No. of shares	in %	Dec. 2009 No. of shares	in %
Renova Group[1] (composed of Liwet Holding AG, Zurich, Switzerland, Renova Industries Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama)	155 035 964	47.98	148 984 860	46.11	6 317 392	44.67
RB Capital East GmbH (previously: Victory Industriebeteiligung GmbH), Vienna, Austria	n/a	<3.00	11 272 528	3.49	1 705 915	12.06
OC Oerlikon Corporation AG, Pfäffikon	589 011	0.18	300 000	0.09	1 318 309	9.32
Others	156 300 155	51.84	162 528 083	50.31	4 800 821	33.95

[1] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow

Financial calendar

March 5, 2012
Annual results 2011 and Annual Report 2011

April 12, 2012
Annual General Meeting of Shareholders, Lucerne

April 30, 2012
Q1 results

August 3, 2012
Q2 results and Half-Year Report 2012

October 30, 2012
Q3 results

Contact

Group Communications
Burkhard Böndel
T: +41 58 360 96 02
F: +41 58 360 91 93
pr@oerlikon.com

Investor Relations
Andreas Schwarzwälder
T: +41 58 360 96 22
F: +41 58 360 98 22
ir@oerlikon.com

OC Oerlikon Corporation AG, Pfäffikon
Churerstrasse 120
CH-8808 Pfäffikon SZ
Switzerland
www.oerlikon.com/ir

3.0
Operational review Oerlikon Group

1. 2011 saw a breakthrough for Oerlikon's profitability as a result of a strong operational focus: with an EBIT of CHF 419 million and an EBIT margin of 10 %, the Oerlikon Group achieved the best results ever.

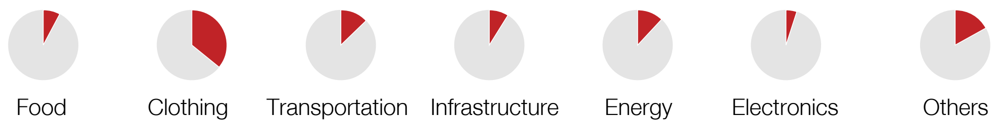
2. This successful development was based on Operational Excellence, innovation and a strong footprint in emerging markets.

3. Oerlikon expects 2012 profitability to remain at a level similar to 2011, with order intake and sales expected to decrease slightly by up to 5 %.

Key figures

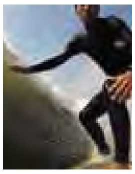
in CHF million	**2011**	2010	Δ %
Order intake	4 043	4 520	–11
Order backlog	1 481	1 702	–13
Sales (to third parties)	4 182	3 601	16
EBIT	419	51	>100
EBIT margin	10 %	1 %	–

Market presence of Oerlikon Group



End applications based on Oerlikon technologies

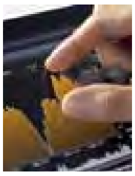

Agriculture


Technical clothing


Automotive


Glass coatings


Wind turbines


Touch-screens


Formula 1

Achieving a new level of profitability

Continuing its positive development in 2011, Oerlikon recorded good results at the end of the reporting period: key financial figures have improved considerably and a new level of profitability was reached with a record EBIT margin of 10%. Operational Excellence increased significantly. The product range is more competitive than ever, and the organizational structure has been streamlined. Through the systematic execution of the 3-Year Business Plan (3YBP), the Group has made sustainable progress. The company has returned to a sound position that enables active shaping of growth over the long-term. The aim is to tap further potential, continue to improve profitability over the mid-term and become best-in-class across the portfolio.

Oerlikon Textile, Vacuum and Coating are operating on a new, record level of profitability and ended the year with record margins, as did Advanced Technologies. Oerlikon Drive Systems made a significant step forward in terms of profitability and laid the foundation for further improvements. Oerlikon Solar was faced with a sharp market downturn, and measures to offset this downturn are being implemented.

In 2011, the company rolled out a renewed corporate identity worldwide. The related Core Values – Integrity, Team Spirit, Excellence and Innovation – contributed to the development of a high-performance corporate culture which positively impacted the course of business.

Regionally in 2011, the Group sharpened its focus on Asia, and especially China, in order to take full advantage of opportunities in the region. Oerlikon has been doing business in Asia for almost 50 years and can draw on the strong positions it already holds in these key markets. The site in Suzhou, China, is now the Group's largest location worldwide. Sales in Asia rose strongly, climbing to 49% in 2011 from 44% in 2010. Oerlikon also launched initiatives in other growth markets to strike a geographical balance for its business over the mid- and long-term.

The Oerlikon Group expects to build on its 2011 performance and generate an EBIT margin of around 10% in 2012, while order intake and sales are expected to decrease by up to 5%.

The Group's key figures for 2011 at a glance:
- Sales increased by 16% to CHF 4182 million from CHF 3601 million in the previous year, fueled by orders received in the first half of the year and a full order book.
- EBITDA rose to CHF 605 million (previous year: CHF 278 million), reflecting an EBITDA margin of 14%.
- EBIT margin reached a record high of 10%, as EBIT climbed to CHF 419 million from CHF 51 million in 2010.
- Net profit grew markedly to CHF 224 million (previous year: CHF 5 million).
- Order intake decreased by 11% to CHF 4043 million (previous year: CHF 4520 million) as market demand continued to normalize as expected.
- Order backlog decreased by 13% and totaled CHF 1481 million (previous year: CHF 1702 million).
- The workforce increased 3% to 17227, primarily as a result of new hires at Drive Systems and Coating as the Group expanded into Asia. Personnel expenses, however, declined by 3% to CHF 984 million. Oerlikon is carefully managing the further development of its workforce.

Adjusted for currency translation effects, sales would have climbed to 30% to CHF 4688 million, and EBIT would have totaled CHF 490 million. As a result of the natural hedging inherent in the global network of production sites and suppliers, effects of the strong Swiss franc had a negligible impact on EBIT margin. Oerlikon's Swiss franc-denominated cost base amounts to only about 10% of its total costs and is constantly under review.

Improved performance in the Segments

At Oerlikon Textile, sales rose by 23%, climbing to CHF 2037 million. EBIT totaled CHF 183 million (previous year: CHF 21 million), resulting in a record EBIT margin of 9%. Order intake decreased as expected, but was nonethless very strong at CHF 1977 million (previous year: CHF 2509 million). At Oerlikon Barmag, orders extend in part through 2014. Order backlog decreased slightly to CHF 1053 million (previous year: CHF 1197 million).

Oerlikon Drive Systems increased sales by 12% to CHF 821 million. Delivering EBIT of CHF 49 million, the Segment showed significantly improved profitability (previous year: CHF –27 million). Order intake rose to CHF 892 million (an increase of 13% over the previous year) and continued its recovery. Order backlog totaled CHF 213 million (previous year: CHF 137 million).

Oerlikon Vacuum focused on improving profitability and achieved a best-ever EBIT margin of 14%. EBIT nearly doubled, climbing from CHF 30 million in 2010 to CHF 59 million in 2011. Order intake totaled CHF 400 million and continued to normalize as expected (previous year: CHF 438 million). The Segment's sales remained stable at CHF 409 million (previous year: CHF 410 million).

Oerlikon Solar's sales grew, through execution of existing orders, by 27% to CHF 323 million (previous year: CHF 254 million). The Segment was able to improve profitability, but did not reach the level planned. EBIT totaled CHF –10 million (previous year: CHF –59 million). Order intake totaled CHF 202 million, a decline of 12% over the previous year's level of CHF 230 million. Order backlog reached CHF 130 million (previous year: CHF 255 million).

Oerlikon Coating continued performing strongly in 2011. The Segment achieved a record EBIT margin of 20% as EBIT climbed to CHF 97 million (an increase of 87%). Sales climbed by 15% to CHF 484 million from CHF 422 million in 2010.

Thanks to the flexibility and global capability of its worldwide network of 87 coating centers, Oerlikon Coating was able to take advantage of high demand in the global automotive industry. Additional growth was achieved in coating services for tools and high-precision components.

Oerlikon Advanced Technologies was able to increase EBIT margin from 8 % (2010) to 10 %, on EBIT reaching CHF 11 million (previous year: CHF 10 million). Sales totaled CHF 108 million (previous year: CHF 129 million). Due to weak market conditions in the solar and optical storage media markets, order intake fell by 32 % to CHF 88 million. Order backlog amounted to CHF 8 million (previous year: CHF 29 million).

Operational Excellence fuels profitability

A key factor contributing to the Group's increased profitability was improved underlying performance produced by substantial gains in Operational Excellence in the Segments. The systematic execution of initiatives resulted in marked cost savings, shorter turnaround times, increased efficiency and a higher sales-per-employee ratio. All Segments recorded substantial improvements in business processes:

- Oerlikon Textile devised a platform strategy in the Oerlikon Barmag Business Unit (Remscheid, Germany) that significantly increased the number of standard parts for winders and lowered turnaround times for the different product models in the platform by a total of 40 %.
- Oerlikon Drive Systems automated a large number of processes in the manufacture of loose gears at its site in Belgaum, India. This reduced the labor required for these processes by 40 % and boosted overall output of the site by 30 %.
- Oerlikon Vacuum improved manufacturing output of "dry running production lines" in Cologne, Germany by 30 % using process improvements invented by employees. The workers themselves set measurable targets, defined steps to improve productivity, implemented them and succeeded.
- Oerlikon Solar boosted On Time Delivery (OTD) from 59 % to 99 % as part of overall Operational Excellence activities. The Segment also streamlined supplier management and is working to significantly reduce the number of suppliers.
- Oerlikon Coating increased profitability by CHF 3 million by further developing an internal benchmarking program. Part of the benchmarking activities for the 87 coating centers across 32 countries are internal audits in which all technical and business activities are reviewed to identify improvement potential for each center.
- Oerlikon Advanced Technologies was able to substantially shorten the time to market of its new HEXAGON semiconductor coating machine. Developing the new product took two years and four months instead of nearly four years as in the past, due to a platform strategy that utilizes existing modules and components.

Operational Excellence remains a top priority. This is a multi-year agenda in which 2011 marked an important milestone.

Streamlining the portfolio

In addition to continuous improvement of internal processes, Oerlikon continues to further refine the portfolio and its range of products and technologies in order to optimize cost structures and strengthen its market focus. In the Textile Segment, Oerlikon Neumag divested its Carding business to the Hi-Tech Group of China. The Carding business, where about 250 employees make equipment and components for nonwoven production, was a separate product line unable to meet the Group's long-term profitability targets due to increasing commoditization of the product. The transaction was completed in August. Similarly, Oerlikon Coating divested the niche business Vacuum Heat Treatment at three of its French sites to the strategic investor Bodycote, a specialist in the business.

Expansion of presence in emerging markets

The Oerlikon Group's global footprint allowed the Segments to take advantage of growth opportunities around the world. Oerlikon Coating opened a third coating center in Poland, an additional one in India and two more in China. Oerlikon Neumag profited from a strong US coverings market and Oerlikon Drive Systems benefited from higher replacement activities in aerial-work platforms in North America.

Asian markets, in particular, contributed to the positive performance in 2011. The healthy textile and automotive industries, particularly in China, allowed Oerlikon to tap additional business opportunities. Overall, the regional distribution of sales continued to shift toward Asia. Asia's share (including the Pacific region) of Group-wide sales rose to 49 % (previous year: 44 %). This trend is expected to continue. Europe's share totaled 28 %

Sales* 2011 by market region

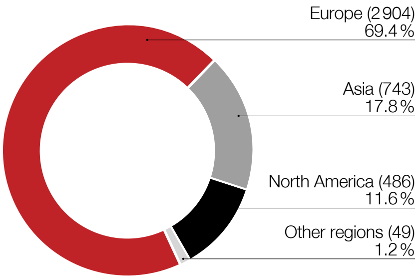
in CHF million

	Europe	Asia	North America	Others	2011	in %
Textile	314	1 383	137	203	2 037	48.7
Drive Systems	359	93	330	39	821	19.6
Vacuum	191	143	71	4	409	9.8
Solar	29	220	–	74	323	7.7
Coating	248	143	58	35	484	11.6
Advanced Technologies	45	49	13	1	108	2.6
Total	**1 186**	**2 031**	**609**	**356**	**4 182**	**100**

* To third parties

Sales* 2011 by location

in CHF million



* To third parties

(previous year: 30 %), while North America accounted for 15 % (previous year: 17 %). Other regions reported a sales share of 8 % (previous year: 9 %).

In order to better meet customer needs, Oerlikon has sharpened its focus on China through expansion of production sites and capabilities in this most important growth market for the company. Oerlikon Textile generated around 40 % of its 2011 sales in China through its three plants and more than 2000 employees there. To intensify market and customer centricity in the region, the Segment announced a strategic realignment in 2011 which includes the relocation of its headquarters to Shanghai and the strengthening of research and development (R&D) in Germany and China. This step is accompanied by the consolidation of Oerlikon Textile's organization from five Business Units (BUs) into three market-oriented BUs: Manmade Fibers, Natural Fibers and Textile Components.

By the end of 2012, more than 40 % of all Textile senior management positions will be based at Oerlikon's new office in Shanghai. Today, nearly 45 % of Oerlikon Textile's workforce is employed in Asia; by the end of 2014, this number should rise to 50 %. As part of the Segment's new focus, the development and manufacture of additional Oerlikon Textile products have been transferred to Asia, as previously announced.

Oerlikon's other Segments substantially expanded their capacities in China as well. Oerlikon Vacuum opened the expansion of its production site in Tianjin, China, which boosted capacity by about 30 % and made an expanded range of products related to pumps, services and solution know-how available onsite. Oerlikon Drive Systems is on schedule to finish the construction of its new production facility at the Suzhou site, the first sections of which were put into operation at the beginning of 2012. Oerlikon Coating significantly increased its capacity at the Suzhou site and built a center of expertise in the first quarter of 2012 for its new three-dimensional plastic part coating technology. With the two new coating centers, Oerlikon Coating now has nine centers serving the Chinese market.

Oerlikon is focused on penetrating additional growth markets where it is currently underrepresented, such as Russia and Brazil, or largely absent, such as South Africa and Australia.

Innovation for future growth

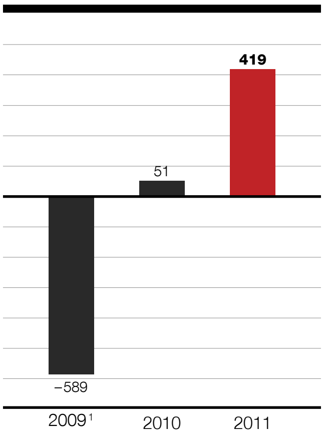
The sustained development of innovative products differentiates Oerlikon in the marketplace and is crucial to meeting and exceeding customer expectations. For this reason, the company continues to invest in research and development (R&D). R&D expenditures in 2011 totaled CHF 213 million (previous year: CHF 239 million), representing 5 % of sales. Our continued focus on R&D activities enabled Oerlikon to launch a number of groundbreaking innovations in 2011.

- Oerlikon Textile introduced seven new products and over 20 new components and services to customers at the 2011 ITMA textile trade fair. The new generation of Oerlikon Schlafhorst's Autocoro 8, the world's leading automatic rotor spinning machine, was among the innovations exhibited.
- Three of Oerlikon Drive Systems' customers presented new vehicles featuring completely redesigned Oerlikon transmissions at the International 2011 Motor Show in Geneva: Aston Martin, Lamborghini, and McLaren – which uses our leading dual clutch transmission (DCT) technology.
- Oerlikon Vacuum introduced a magnetically levitated turbomolecular vacuum pump, the MAGiNTEGRA, a highly robust product with low operating costs.
- Oerlikon Solar announced a new record in solar module production with the second generation of the ThinFab™ production line at the end of 2011. The new line lowers the production costs of thin film silicon solar modules by over 20 % to USD 0.50/EUR 0.35/Watt-peak (Wp) and investment cost by over 20 % to 1 USD/Wp.
- Oerlikon Coating successfully expanded its product and service portfolio in all business activities. The Segment recently presented its new S3p™ coating technology, the new BALINIT® PERTURA coating for drilling purposes, and introduced the new INGENIA coating machine.

Investments reflect focus on Asia

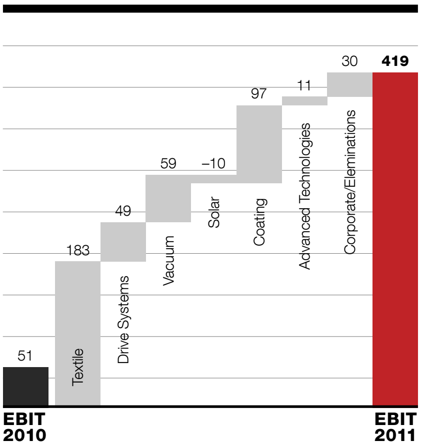
Oerlikon's 2011 capital expenditure reflects the company's strong expansion in Asia. Capital investment rose by 11 % to CHF 167 million and is thus approaching the objective of a sustainable investment level, which is balanced or slightly positive in relation to depreciation levels. Depreciation amounted to CHF 175 million in 2011.

EBIT
in CHF million

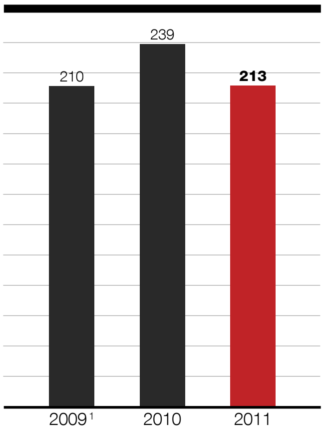


¹ Continuing operations

EBIT by Segment
in CHF million



Research and development
in CHF million



¹ Continuing operations

The focus of investment was on further expansion of business activities in China and India. Oerlikon Drive Systems expanded production in India and constructed a new plant in Suzhou, China. Oerlikon Coating built new centers in both China and India. Oerlikon Vacuum boosted capacity at Tianjin, China and Oerlikon Textile expanded production in Suzhou.

The Group's financial position continues to improve

The company's strong operational performance resulted in a significant increase in cash flow. Cash flow from operating activities before changes in net current assets increased to CHF 541 million in 2011, up from CHF 354 million a year ago. The Group continued to keep net working capital at a low level: 2011 net working capital amounted to CHF 289 million, compared with CHF 302 million at the end of 2010.

The net financial result amounted to CHF –104 million (previous year: CHF –58 million). The Group is evaluating refinancing options to further reduce financial expenses and to diversify its sources of funding.

Higher profits increased taxes to CHF 91 million (2010: tax income of CHF 12 million), leading to a Group tax rate of 29 %. The Group's net profit in 2011 totaled CHF 224 million (previous year: CHF 5 million).

As of December 31, 2011, equity (attributable to shareholders) totaled CHF 1 586 million (December 31, 2010: CHF 1 430 million). The equity ratio rose from 32 % of total assets at the end of 2010 to 35 % at the end of 2011. Net debt was reduced to CHF 86 million at the end of 2011 from CHF 274 million at the end of 2010. This represents a gearing (net debt/equity) of 5 % (2010: 19 %) and a leveraging (net debt/EBITDA) of 0.14 (2010: 0.99).

Human Resource work intensified

Oerlikon launched a new HR information system in 2011 which employs a series of modules to further improve employee efficiency and the quality of work in the Group. Module topics include professional performance management, personnel development planning and 360-degree monitoring of management. Thanks to a uniform Group-wide system of key performance indicators, the effectiveness of managers' work can be evaluated and compared. The evaluation scores help determine compensation and have an impact on the executives' long-term career development. This, in combination with the Learning Agility program, ensures that high-potential employees are identified and systematically supported.

Technical and commercial apprenticeships and traineeships as well as leadership-training workshops for experienced managers are also given top priority. Hundreds of employees took advantage of these programs in 2011.

Sustainability reporting to be expanded

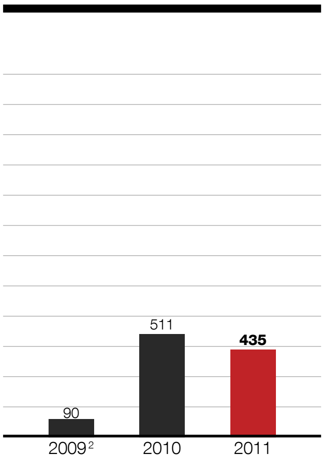
A number of Oerlikon's products aims to directly or indirectly improve the ecological footprint of the company's customers and of end consumers. In many cases they contribute to the reduction of energy consumption. This is not only true for the solar business, but for all of Oerlikon's Segments. For example, Oerlikon Textile has developed new machines which reduce energy consumption by up to 50 %. Oerlikon's technologies are being used in the production of LEDs and of low-consumption diesel engines. The company also aims to lower the energy consumption of its products and of its production process.

In terms of operational integrity, all local regulations are met and all certificates (ISO, OSHA, etc.) held by the company have been issued for individual production sites. Currently, Oerlikon is building up a company-wide system for Health, Safety and Environment (HSE) which will monitor and control all HSE activities on a Group-wide basis in order to make sure that world-class standards are being followed in all our locations. Reporting on sustainability will therefore be intensified in future.

Changes to the Board of Directors and Executive Management

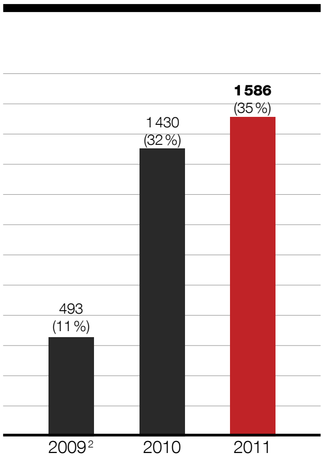
The Annual General Meeting of May 10, 2011, elected Tim Summers as a member of the Board of Directors and reelected the remaining members Kurt J. Hausheer, Dr. Urs A. Meyer, Gerhard Pegam, Carl Stadelhofer, Wolfgang Tölsner and Hans Ziegler. Following the Annual General Meeting, the Board of Directors elected Tim Summers to the position of Chairman in its first meeting held under its new composition.

Operating cash flow[1]
in CHF million



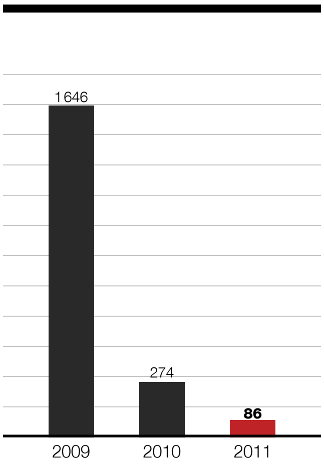
[1] Before changes in net current assets
[2] Continuing operations

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



[1] Attributable to shareholders of the parent
[2] Continuing operations

Net debt
in CHF million



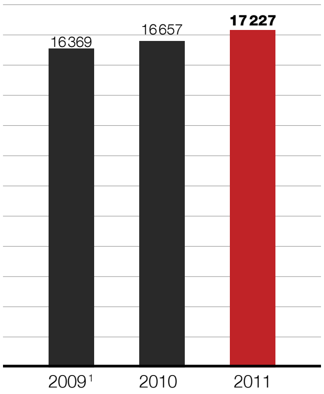
Following the operational achievements and successful completion of the restructuring program at the Corporate level, the position of Chief Restructuring Officer, specified by the recapitalization agreement, was phased out as planned. In addition, the position of Chief Operating Officer was eliminated.

Outlook 2012

The global economic outlook is uncertain and remains difficult to assess. Oerlikon remains focused on further improving Operational Excellence to strengthen underlying performance. Processes and tools to improve forecasting and optimize the break-even sales levels have been introduced across the Group. While the outlook for some countries points to flat or declining economic growth, Oerlikon's high proportion of sales in Asia, China and India in particular should help offset declines in other areas.

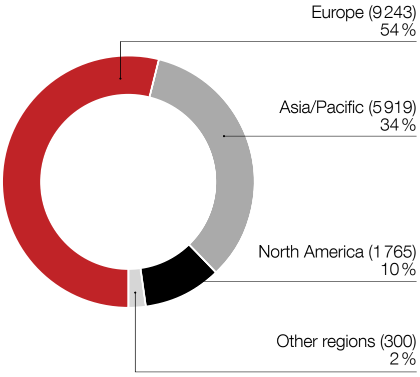
Based on stable currencies, the company forecasts for 2012 order intake and sales to decrease slightly by up to 5 %, but to maintain profitability with an EBIT margin of around 10 %.

Employees

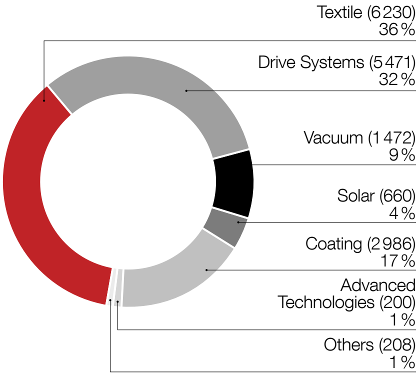


[1] Continuing operations

Employees 2011 by region



Employees 2011 by segment



KPIs for long-term profitable growth

2011 represents an important turning point in Oerlikon's history – just two years after being shaken to its core by a crisis, the company reached a new level of profitability as the EBIT margin rose to 10 %. The loss of CHF –589 million produced in 2009 became a profit of CHF 419 million in 2011. Many factors were responsible for the turnaround of more than CHF 1 billion in such a short period of time: the far-reaching restructuring initiated in all areas, innovative products with higher margins, a favorable economy in core markets, good positioning in growth regions and the systematic measurement of performance with the goal of raising it.

One good example is On Time Delivery (OTD): A little more than a year ago, the company had no standard process for measuring this key metric of process quality within Oerlikon's Business Units (BUs). Once a Group-wide measurement system was designed and put in place at the end of 2010, the initial results were not satisfactory. Solely because of this analysis, the company was able to clearly determine the amount of unnecessary costs created by late and early deliveries. In turn, it was only the clear and binding measurement of performance that enabled precise targets to be formulated: "If we intend to become best-in-class, the OTD must be 99 %," CEO Michael Buscher says. The measurements carried out in 2011 and the programs devised on the basis of them have had a tremendous impact: During the year, OTD climbed from 76 % to 97 %. This year, the 99 % should become a reality.

This fact-based principle of "analysis – measures – implementation – assessment" is now being applied elsewhere. The company had never used such a holistic management approach in the past. The related initiative Business Performance Management for systematically and uniformly measuring key performance indicators was launched in 2011 in order to continuously monitor the company's financial, operational and strategic health. "We can only successfully manage an industrial group like Oerlikon, if we have a strong foundation of facts for our strategic and operational decisions," Buscher says. Which product groups contribute to profits, and which ones dilute margins? What sort of progress is being achieved by strategic projects and are they reaching their goals? Which Segments are in good shape in terms of fixed costs, and which ones are insufficiently prepared for a sharp drop in sales? Up to now, such questions could be answered only in an anecdotal manner.

The intense discussion conducted between the Group's headquarters and the operational units resulted in the development a set of key performance indicators (KPIs) and key figures. The

Successfull management of an industry group based on facts


Dr. Michael Buscher, CEO Oerlikon Group

KPIs include RONA, break-even sales margin, product group sales and margins, and OTD. Each KPI includes a target for each Segment and each BU as well as measures to hit it. The key figures include sales in BRIC countries, and the reputation index of Oerlikon that tracks the development of the company's image. All data are collected on a monthly and quarterly basis and maintained in a database. Information about competitors and markets also flows into the system. “All relevant facts are available when we hold our regular reviews,” Buscher says. In principle, the Business Performance Management system is completed. The first version of it is being introduced in the first quarter of 2012. At the same time, the company is setting up conference rooms where the performance of the entire company can be visualized in all important dimensions. “We want to use an intuitive graphical presentation as a way to quickly identify the truly critical points and significant deviations from the plan,” Buscher says.

This will be particularly important in the future. Despite the optimization work done in the past, Oerlikon has a long way to go before it has fully tapped its improvement potential. For this reason, four strategic initiatives have been devised to identify further opportunities – including growth in emerging markets and Operational Excellence. The Business Performance Management system will show in a timely manner whether the steps that have been taken are working or not. The new tool will also make it easier to spot economic ups and downs earlier than before. “Our decisions will gain new speed and quality,” Buscher says – a good foundation for producing long-term profitable growth.

KPIs for long-term profitable growth

3.1 Oerlikon Textile

1. In 2011, Oerlikon Textile reached a new level of profitability with a record EBIT margin of 9 % and EBIT of CHF 183 million.
2. Catch-up effects from the economic crisis 2008/2009 have pushed up sales to a high level of CHF 2 037 million.
3. Asia, the world's most important textile market, is the clear focus of the Segment: its headquarters has moved to China.

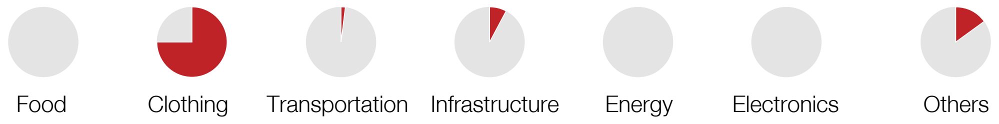
Key figures

in CHF million	**2011**	2010	Δ %
Order intake	1 977	2 509	–21
Order backlog	1 053	1 197	–12
Sales (to third parties)	2 037	1 653	23
EBIT	183	21	>100
EBIT margin	9 %	1 %	–

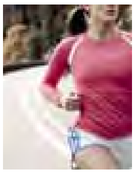
Best-in-class

Rieter: double-digit EBIT margin expected (2011)

Market presence of Oerlikon Textile



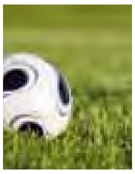
End applications based on Oerlikon technologies

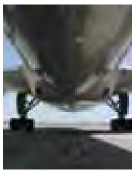

Technical clothing


Fashion


Carpeting


Tire cord


Artificial turf


New materials


Geotextiles

œrlikon barmag

œrlikon neumag

œrlikon saurer

œrlikon schlafhorst

œrlikon textile components

Business development

Oerlikon Textile delivered significantly improved profitability in 2011, producing a record EBIT margin of 9 %. All Business Units generated strong sales growth and made a positive contribution to the Segment's profitability. The Segment's EBIT of CHF 183 million clearly reflects the positive impact of the operating improvements made in all of its business locations (EBIT 2010: CHF 21 million). Sales at Oerlikon Textile rose by 23 % from CHF 1 653 million to CHF 2 037 million. As expected, order intake decreased to CHF 1 977 million after hitting a high of CHF 2 509 million in 2010. This decrease was due to weaker demand for natural fibers in the second half of the year, a development fueled in part by higher prices for cotton. As the year progressed, this portion of the market stabilized on a moderate level. Demand in the manmade fiber sector remained steady at a high level, primarily because of the rapid rise in Chinese domestic demand stimulated by government policies encouraging the switch-in to manmade fibers. Order backlog totaled CHF 1 053 million (previous year's level: CHF 1 197 million) and the Segment's order book now extends through 2014. All of Oerlikon Textile's production facilities are operating at near full capacity as a result.

In regional terms, the primary drivers of growth were the Chinese and Indian markets. The Segment also delivered growth in Europe, Turkey, South America and the United States, while markets in the Middle East were broadly stable. In China, the most important world textile market, Oerlikon is the technological leader and one of the largest textile machine manufacturer. The Chinese market accounted for 40 % of the Segment's total sales in 2011 remaining on the same level as 2010. Asia's overall share totaled 68 % (2010: 64 %). Europe's was 15 % (2010: 15 %) and North America 7 % (2010: 11 %).

To further improve strategic positioning, the Segment continued to fine-tune its range of products during the course of the year. The Oerlikon Neumag Business Unit divested its Carding business, where about 250 employees make special equipment and components for nonwoven production, to the Chinese Hi-Tech Group Corporation.

The Segment's position as the industry's technological leader was further enhanced in 2011. At the world's largest textile trade fair, the ITMA, held in Barcelona in September, Oerlikon Textile presented groundbreaking innovations, including seven newly developed machines and more than 20 new components. These innovations were characterized by lower energy consumption, higher efficiency, flexibility and quality.

Key topics

Focus on Asia: At the end of 2011, Oerlikon Textile announced that it would further concentrate its focus on Asia and simplify its organization. The Segment, which has been doing business in Asia for nearly 50 years, will intensify its market and customer centricity in this most critically important region. The refocusing of Oerlikon Textile involves three key elements:

- Organizational streamlining by merging the five businesses into three Business Units (BU) effective as of January 1, 2012: Oerlikon Barmag and Oerlikon Neumag have been combined to create the new Manmade Fibers BU. Oerlikon Schlafhorst and Oerlikon Saurer have become the Natural Fibers BU. The structure of the Textile Components BU was not affected by the realignment. Branding will not change.
- Relocation of Textile's headquarters to Shanghai: Oerlikon Textile executives, including the CEO and the CFO, will work out of Shanghai. By the end of 2012, more than 40 % of all senior management positions will be based at Oerlikon's new office there.
- R&D investment in Germany and China: In 2012, Oerlikon Textile will boost its R&D expenditures in Germany to about CHF 60 million (around CHF 80 million around the world) and expand R&D capacities in China.

Outlook: slight profitability growth, slight sales decline

Oerlikon Textile achieved high sales in 2011 following very strong order intake in 2010, a year in which customers caught up on investments postponed during the financial crisis of 2008/2009. In 2012, Oerlikon Textile expects a softening of overall market demand. The Segment anticipates continued growth for Manmade Fibers, flat sales for Textile Components and a decrease in sales for Natural Fibers. Textile expects sales to slightly decline, whereas profitability should show a slight improvement.

Turnaround time reduced by 40 %

The platform strategy, a standardized technical foundation for the manufacture of products widely used in the automotive industry, is proving to be the key to optimizing production at Oerlikon Barmag.

“Thanks to our platform strategy and the lean manufacturing techniques we employ in production, we increased the output of key components by 30 %,” explains Klaus Karrasch, Head of Operations at Oerlikon Barmag. “By mapping the value stream of our production processes, we were able to reduce turnaround time by up to 40 %. With our current demand profile, this gives us a considerable edge over the competition. We can deliver efficiently!”

Hundreds of winders are mounted on a single production unit for synthetic continuous filament yarns, depending on the size of the product. Winders and winding machines use different types of winders to coil the filaments on packages. The wide range of product variants is the result of three factors: First, the types of yarns that are produced require different construction designs. Second, the various yarn materials – polyester, polyamide and polypropylene – influence the design. Third, the number of threads that must be simultaneously wound also plays a role. In the past, each type of winder was constructed differently. Today, they share a common platform.

The assembly operations at Oerlikon Barmag in Remscheid are primarily final mounting of preassembled units and final testing of all winders. Part of this work is ensuring that the winders’ plug-and-play function blocks operate properly and the operational launch of the production units at customer sites goes smoothly.

“When we introduced our platform strategy, we completely redesigned our assembly workspace,” says Gerardo Franciosi, who is responsible for assembling the winders. “Our production system was organized for small lot sizes. To handle larger lot sizes, we had to adapt it.”

That’s why Franciosi reorganized the assembly workspace to facilitate a significantly higher level of flexibility and higher throughput. “In addition to just-in-time delivery for our materials and components, we introduced the latest organizational methods.” The just-in-time strategy allows production work to be performed according to the pull principle: upstream products and assembly parts are delivered to the assembly line only when they are actually needed, sometimes directly by the suppliers themselves. As a result, Oerlikon Barmag has reduced its inventory and working capital levels.

Clement Woon, CEO Oerlikon Textile

The just-in-time method also enables processes to be highly standardized at both Oerlikon Barmag and at its suppliers, which helps reduce costs. For example: Oerlikon Barmag and certain suppliers use common material carriers. The products are delivered upstream in the plant on the same carrier used by the supplier for delivery. Once the materials have been used, the empty carrier is returned to the supplier and a full material carrier is then delivered to the assembly line, starting the cycle over again. Higher levels of standardization and an increased number of standard parts also reduce the number of tools used in assembly and allow the workstations to be more compact. “We have already been able to improve efficiency by 15 %,” Franciosi points out.

The platform strategy also facilitates economies of scale: more standard parts used in more different products reduces procurement costs. By leveraging these scale economies, Karrasch plans to lower costs by 5 %.

The greatest advantage of the platform strategy and the new production process is the high degree of flexibility with which Oerlikon Barmag can react to market demand, Karrasch notes. “A significantly higher number of winders roll off the assembly line today with the same size team. And we are flexible enough to react to fluctuations in demand,” he says.

Turnaround time reduced by 40 %

3.2
Oerlikon Drive Systems

1. Oerlikon Drive Systems significantly increased its EBIT to CHF 49 million, an EBIT margin of 6 %.

2. The Segment expects further profitable growth to come, mostly from Asian and American markets, where it is already well-positioned today.

3. With innovative products for the growing markets of electromobility and for agricultural equipment, Oerlikon Drive Systems is well equipped to tap growth opportunities.

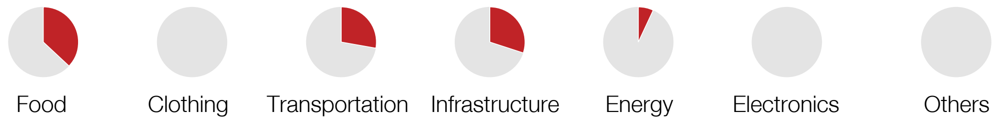
Key figures

in CHF million	**2011**	2010	Δ %
Order intake	892	792	13
Order backlog	213	137	55
Sales (to third parties)	821	733	12
EBIT	49	–27	n/a
EBIT margin	6 %	–4 %	–

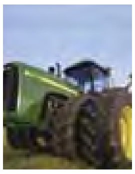
Best-in-class

Borg Warner: 11 % operating margin (2011)

Market presence of Oerlikon Drive Systems



End applications based on Oerlikon technologies


Agricultural equipment


Sports cars


Electric cars


Airport equipment


Off-highway


Construction


Energy

œrlikon graziano œrlikon fairfield

Business development

Oerlikon Drive Systems continued to generate profitable growth in 2011, as the expected normalization of business took hold in the farming and construction sectors during the second half of the year. The Segment's order intake climbed by 13 % to CHF 892 million (previous year: CHF 792 million). Order backlog increased by 55 % and totaled CHF 213 million (previous year: CHF 137 million). Sales rose by 12 % to CHF 821 million in 2011 compared with CHF 733 million in 2010. Following an EBIT of CHF –27 million in 2010, the Segment returned to profitability in 2011 through systematic execution of its strategy to accelerate profitable growth. Earnings recovered in 2011 to an EBIT of CHF 49 million, and an EBIT margin of 6 %.

This growth was fueled by high global demand from customers in the heavy agricultural equipment and energy sectors. Growth was also generated in the construction machinery and material-handling equipment areas, and the demand for innovative transmission systems in high-performance cars continued to remain strong.

In regional terms, Asia is a key growth market for Oerlikon Drive Systems. The Segment increased sales in the region by 9 % in 2011, and Asia accounted for 11 % of total sales in 2011. India and China generated growth momentum from both domestic activity and increased demand by European and American customers producing for export. In India, strong domestic demand from agricultural and commercial vehicle manufacturers resulted in high-capacity utilization levels. Segment performance in European and North American markets was also strong: the agricultural market in Europe grew once again, and aerial-work platform activities accelerated in the United States – the new Torque-Hub® electrically driven planetary drives provide innovative technology for this new generation of machinery.

In terms of new products, three newly designed Oerlikon transmissions were presented in high-performance cars of customers in 2011: Aston Martin, Lamborghini, and McLaren, which uses our latest dual clutch transmission (DCT) technology. In the off-highway market, Oerlikon Drive Systems introduced a new series of electric Torque-Hub® transmissions for the heavy commercial vehicles. The Segment was particularly active in the on-highway electric vehicle market in 2011. Two large vehicle manufacturers were supplied with Oerlikon transmission prototypes for sports car electric drive systems and a large fleet of electric city cars equipped with Oerlikon transmissions went into service in Paris.

Key topics

Integration: The integration of Oerlikon Drive Systems under single leadership was implemented in the first half of 2011.

Capacity expansion in Asia: The Segment is working to expand its production capacity in Suzhou, China, where a completely new facility is being built. As planned, the factory has began operating in the first quarter of 2012 with first products. In India, a location has been identified for a third plant and development plans are underway.

Operational Excellence: In addition to optimizing the network of international production sites, the Segment is focusing on improving its operational performance. Improved efficiency in procurement and production processes has had a positive impact on profitability, and along with efficiency improvements, modifications and consolidation of the product portfolio, has resulted in improved margins.

Outlook: increased profitability, slight sales growth

Oerlikon Drive Systems expects to deliver a solid performance in 2012. In its core markets agriculture, construction, energy and high-performance sports cars, the Segment expects slight sales growth and further increases in profitability resulting from Operational Excellence programs.


KAIZEN NO.

30 % higher output with 40 % less labor

“We have really improved our production operation – and the entire workforce did its part to accomplish this.” Deva Jacob, Director of the Oerlikon Drive Systems Belgaum in Maharashtra, Southwestern India, is proud of his team. They have partially or completely automated many work steps in favor of automation. By engaging all 800 workers in the process, the plant director was able to demonstrate that automation doesn’t automatically mean unemployment.

“Today, we produce 30 % more than before, and we do it with 60 % of the people we would have needed before,” Deva says. “But we didn’t lay off anybody – we actually created more jobs.” The reason: rapidly rising demand for the gear components and complete gears produced at the plant. A total of 250 000 gear components and nearly 4 000 complete gears now leave the factory each month. The facility serves an international customer base, namely the United States. Domestic sales, however, are expanding due to Indian construction and agricultural equipment industry demand.

High acceptance among employees

In defining and carrying out this modernization effort, Deva integrated the entire workforce into the process. All employees did their part: machine operators, maintenance technicians, production designers, tool suppliers and master technicians.

Deva and his team optimized 100 machines to eliminate a number of manual procedures. The milling and deburring of loose gears, the drilling of oil conduits and the cutting, lathing and grinding processes have been partially or fully automated. Deva introduced lean production methods and set up production lines in places where products had been made in cells. Components are no longer transported manually; instead, they move between the various workstations on conveyor belts. A total of 30 production lines are now working at the same time. The transition from batch mode production to flow production accounts for the improvements in both efficiency and adherence to schedules.

Integration of the workforce was crucial to the projects’ success.


Gary Lehman, CEO Oerlikon Drive Systems

Taken together, all of the new steps have made workers' lives much easier. "Operator fatigue has been considerably reduced here," Deva says. "As a result, the number of days workers miss has been reduced, and employee satisfaction is much higher than before." The stability of the processes has yielded further product-quality gains as well: discards and reworks have been significantly reduced.

The automation of the plant has also been welcomed by the ACMA (Automotive Component Manufacturer Association). The association works with a group of Indian manufacturers to upgrade their facilities and work culture, and to attune themselves to the requirements of the global marketplace. The plant has gone through a four-year program with ACMA and is in the initial stage of an Engineering Cluster Program, an initiative designed to help participants reach world-class manufacturing standards.


30 % higher output,
40 % less manpower

3.3 Oerlikon Vacuum

1. Oerlikon Vacuum reached a record EBIT margin of 14 % in 2011, as operational efficiency programs and new products delivered enhanced profitability.
2. Production capacity in China expanded by 30 %.
3. Innovations like the turbo-molecular vacuum pump MAGiNTEGRA further expand Oerlikon Vacuum’s position as a technology leader in high-performance vacuum systems.

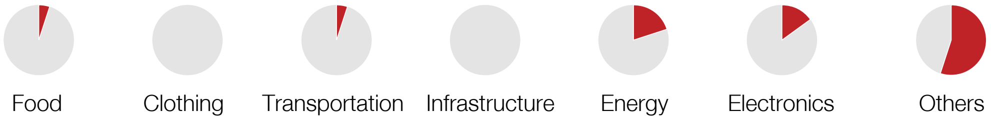
Key figures

in CHF million	**2011**	2010	Δ %
Order intake	400	438	–9
Order backlog	77	84	–8
Sales (to third parties)	409	410	–
EBIT	59	30	97
EBIT margin	14 %	7 %	–

Best-in-class

Pfeiffer Vacuum: 15 % EBIT margin (2011)

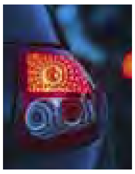
Market presence of Oerlikon Vacuum



End applications based on Oerlikon technologies

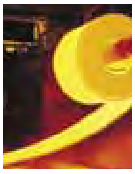

Process industry


Research & Development


LEDs/ lighting


Glass coating


Solar cells and modules


Steel production


Sunglasses

œrlikon
leybold vacuum

Business development

In 2011, Oerlikon Vacuum generated a record margin of 14 % with stable sales, while overall demand in the market weakened in the second half of the year. EBIT totaled CHF 59 million, 97 % above the previous year's level of CHF 30 million. As expected, 2011 order intake normalized in comparison to 2010 – a year in which the Segment profited from high demand following the recovery from the global economic crisis of 2009 – and fell by 9 % to CHF 400 million. Sales remained stable at CHF 409 million (previous year: CHF 410 million). Order backlog totaled CHF 77 million (previous year: CHF 84 million). However, adjusted to currencies, sales of Oerlikon Leybold Vacuum were 11 % higher than compared to 2010.

Market segments such as process industries, coating and analysis were the key sources of the positive performance in 2011. Thanks to products like the DRYVAC, the Segment succeeded in tapping new application areas, including steel degassing and the production of LEDs. In the process industry, the Segment increased sales by almost 10 % compared to the previous year. All other sectors reflected the overall market development by witch reduced volumes compared to 2010. Analysis and R&D remained quite stable at around 20 % of sales, whereas semiconductor and photovolatic applications showed reduced volumes in the second half of 2011. Sales in Asia have not been as strong as in previous years, with Europe catching up on volumes and stable business in the Americas.

The solutions business generated the strongest sales growth within the Oerlikon Vacuum portfolio, with an increase of nearly 40 % compared with the previous year. In this area, the Segment applies its extensive technical know-how in consulting and engineering services to meet specific, complex customer needs. An example is the remote control and operation of vacuum systems via mobile devices like tablet computers. The component business, as well as services, were slightly below sales figures of 2010.

Key topics

Focus on Asia: Consistent with the strategy of serving the growing Asian market from within the region, the third facility extension at the Tianjin, China, site was opened at the end of 2011, increasing capacity by about 30 %. This strategic investment allows Oerlikon Vacuum to offer customers a comprehensive selection of locally made vacuum pumps and systems with shorter delivery times and improved delivery terms. Oerlikon Vacuum now offers a wider production and service range for fore- and high-vacuum, leak detection and solutions know-how in Asia.

Innovation: Oerlikon Vacuum continued to deliver innovative new products to market in 2011. The turbo-molecular pump MAGiNTEGRA was developed in direct response to customer needs and closes a gap in the Segment's product range. The pump, with its unique flexible mounting system, offers a very low maintenance platform characterized by robust, reliable and wear-free operation reducing cost of ownership. The pump platform comes in three suction sizes, and is targeted at customers in the coating and renewable energy sectors. Its compactness and application flexibility have generated broad appeal and high sales volume.

Outlook: slight increase in profitability, stable sales

In 2012, Oerlikon Vacuum expects the market environment to remain stable for coating technologies and for the process and analytic sectors. As a result of new products, additional capacities in Asia and the continued expansion of the solution and service network, the Segment expects to gain market share. New products and continuing efforts in Operational Excellence will have a positive effect. For this reason, Oerlikon Vacuum foresees further margin improvement, but stable sales in a more challenging environment.

Output improved by 30 %

"For a long time, we underestimated the link between teamwork and improved performance," says Wolfgang Ehrk, Head of Operations at Oerlikon Leybold Vacuum. Ehrk considers the systematic involvement of skilled production workers as the basis for successful continuous improvement and increased profitability. The idea: If employees are given the opportunity to identify workplace improvements, they will then take ownership of execution.

By engaging employees in this way, the teams in some areas improved their manufacturing output by 30 % within nine months. "Of course, it took a number of individual steps to get us there, but the fact that this success will have such a long-range impact and was so measurable can be directly attributed to our team approach."

For instance, the demand for turbo-molecular pumps – premium pumps that create high pressure – is growing, and Oerlikon Vacuum wanted to not only produce more pumps, but also integrate new products into the production process. The company sought to double production output within two years, but without expanding the physical plant. This meant that the size of the current assembly lines had to be dramatically reduced.

Together with Ishan Roth and Norbert Tollas, who are responsible for production at the Cologne site, the employees responded to this challenge and launched a team project in which the assembly employees themselves decided how best to shrink the footprint of production lines. "No one knows the production floor better than our employees," Roth says.

Teamwork as a value-creation process

The six-member assembly line team considered a variety of possible layouts, concentrating on which tools and machines could be eliminated. The team created a set of practical action plans, submitted them to Ishan Roth and Sebastian Boll, Oerlikon Leybold's coordinator for teamwork, and subsequently executed the plans. Well-known workplace organization methodologies from the Japanese automotive industry were employed in this process.

The team, who designed their workplaces themselves, reduced the amount of space required by the line, succeeded in optimizing the flow of materials, shortened distances and, most impor-

Employees took over ownership executing improvement measures.

Dr. Andreas Widl, CEO Oerlikon Leybold Vacuum

tantly, reduced inventory. Because everything had been more systematically arranged, only two days of material had to be kept on hand. Employees maintain an overview of inventory at each workstation that clearly indicates when materials must be restocked or upstream products must be delivered. These needs are then forwarded to upstream workstations. Losses resulting from quality-related remanufacturing work were also markedly reduced. And, in some cases, clever means of production creating added value or reducing setup times were designed.

The Teamwork Project launched by Oerlikon Vacuum in 2011 has clearly been a great success. The company now intends to implement the program throughout the Cologne site and then quickly export it to sites in China and France. The Operations Team’s deadline for accomplishing this mammoth task is 2013.

Output improved by 30 %

3.4
Oerlikon Solar

1. Oerlikon Solar's business suffered from production overcapacities and a downturn in the global solar market.
2. The ThinFab™ 140, an innovation reducing the production costs per Watt (peak) to USD 0.50, allows Oerlikon Solar to remain the clear price leader in the industry. The Capex for the ThinFab™ 140 was also reduced by over 20 % to USD 1/Wp.
3. The Segment has reached a record research cell efficiency level of 12.5 % with thin film silicon solar technology.

Key figures

in CHF million	**2011**	2010	Δ %
Order intake	202	230	–12
Order backlog	130	255	–49
Sales (to third parties)	323	254	27
EBIT	–10	–59	n/a
EBIT margin	–3 %	–23 %	–

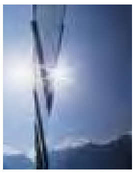
Best-in-class

First Solar: –3 % operating margin (2011)

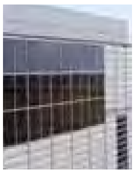
Market presence of Oerlikon Solar

○	○	○	○	●	○	○
Food	Clothing	Transportation	Infrastructure	Energy	Electronics	Others

End applications based on Oerlikon technologies


Stand alone


Building integration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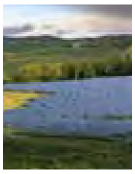
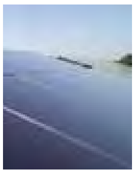
Roof top


◀


PV fields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œrlikon
solar

Business development

In 2011, the solar market faced extremely challenging conditions characterized by excess production capacity, significant price declines, and a downturn in several regional end markets. The Segment suffered from lack of customer investment in solar module production lines and has, as a result, performed unsatisfactorily this year.

Despite such challenging market conditions, Oerlikon Solar received its first order for a complete 120 Megawatt ThinFab™ production line from Asia during the first half of 2011. Other contracts for the ThinFab™ 120 were delayed, although negotiations with several customers have reached an advanced stage. Order intake at Oerlikon Solar totaled CHF 202 million in 2011, a decrease of 12 % compared with CHF 230 million for 2010. Through the execution of existing orders, sales rose by 27 % from CHF 254 million in 2010 to CHF 323 million in 2011. EBIT totaled CHF –10 million compared with CHF –59 million in the previous year. Order backlog amounted to CHF 130 million in 2011 compared with the previous year's total of CHF 255 million.

In contrast to the slow market, the Segment made significant progress in terms of technological advances, optimization of internal processes, and further cost-cutting. Since being created, the Segment has received orders totaling more than 870 Megawatts (MW) of annual production capacity. More than 5 million solar modules using Oerlikon technology have now been manufactured.

The Segment introduced a significantly improved next generation of the ThinFab™ production line in January 2012. The line, designed for 140 MW of annual capacity, delivers production costs of just USD 0.5/EUR 0.35/Watt-peak (Wp). The Capex is also considerably lower, now reaching USD 1/Wp, representing a cost reduction of more than 20 %, compared with the previous model. Oerlikon Solar also presented a new R&D record cell with 12.5 % efficiency, breaking the previous record of 11.9 % – also held by Oerlikon. This is another clear demonstration of the long-range development potential of Oerlikon's technology.

Key topics

Operational Excellence: The Segment made significant improvements to internal processes by systematically executing Operational Excellence initiatives, and On Time Delivery (OTD) programs in particular. The Segment increased OTD of components from suppliers to 99 % from just 59 % in 2010.

Quality: In the second half of 2011, independent German technical service provider TÜV Rheinland confirmed the high quality and reliability standards Oerlikon Solar offers its customers. The thin film module with 155 Watt-peak (Wp) capacity developed for the ThinFab™ prouction line passed all tests for IEC 61646 and IEC 61730 standards. TÜV Rheinland certification allows Oerlikon Solar's customers much quicker access to the market and thus faster amortization of production line capital expenditure.

Outlook: fundamentally reevaluating structure

The Segment expects the challenging market environment to continue in 2012, putting break-even operations out of reach given the current organization of the Segment. As such, Oerlikon Solar is fundamentally reevaluating its structure.


oerlikon

On Time Delivery (OTD) increased to 99 %

More than 150 trucks are needed to deliver and commission a 120-Megawatt production line for thin film silicon solar modules (ThinFab™ 120). This so-called “move in” may take several weeks, making on-time arrival of individual components and complete machines absolutely critical.

In the past, Oerlikon Solar employed the “best partner principle,” a construct in which every component is sourced from the most specialized supplier. This meant procurement from 1 700 suppliers in 20 countries – the majority in Europe and a small fraction in Asia – to create a single ThinFab™ 120 production line. Although orders were placed through a centralized system, the products themselves were shipped from across the world to a number of different places.

The so-called “lead times” – the times between order and delivery of parts – can last for up to six months. Procurement is therefore a rather complex process for the Segment. Hence, it is crucial for Oerlikon Solar to have a perfect working On Time Delivery (OTD).

The goal has been to improve OTD performance to a level of 99 %. The Segment tackled this problem with a number of interventions. Oerlikon Solar adopted a single-source approach to logistics, improved the SAP connection to the warehouses, reengineered processes in the receiving department and, most importantly overhauled the procurement process.

Procurement process transformed

“Increasingly, our customers are moving to Asia,” explains Stefan Schneider, the Global Sourcing Representative responsible for TCO Operations at Oerlikon Solar. “That’s why it’s so important for us to work with more suppliers in the region – it’s a matter of reducing complexity such as related logistics efforts, as well as optimizing cost and time.” The company also had too many different suppliers. “We significantly reduced the number of suppliers from 1 700 in 2010 to a little more than 500 in 2011,” Schneider says.

The focus laid on overhauling the procurement process.

Helmut Frankenberger, CEO Oerlikon Solar

Oerlikon Solar addressed both issues by commissioning the production of entire assemblies and components from a supplier in Singapore renowned for its highly skilled workforce and exceptionally high-quality products. In taking this decision, Oerlikon Solar also moved closer to its customers. “This supplier manages the entire supply chain for us and delivers the finished modules to us,” Schneider says.

“500 suppliers are much easier to manage than 1 700,” Schneider says, and adds: “Along with our internal improvements, this streamlining effort helped us reach an OTD rate of 99 %.”

On Time Delivery increased to 99 %

3.5

Oerlikon Coating

1. Oerlikon Coating performed very well in 2011, achieving a record EBIT margin of 20 %, which makes it Oerlikon's most profitable segment.
2. The Segment continued its regional expansion by building up new coating centers in China, India and Poland; there are now 87 coating centers in 32 countries.
3. Oerlikon Coating is the market and technology leader. Innovations like S3p™ and regional expansion further improved the position of the Segment in the worldwide market.

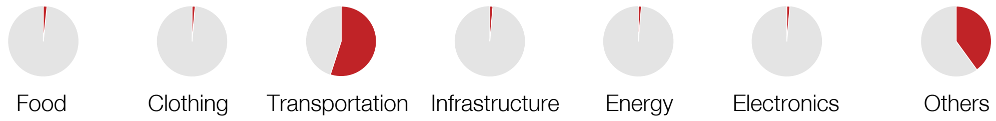
Key figures

in CHF million	**2011**	2010	Δ %
Order intake	484	422	15
Order backlog	–	–	–
Sales (to third parties)	484	422	15
EBIT	97	52	87
EBIT margin	20 %	12 %	–

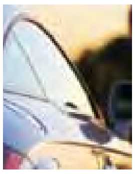
Best-in-class

Sandvik Tooling: 22 % EBIT margin (2011)

Market presence of Oerlikon Coating



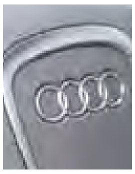
End applications based on Oerlikon technologies



Cars

PET

Formula 1



Plastic metallization

Precision tools

Gearboxes

Watchmaking

œrlikon
balzers

Business development

Oerlikon Coating achieved strong results in 2011. Sales increased by 15 % to CHF 484 million, fueled by the recovery of the automotive industry, particularly in Europe, as well as successful expansion in Asia and the systematic scope enlargement of the Segment's applications. Adjusting for Swiss franc currency effects, sales would have totaled CHF 539 million, which represents growth of 28 %. Active capacity and cost management of the global network of 87 centers resulted in a sustainable rise in profitability. 2011 EBIT totaled CHF 97 million, compared with CHF 52 million in the previous year. With a 2011 EBIT margin of 20 %, the Segment exceeded the profitability levels of the previous year and reached a historically high level. The key to this continued success is sustainable investment in research and development, which renews the position as the technological leader on a continual basis. The highlight in 2011 was the introduction of a pioneering innovation called S3p™ (Scalable Pulsed Power Plasma) technology, and the attendant coating system INGENIA, to the market in the second half of the year.

The focal point of Oerlikon Coating's business activities is coating services that substantially improve the performance of tools and precision components; facilitate new functions and designs; and have a significant advantage to competing technologies. In 2011, coating services represented over 90 % of sales. Just under 10 % was produced by equipment sales. The growth took place in all regions: 14 % in Europe, 9 % in North America and 20 % in Asia.

The precision parts business for the automotive industry developed well and with increasing dynamics, as did the businesses servicing the watch, aviation and medical technology industries. This area now represents 20 % of the Segment's sales. The integration of the Hartec Group, which was acquired in December 2010 to add PVD coatings and UV painting technologies of three-dimensional plastic parts to the product range, remained on schedule. This strategic acquisition creates new opportunities for the Segment, particularly in the automotive industry: exterior and interior metallic-like plastic parts that once required galvanization can now be produced in an environmentally conscious and economically viable manner the first time. Testing and development undertaken with leading automotive manufacturers has been very promising.

Key topics

Regional expansion: Oerlikon Coating expanded its global network in 2011. The Segment commissioned two coating centers into operation in China and one in India, thereby increasing its presence in the region to 27 centers. In May, a third coating center in Poland went into operation. In addition to these new facilities, capacity at existing coating centers in Asia and Europe was expanded considerably to meet growing demand for high-performance coating. Altogether, Oerlikon Coating's network of centers stands at 87 locations worldwide in 32 countries. This expansion will continue in 2012, pairing regional expansion to the international rollout of new technologies. For example, the capacity of the coating center in Suzhou, China, is being significantly increased and a new development center for coating three-dimensional plastic parts has been established in the first quarter of 2012.

Innovation: The S3p™ technology presented to the market in the second half of 2011 allows customers unparalleled coating solutions with completely new characteristics. One example is extremely hard, smooth coatings that adhere well. With this technology, time-consuming post-treatment of coatings is being simplified enormously or done away with completely. The coating system designed for this purpose, INGENIA, also sets new standards in terms of precision, quality and productivity.

Outlook: some sales growth, stable margins at a high level

The Segment foresees further growth opportunities in both regional terms and in new application areas, in new and existing industries. Increased customer productivity, environmental protection and design requirements drive Oerlikon's coating technology. Oerlikon Coating expects to achieve some sales growth in 2012 and to maintain high profitability at 2011 levels.

Productivity gains boost profitability by CHF 3 million

Each Oerlikon coating center knows exactly where it stands in internal benchmark rankings. Up to 20 000 parts are coated at a center each day, particularly precision tools such as drills and end mills. Because the activities of each of the 87 coating centers around the world are very similar, they are easy to compare. And so is their individual profitability.

Every six months, the profitability of the centers is ranked in a graph that is posted at all sites. The graph shows employees where their respective center ranks overall, but the other centers are not identified. At a glance, each employee can see if the center's ranking has improved or fallen since the last measurement. This results in healthy internal competition at a global level.

In an effort to further improve the centers' performance, the company conducts technical and process-oriented audits. As part of the Operative Excellence initiative, the number of audits conducted in 2011 more than doubled from 25 to 55. "We now audit each coating center at least every two years," says Roland Schmid, who carries out the audits with a four-member team. Thanks in part to the technical audits and the ensuing improvement programs, profitability again increased by CHF 3 million in 2011.

9 000 specific measures

"The audits and the benchmark ranking are like hockey. We're on a power play – at a global level," Schmid says. He and his team inspect the machines and work equipment, review procedures, give technical and business advice and introduce improvement programs. Each day, innovative approaches emerge in the global network of 87 centers. These best practices are uncovered by Roland Schmid's team during the audits and then shared with the other centers. Each year, the center that has provided the best practices and most successfully implemented them is honored.

Benchmarking has become a part of the corporate culture.

Dr. Hans Brändle, CEO Oerlikon Coating

In his work, Schmid draws on the broad experience he has accumulated during his 30-year career. This explains the high level of respect he has within the company and leads to the perception the audits are “hard, but fair,” as they are consistently described. Schmid and his team have introduced 9000 individual measures to improve the profitability of the coating centers. Key aspects include coating-unit maintenance, safety and adherence to work procedures. Localized documentation helps the centers carry out these activities. Process control charts – that is, instructions that describe all work procedures – are available in 28 different languages. Schmid and his team follow the principle of “learn locally, implement globally” in this area as well – making successful standardization possible in the first place.

Oerlikon Coating operates coating centers in 32 countries. As a result, Schmid and his team are constantly on the go. But their efforts are paying off. At the end of 2011, profitability had once again improved: “Benchmarking, audits and best practices are now permanent fixtures of our corporate culture,” Schmid says. “Our employees benefit from the global exchange and we keep improving from year to year as a result – continuously and sustainably.”

Productivity gains boost profitability by CHF 3 million

3.6
Oerlikon Advanced Technologies

1. In 2011, Oerlikon Advanced Technologies achieved an EBIT margin of 10 %.

2. Innovations such as the HEXAGON for the advanced packaging of semiconductors introduced in 2011, underscore the Segments technology leadership.

3. The market environment continues to remain volatile: the semiconductor industry is readily accepting new innovations, while the solar industry is undergoing difficult market conditions.

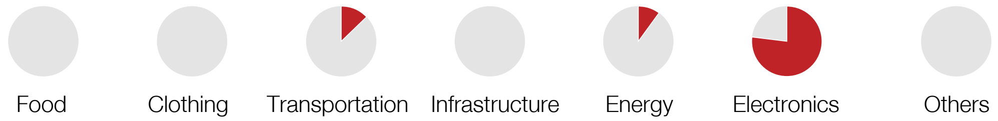
Key figures

in CHF million	**2011**	2010	Δ %
Order intake	88	129	–32
Order backlog	8	29	–72
Sales (to third parties)	108	129	–16
EBIT	11	10	10
EBIT margin	10 %	8 %	–

Best-in-class

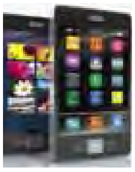
Applied Materials: 15 % EBIT margin (2011)

Market presence of Oerlikon Advanced Technologies



End applications based on Oerlikon technologies


MP3 Players


Cell phones
Cameras


Tablet
computers


Automotive
electronics


Touch
screens


Solar cells


Telecoms

œrlikon
systems

Business development

Oerlikon Advanced Technologies managed a challenging market environment in 2011 with clearly improved profitability and an EBIT margin of 10 % (previous year: 8 %). The semiconductor market grew during the first half of the year, and the Segment was able to capitalize on this growth through sales of innovative advanced packaging solutions for areas such as the production of mobile applications. Demand, however, weakened sharply in the second half of the year. The market for Blu-ray Disc production equipment and crystalline solar cells was weak throughout the year. As a result, order intake fell by 32 % to CHF 88 million in 2011 (previous year: CHF 129 million). Order backlog totaled CHF 8 million (previous year: CHF 29 million). Sales fell by 16 % to CHF 108 million in 2011 (previous year: CHF 129 million). EBIT rose to CHF 11 million (previous year: CHF 10 million). Operational improvements helped increase the Segment's profitability.

The Segment's core technology is physical vapor deposition (PVD). Leading customers in the semiconductor and nanotechnology industries are helping Oerlikon Advanced Technologies execute its growth strategies. With the CLUSTERLINE® system, the Segment provides market-leading solutions for advanced packaging, micro electromechanical systems (MEMS) production, power semiconductors production, and light-emitting diodes (LED) production. Oerlikon Advanced Technologies has seen further market interest in new applications on the SOLARIS system. This system is designed for the manufacture of the latest-generation displays, thermoelectric generators and for diverse applications in solid state lighting (OLED, LED). With the market introduction of the HEXAGON, a solution for the advanced packaging of semiconductor components featuring significantly improved cost-efficiency and flexibility, the Segment extended its technology leadership.

Once again, the growth regions of Asia made a significant contribution to the sales generated by the Advanced Technologies Segment. Of the Segment's total sales, 45 % was generated in Asia, compared with 47 % in the same period of the previous year. The share of sales produced by the European business rose from the previous year's level of 24 % to 42 %, driven primarily by growth in solid state lighting and power semiconductors markets.

Key topics

Innovation: At the semiconductor trade fair SEMICON Taiwan 2011, Oerlikon Advanced Technologies introduced the HEXAGON, its latest solution for the advanced packaging of semiconductor components. HEXAGON has a throughput two to three times higher than comparable systems, a feature which delivers significant production cost savings. The Segment is now working with key customers to further test the platform.

Cost reduction: Although the Segment's major markets are in Asia, throughout Europe and the United States, production and supply are concentrated in Switzerland. As such, the strength of the Swiss franc has created cost disadvantages. Oerlikon Advanced Technologies is working to diversify its supply portfolio.

Outlook: modest rise in sales, continued margin pressure

In 2012, Oerlikon Advanced Technologies expects business to continue under similar conditions. The solar technology market is expected to remain challenging and demand for optical storage media will continue to diminish, whereas the semiconductor market still has growth potential. The Segment expects modest sales increase under continuing margin pressure.

Time to market 30 % faster

It usually takes a semiconductor industry coating machines manufacturer three to four years to qualify a new generation of machines. There are few competitors in this market segment, even though the final products – laptops and tablet computers, cell phones, smartphones and smart TVs – are integral to the daily lives of millions. Our machines coat the wafers that accommodate – depending on their size – dozens to hundreds of thousands of microchips that are a key part of such electronic devices.

Innovation and speed is what counts in this industry. The more quickly electronics manufacturers can bring products to market, the more successful they are. As a supplier for the electronics industry, Oerlikon Systems also operates according to this rule.

"It took just a year and nine months to deliver HEXAGON, our latest generation of machines, to the first customer," says Bart Scholte van Mast, Head of Engineering at Oerlikon Systems. Speed creates an unparalleled competitive advantage for the company. "Our platform strategy made this possible. The machine components we use are based on modular designs." Oerlikon Systems uses components taken directly from HEXAGON's predecessor model, CLUSTERLINE®, and from machines in the solar and optical storage-media businesses in the process. Oerlikon Systems' competitors don't have access to the synergies created by a cross-sector portfolio such as ours.

Platform strategy

"About 70 % of the parts we use in HEXAGON are created on the basis of modular designs," says Albert Koller, Head of Semiconductors at Oerlikon Systems. At the beginning of 2011, when development of HEXAGON was already well underway, a key customer had an additional requirement. "Thanks to our modular design approach, integration of the additional process step needed to meet the customer's need wasn't a problem." It took Oerlikon Systems just three months to design and implement a solution based on an existing CLUSTERLINE® module. The customer project, from start to qualification, will take little more than two years.

The tremendous cost pressure in the semiconductor industry means each new generation of machines must deliver significantly higher productivity.

Machine components are based on modular designs.

Andreas Dill, CEO Oerlikon Advanced Technologies

With CLUSTERLINE®, conventional transport systems could be used, but the higher throughput performance of HEXAGON requires an internal wafer transport system designed for mass production, which is considerably faster. SPRINTER, a coating machine for optical storage, and SOLARIS, a coating machine for crystalline solar cells, had been successfully employing a mass transport system for many years. Oerlikon Systems modified this system and reused it as a module for HEXAGON. The amount of time saved in comparison with new development: more than one year.

“Thanks to our platform strategy, we were able to focus on the actual innovation as we developed HEXAGON.” But Scholte van Mast isn’t saying what those innovations are – he wants to maintain Oerlikon Systems’ competitive advantage.

Oerlikon Systems has high expectations from HEXAGON. The system’s many innovations have tangible benefits for chip manufacturers: throughput is almost three times faster than current state-of-the-art systems and it needs just half as much floor space, which is critically important as clean-room space is very expensive.


Time to market
30 % faster

4.0
Sustainability

1. Oerlikon products help its customers and end consumers directly or indirectly reduce energy consumption and improve their carbon footprint.
2. Oerlikon is committed to creating sustainable value for all stakeholders.
3. Oerlikon supports and promotes the communities in which it does business.

Securing our future

The company's management views sustainability as a competitive advantage: the more sustainable the company, the more attractive it is to investors, customers, employees and prospective employees. For investors, sustainability is becoming an increasingly important consideration in making investment decisions. A growing number of institutional investors carefully review environmental data before committing investment capital.

The company's current level of sustainability data collection and reporting falls short of best practice. The continuation of the company having been in serious question just two years ago, management has focused its resources on restructuring the company and laying the foundation for sustainable growth. Now that profitability has been restored, Oerlikon is committed to improving and expanding sustainability reporting on all of its commercial activities, now and into the future.

Improving the environmental footprint

Many Oerlikon products are designed to directly or indirectly improve the environmental footprint of customers and end users. These products are frequently part of the production process for environmental technologies and energy conserving systems. Oerlikon thus produces two sets of benefits. First, customers benefit from business success afforded by higher quality products, increased productivity or lower energy costs. Second, society benefits from access to new technologies which better protect the environment and improve quality of life.

In its Textile Segment, Oerlikon's product development work is concentrated on lowering energy consumption and increasing machinery and systems efficiency. Other areas of focus are improved ergonomics, noise reduction and minimization of equipment footprints. Since 2005, machinery and systems that use at least 20 % less energy than the generally accepted market standard are awarded an "e-save" certification from the internal quality-control office. In 2011, Oerlikon Textile introduced seven newly developed textile machines to the market which use considerably less energy and have significantly higher productivity.

Oerlikon's Drive Systems Segment is active in two environmental technologies. First, wind power: Oerlikon supplies a major American wind-energy company with components (ring gears, gear drives, etc.) that are assembled into complete gear transmissions and sold worldwide. Second, electric vehicles: Oerlikon equips electric vehicles with drive systems based on its sports-car expertise. These products deliver high torque at low speeds, good performance parameters when climbing steep grades, high top speeds and – thanks to high efficiency levels – improved range. A car-sharing program called "Autolib" launched in Paris at the end of 2011, uses electric vehicles equipped with Oerlikon Drive Systems transmissions. About 3000 to 5000 of these vehicles will be available for rent throughout the city.

Many environmental technologies need to be manufactured in a vacuum. Making this possible is the job of the Vacuum Segment, which manufactures a variety of innovation vacuum systems and equipment. Without vacuum technology, there would be no solar modules, LEDs or insulated glass. Insulated glass, which is used to reduce energy costs in buildings, is created by covering plates of glass with a layer of metal, including silver, under vacuum or high-vacuum conditions. This transparent layer of metal, usually just 1/100000 millimeter thick, prevents heat transfer from the building's interior and improves the insulation value of glass alone by a factor of five. In wind power, vacuum technology is used extensively in the manufacture of turbine rotor blades, which are produced using a vacuum-infusion process. This process uses vacuums to create such a strong bond between the layers of fiber, that rotor blades of more than 50 meters in length can be produced.

Oerlikon Coating, which specializes in coating high-performance parts and materials in its 87 centers around the world, is a key contributor to increased fuel economy in today's cars and trucks. In diesel engines, for instance, the introduction of high-pressure injection has resulted in a 30 % reduction in fuel consumption. High-pressure injection was made possible by the development of a coating for those engine components operating under severe conditions, such as fuel-injection pumps.

When a fine spray of fuel is fired into the engine's combustion chamber under 2000 bars of pressure, there is tremendous stress on injection nozzles, valves, piston rings, etc. Without the high-strength carbon coating developed for this application, the components would quickly become damaged and fail. Oerlikon's technologies account for up to 4% of the fuel savings achieved by state-of-the-art engines today. High-performance coatings not only help achieve better fuel economy, but also significantly lower emissions: the high injection pressure, combined with higher fuel concentration, allow more complete combustion. The higher the combustion level, the lower the engine's emissions. Since the introduction of high-pressure injection, carbon dioxide and nitric oxide emissions from diesel engines have plunged by some 30%.

Another technology that plays a major role in environmental protection is LEDs (light-emitting diodes). Oerlikon's Advanced Technologies Segment produces machinery that enables critical process steps in LED production: application of a mirrored and barrier layer, and the establishment of electrical contact. The energy-conservation potential with high-brightness LEDs is enormous. Compared to incandescent bulbs, LEDs such as those fitted throughout Oerlikon Advanced Technologies' facilities have five to ten times more light output (50 lumens/Watt compared with 5–10 lumens/Watt). This means they consume just 10% to 20% of the energy required by filament bulbs to produce the same amount of light. LEDs are the most energy-efficient light source currently available and therefore economically and environmentally friendly: less cost, less CO_2. In Switzerland, for example, about 14% of all generated electricity is used for lighting households, offices, industrial spaces, etc. Considering that lighting accounts for 50% of the average commercial electricity bill, the cost savings made possible by switching to LED lighting is tremendous. The Swiss Energy Foundation has determined that households alone have a savings potential of 60%.

Oerlikon Solar has become the technology and cost leader of assembly lines that make thin film solar modules. Because the viability of solar power generation depends largely on cost – measured in Euros or US dollars per Watt-peak (Wp) – Oerlikon Solar focuses continually on lowering the manufacturing costs of solar modules and further increasing their capacity, which makes clean energy more economically attractive. The new, fully integrated second generation ThinFab™ line allows customers to produce the highest-quality thin film silicon modules at costs of around USD 0.5/Wp – a new record in the industry. The production of Oerlikon thin film silicon modules requires less energy than all other the solar manufacturing processes and the "energy payback time" of Oerlikon technology is less than a year – these are unique benefits. Furthermore, Oerlikon Solar modules are manufactured in an environmentally friendly manner without the use of toxic substances such as cadmium.

HSE: a company-wide system being developed

In terms of health, safety and environment requirements (HSE), Oerlikon complies with local laws and regulations in force at each of its production sites. These generally vary from location to location and Segment to Segment. Related certificates (OSHA, ISO) are obtained and updated solely on a decentralized basis. A uniform, company-wide reporting, collection and management unit is currently being assembled at Oerlikon's headquarters. The aim of this effort is to improve HSE transparency, facilitate comparability across the Group and to ensure uniform standards. These standards will be designed to help all locations throughout the Group attain the world-class standards achieved by Oerlikon's state-of-the-art production units. The company is striving to create a culture in which all occupational accidents and illnesses, all environmentally relevant deviations and all pollution are avoided. Oerlikon will drive the HSE agenda from headquarters using additional personnel, uniform company-wide guidelines, audits, a reporting system and incorporation of targets into the company's 3-Year Business Plan. As a result of this work, HSE will become an integral part of the company's Operational Excellence efforts.

HSE steps being taken at all production sites include the recycling of production waste, particularly leftover metal, as well as packaging material, liquids and wood. Some of the company's

locations have already reached a recycling rate of 100%. Another part of the standard is to replace lighting with new, energy-efficient LED-based bulbs wherever possible. Most production locations have conducted and are conducting health and safety training for employees. The courses cover topics such as occupational health and safety, fire prevention, chemical and hazardous goods handling and electrical safety.

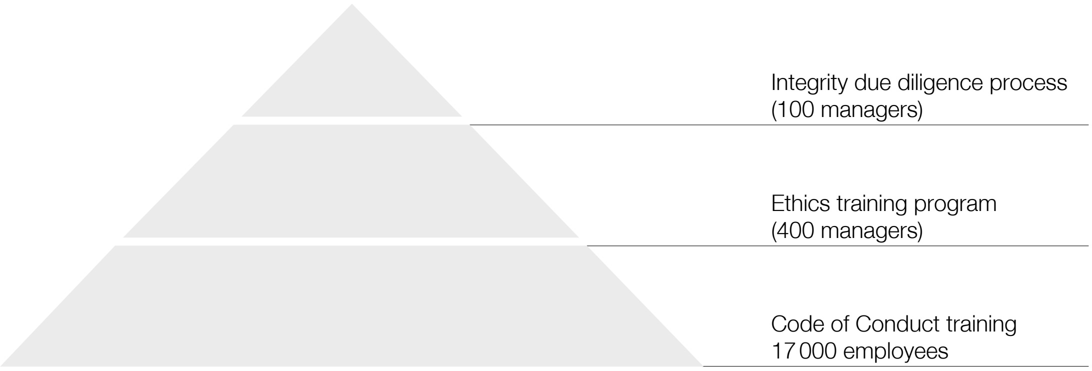
Group Human Resources

The Group Human Resources function, established in 2010, completed its first year of HR coordination across the company with the introduction of a new HR Performance Management System and a standard methodology for talent acquisition. The new HR Performance Management System delivers a solid foundation for a performance-based culture. The system provides a common framework, language, process and tool across the organization and ensures consistent quality standards and quality assurance processes – which will enable us to differentiate better between and amongst high and low performing employees and take appropriate action. Group HR also created an integrated and company-wide system for human capital management: talent acquisition, learning and development, career management and succession planning. With a common lexicon for the behaviors and technical skills that make employees successful at Oerlikon, we will be able to generate a clear picture of our global talent needs across the organization. The first milestone reached in 2011 was the creation and the roll-out of a standard methodology for talent acquisition that enables us to attract and recruit highly qualified professionals and next-generation business leaders.

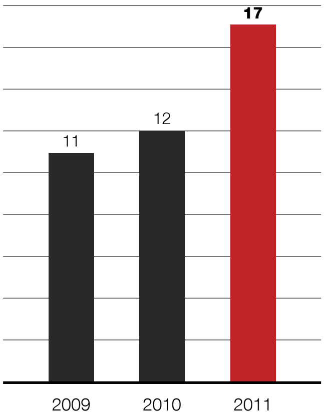
5.0
Compliance

1. In 2011, Oerlikon implemented an ethics training program with 400 managers.
2. 17 potential compliance cases were reported in 2011 and open reporting is encouraged.
3. A due diligence process governing relations with business partners was introduced.

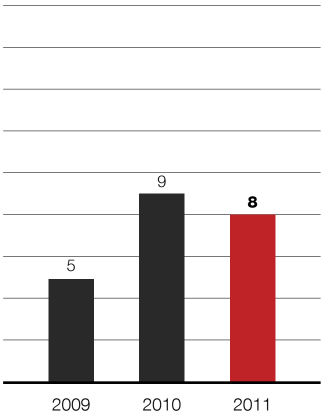
Compliance trainings



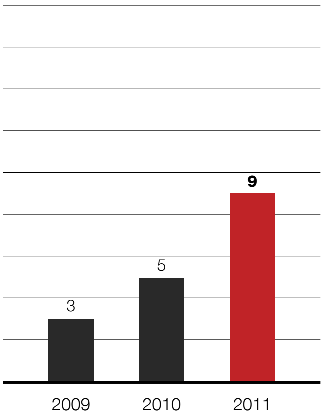
Compliance cases*



Compliance investigations



Compliance cases with work contract termination



*All cases are closed; judicial proceedings may still go on.

Compliance – part of our corporate culture

The basis of the Group's compliance program is the Oerlikon Code of Conduct introduced in 2009. The code serves as the compass for our employees, pointing the way to responsible, ethically and legally proper behavior in their everyday business dealings.

Oerlikon undertook extensive steps in 2011 to further integrate compliance into its corporate culture and business processes and to ensure the long-range effectiveness of these measures. An important addition to our current policy is the new whistleblowing hotline – which was set up early in the year to serve as an additional reporting channel for potential irregularities. The hotline enables employees to report potential violations to the Head of Compliance at any time by telephone or e-mail in their native languages. Processing is done by an external provider using case numbers, ensuring that sensitive information is handled in a secure and absolutely confidential manner.

17 alerts to potential compliance cases were received through the various reporting channels in 2011 – five more than in the previous year. This demonstrates the effectiveness of the process and the increased awareness among employees about issues covered by the Code of Conduct.

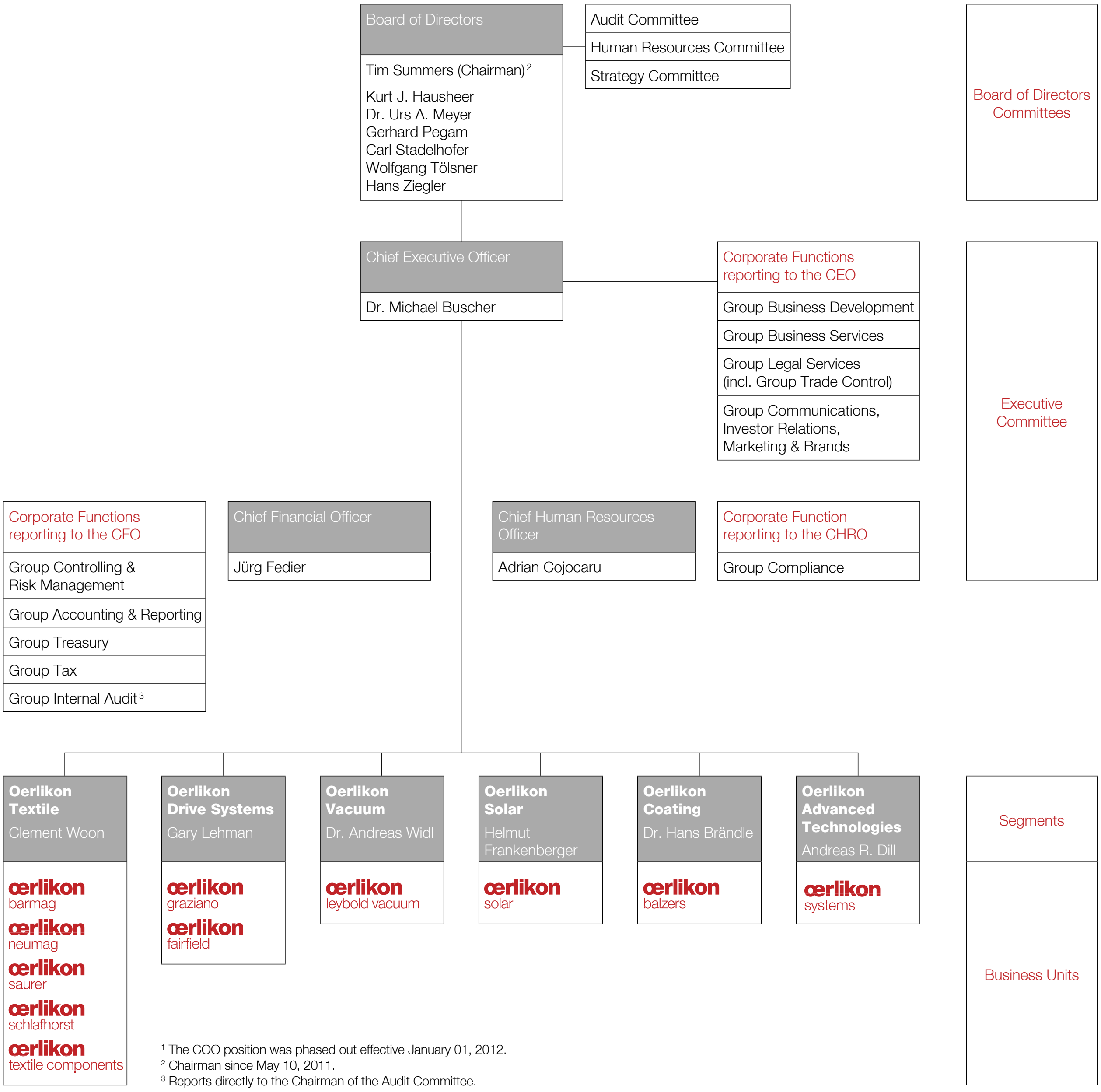
All alerts were and are being carefully examined. Should any allegations be substantiated, a thorough investigation will be launched. The focus of such an investigation is twofold: first, to identify and correct wrong doing and, second, to uncover possible weaknesses in processes or organization and to introduce improvements. In 2011, the company took disciplinary steps in five cases of compliance violation. These actions included letters of reprimand, dismissals and, in one case, charges against a former employee.

Preventing corruption was a further focal point in Oerlikon's 2011 compliance work. 400 managers received comprehensive ethics training as part of a Group-wide program, the main goal of which was to increase awareness and to teach the correct approach when facing this compliance risk. The training was focused on international and regional anti-corruption regulations and on Oerlikon's own anti-corruption policy.

To further increase the transparency of Oerlikon's working relationships and minimize potential third-party compliance risks, a process for business partner due diligence was introduced in 2011. Under this process, an exhaustive integrity review is conducted before Oerlikon enters into business relationships with third parties such as consultants, agents, suppliers and brokers. The results of these comprehensive background checks are carefully reviewed and form the basis of Oerlikon's decision to enter any working relationship.

6.0 Corporate Governance

Group structure[1]



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[1] The COO position was phased out effective January 01, 2012.
[2] Chairman since May 10, 2011.
[3] Reports directly to the Chairman of the Audit Committee.

Committed to international standards

Oerlikon is committed to the principles of good corporate governance as defined by Economiesuisse in the Swiss Code of Best Practice for Corporate Governance of March 25, 2002 (as amended on September 6, 2007). Through this commitment Oerlikon aims to reinforce the trust placed in it by the company's present and future shareholders, lenders, employees, business partners and the general public.

Responsible corporate governance requires transparency with regard to the organization of management and control mechanisms at the uppermost level of the enterprise. Therefore, the "Directive on Information relating to Corporate Governance" (DCG), enacted by the SIX Swiss Exchange on July 1, 2002 and revised on March 29, 2006 and on October 29, 2008, requires issuers of securities to make available to investors certain key information pertaining to corporate governance.

In this annual report the corporate governance information is once again presented in a separate section, as prescribed by DCG. The framework of the directive has been adopted, however, the section "Compensations, shareholdings and loans" has been phased out in a separate chapter (7.0 Remuneration Report). References to other portions of the annual report are included in certain instances in an effort to avoid redundancies and enhance readability. All material changes between the balance sheet date and the time this annual report went to print have been taken into account.

Further information regarding corporate governance can be found on the company website www.oerlikon.com.

Group structure and shareholders

Operational Group structure

The Board of Directors is responsible for the strategic management of the Group. Pursuant to Art. 22 Para. 3 of the Articles of Association, the Board of Directors has delegated corporate management to the CEO. Operational responsibility lies with the individual Segments, each of which is overseen by its own Segment CEO. The Board of Directors, the CEO, the Executive Committee and the Business Units are supported by centralized Corporate Functions. A graphical presentation of the operational Group structure can be found on page 52.

Listed Group companies

OC Oerlikon Corporation AG, Pfäffikon is listed on the SIX Swiss Exchange (symbol: OERL; securities number: 81682; ISIN: CH0000816824). On December 31, 2011 the company's market capitalization totaled CHF 1 625 million. For further information on OC Oerlikon Corporation AG, Pfäffikon see pages 137 et seq.

OC Oerlikon Corporation AG, Pfäffikon holds indirectly 83.9 % of Fairfield Atlas Limited, Kolhapur/IN. Fairfield Atlas Limited is listed on the Bombay Stock Exchange (symbol: FAIRFIEL; ISIN: INE922C01013). On December 31, 2011 the market capitalization of Fairfield Atlas Limited totaled INR 1 743 million.

Non-listed Group companies

OC Oerlikon Corporation AG, Pfäffikon, as parent company of the Group, owns all of the Group companies either directly or indirectly, mostly with a 100 % interest. The significant local companies included in the scope of consolidation are shown on pages 145 et seq. in their legal ownership structure, and on page 132 et seq. they are listed by country together with each company's share capital, percentage of shares owned and number of employees.

Significant shareholders

	Shareholdings[1]	
	No. of shares	in percent[2]
Renova Group[3] (composed of Liwet Holding AG, Zurich, Switzerland, Renova Industries Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama[4])	155 035 964[4]	47.98[4]

[1] Source: Disclosure notifications pursuant to Article 20 of the Swiss Stock Exchange Law.
[2] Basis: Shares issued (323 124 010).
[3] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow.
[4] Source: Disclosure notification by Renova Group pursuant to Article 20 of the Swiss Stock Exchange Law, published by SIX Exchange Regulation on November 4, 2011.

The disclosure notifications pursuant to Art. 20 of the Swiss Stock Exchange Law, which were submitted during the year under review, are published on the electronic publication platform of SIX Swiss Exchange Ltd, Disclosure Office (www.six-exchange-regulation.com/ obligations/disclosure/major_shareholders_en.html).

Cross-shareholdings

There are no cross-shareholdings.

Capital structure

Capital

The share capital of OC Oerlikon Corporation AG, Pfäffikon amounts to CHF 323 124 010, composed of 323 124 010 registered shares, each with a par value of CHF 1. The company also has conditional capital in the amount of CHF 40 million for convertible and warrant bonds, etc., CHF 7.2 million for employee stock option plans, and CHF 16 974 919 for option rights granted to the financial creditors (as defined below).

Authorized capital and conditional capital in particular

Authorized capital: The company has no authorized capital.

Conditional capital for warrant and convertible bonds: Pursuant to Art. 11a of the Articles of Association, the company's share capital shall be increased by a maximum aggregate amount of CHF 40 million through the issuance of a maximum of 40 million registered shares with a par value of CHF 1 per share, by exercising the option and conversion rights granted in connection with bonds of the company or one of its Group companies. The subscription rights of shareholders are excluded in this regard. Current holders of option certificates and/or convertible bonds are entitled to acquire the new shares. When issuing warrant or convertible bonds, the Board of Directors can limit or exclude the preemptive subscription rights of shareholders (1) to finance and refinance the acquisition of enterprises, units thereof or equity interests, or newly planned investments of the company and (2) to issue warrant and convertible bonds on international capital markets. Insofar as preemptive subscription rights are excluded, (1) the bonds are to be placed publicly on market terms, (2) the exercise period for the option and conversion rights may not exceed seven years from the date the bond was issued, and (3) the exercise price for the new shares must at least correspond to the market terms at the time the bond was issued.

Conditional capital for employee stock option plans: Pursuant to Art. 11b of the Articles of Association, the company's share capital will be increased by a maximum aggregate amount of CHF 7.2 million, excluding the preemptive subscription rights of current shareholders, through the issuance of a maximum of 7.2 million fully paid-in registered shares with a par value of CHF 1 each, through the exercise of option rights granted to the employees of the company or one of its Group companies under a stock option plan to be approved by the Board of Directors. The issuance of shares at less than the market price is permissible. The details shall be determined by the Board of Directors.

Conditional capital for warrants: Pursuant to Art. 11c of the Articles of Association, the company's share capital may be increased by the issue of a maximum of 16 974 919 to be fully paid in registered shares of a par value of CHF 1 each, i.e., in the par value of a total of a maximum amount of CHF 16 974 919, by the exercise of option rights which are granted to the financial creditors of the company under the Facility Agreement of June 7, 2007 with the amendments of June 26, 2007, of August 17, 2007, of March 5, 2008, and of June 8, 2009 ("Financial Creditors") for loans granted to the company or one of its Group companies. The allocation of these options was a conditio sine qua non of the urgently needed restructuring measures of the company. The preemptive right of the shareholders is therefore completely excluded with regard to the entire conditional capital. The option rights granted to the Financial Creditors have a maximum term until June 30, 2014 from the issue date and may be exercised at the earliest 90 days after the issue date. The exercise price is

CHF 6 and must be fully paid in cash. All additional terms of the issue will be established by the Board of Directors in a regulation. The respective owners of option rights may subscribe for new shares. The preemptive rights of the shareholders with regard to the entire conditional capital are entirely excluded.

Changes in capital

On May 11, 2011, as a result of the exercise of 38 539 option rights, which were granted to the financial creditors of the company under the Facility Agreement of June 7, 2007 with the amendments of June 26, 2007, of August 17, 2007, of March 5, 2008 and of June 8, 2009 for loans granted to the company or one of its Group companies, the share capital of OC Oerlikon Corporation AG, Pfäffikon has been increased from CHF 323 085 471 to CHF 323 124 010 by the issuance of 38 539 fully paid in registered shares of a par value of CHF 1. In 2010, the share capital of OC Oerlikon Corporation AG, Pfäffikon had been reduced from CHF 282 848 740 to CHF 14 142 437 by a reduction of the nominal value of each existing share from CHF 20 to CHF 1 and subsequently increased from CHF 14 142 437 up to CHF 323 085 471 by the issuance of 308 943 034 new shares with a nominal value of CHF 1. The net proceeds of the offering were intended to repay part of the Group’s financial debt in an amount of CHF 559 million, whereby the remaining net proceeds of approximately CHF 278 million were retained by the Group for general corporate purposes (including continued significant investments in research and development), as well as capital expenditures to address anticipated growth trends, a further expansion into emerging markets and the completion of its operational restructuring to improve its operational efficiency.

Prior to these capital changes, the share capital of OC Oerlikon Corporation AG, Pfäffikon had remained unchanged since the capital increase of 2004. Detailed information on changes in the equity capital of OC Oerlikon Corporation AG, Pfäffikon over the last three years can be found in the holding company’s equity capital statement on page 143 of the Annual Report.

Shares and participation certificates

The equity securities of OC Oerlikon Corporation AG, Pfäffikon consist exclusively of 323 124 010 fully paid in registered shares with a par value of CHF 1, all of which are equal with respect to their attendant voting rights, dividend entitlement and other rights. The registered shares of OC Oerlikon Corporation AG, Pfäffikon are in principle not certificated but instead issued as dematerialized securities within the meaning of the Swiss Code of Obligations and as book-entry securities in terms of the Book-Entry Securities Act, respectively. Shareholders may at any time request that the company print and deliver their shares in certificate form free of charge, and the company may, at any time and without shareholders’ approval, convert the dematerialized securities into share certificates, global certificates or collectively deposited securities. If registered shares are to be printed, OC Oerlikon Corporation AG, Pfäffikon may issue certificates covering multiples of registered shares. The share certificates bear the facsimile signatures of two members of the Board of Directors.

Profit-sharing certificates

OC Oerlikon Corporation AG, Pfäffikon has not issued any profit-sharing certificates.

Limitations on transferability and nominee registrations

There are no restrictions on the transfer of OC Oerlikon Corporation AG, Pfäffikon shares. The company recognizes only those parties entered in the share register as shareholders or usufructuaries. Fiduciary shareholders and nominees will also be entered in the share register.

Convertible bonds and options

As at December 31, 2011, there were no convertible bonds or warrant bonds outstanding.

In conjunction with stock option plans, employees held a total of 37 128 options (see page 125, Note 23) on December 31, 2011, each of which entitles the holder to subscribe for one registered share in OC Oerlikon Corporation AG, Pfäffikon. These options will be covered by shares acquired in the open market, such that their exercise will not result in any change in share capital. The aggregate par value of the shares purchasable via option rights granted to employees is CHF 37 128.

In conjunction with the option rights granted to the Financial Creditors, Financial Creditors held a total of 16 905 643 options on December 31, 2011, each of which entitles the holder to subscribe for one registered share in OC Oerlikon Corporation AG, Pfäffikon. The option rights granted to the Financial Creditors have a maximum term until June 30, 2014. The exercise price is CHF 6 and must be fully paid in cash. The options are covered by shares pursuant to Art. 11c of the Articles of Association. The aggregate par value of the shares purchasable via option rights granted to the Financial Creditors is CHF 16 905 643.

Stability and competence
The Oerlikon Board of Directors

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

Professional background and education

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

Other activities and vested interests

Wolfgang Tölsner is a Board Member of Bochumer Verein Verkehrstechnik GmbH.

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

Professional background and education

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

Other activities and vested interests

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

3 **Dr. Urs A. Meyer**
1964, Swiss citizen
Member of the Board of Directors,
Member of the Audit Committee

Professional background and education

Dr. Urs A. Meyer was elected to the Board of Directors at the 2008 Annual General Meeting. Since 2011, he has been President/CEO Franke Kitchen Systems, Switzerland. From 2008 until 2011, he worked as CEO of Venetos Management AG, Switzerland (a company of the Renova Group). Between 2007 and 2009, Dr. Urs A. Meyer was a Member of the Board of Directors of Sulzer, Switzerland. From 2001 to 2007, he acted as Division CEO of Satisloh (a division of Schweiter Technologies, Switzerland). Between 1990 and 2001, he held various management positions with Otto Suhner and Rieter.
Dr. Urs A. Meyer graduated from the Swiss Federal Institute of Technology (ETH) in Zurich with a PhD in engineering and completed an advanced management program at Harvard University, USA.

Other activities and vested interests

none

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

Professional background and education

Tim Summers was elected to the Board of Directors at the 2011 Annual General Meeting and was thereafter appointed Chairman. From 2010 to 2011, he acted as non-executive Chairman of KCA Deutag, Switzerland. Since 2010, Tim Summers has been Chairman of Venetos Management AG, Switzerland (a company of the Renova Group). Between 2006 and 2009, he served as Chief Operating Officer and from 2008 until 2009 additionally as interim CEO of TNK BP, Russia. Between 2007 and 2009, he was director of Slavneft in Russia. From 2005 until 2006, he

worked as Executive Assistant to the Group Chief Executive of BP, UK. Between 1989 and 2006 he filled several positions with BP.
Tim Summers holds a bachelor's degree in chemical engineering from the University of Manchester, UK.

Other activities and vested interests
none

5 **Hans Ziegler**

1952, Swiss citizen
Member of the Board of Directors,
Member of the Human Resources Committee,
Member of the Strategy Committee

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

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

6 **Gerhard Pegam**

1962, Austrian citizen
Member of the Board of Directors,
Member of the Strategy Committee

Professional background and education
Gerhard Pegam was elected to the Board of Directors at the 2010 Annual General Meeting. In 2012, he founded his own consulting firm. Since 2011, he has been a Corporate Officer of TDK Corporation, Japan. From 2001 until 2012, he was the CEO of EPCOS AG, Germany, and from 2009 until 2012, he additionally served as a Board Member of TDK-EPC Corp., the parent company of EPCOS AG. From 1982 to 2001, he held several management positions with EPCOS AG, the Siemens Group and Philips.
Gerhard Pegam graduated from the Technical College Klagenfurt, Austria, with a diploma in electrical engineering.

Other activities and vested interests
Gerhard Pegam is a Board Member of Zentralverband der Deutschen Elektroindustrie (ZVEI) and Süss Micro Tech AG.

7 **Kurt J. Hausheer**

1947, Swiss citizen
Member of the Board of Directors,
Chairman of the Audit Committee

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

Other activities and vested interests
none

Board of Directors

The rules and regulations governing the organization and duties of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon are to be found in the Swiss Code of Obligations, the Articles of Association of OC Oerlikon Corporation AG, Pfäffikon and the Organizational and Governance Rules of OC Oerlikon Corporation AG, Pfäffikon.

Members of the Board of Directors

In the year under review, the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon was composed of Tim Summers (Chairman since May 10, 2011), Kurt J. Hausheer, Dr. Urs A. Meyer, Gerhard Pegam, Carl Stadelhofer, Wolfgang Tölsner, Hans Ziegler and Vladimir Kuznetsov (Chairman until May 10, 2011), whose statutory term of office expired on May 10, 2011. With the exception of Vladimir Kuznetsov, who did not run for reelection, they were all elected or reelected, respectively, by the Annual General Meeting of Shareholders on May 10, 2011 for a term of office of one year.

In the three financial years preceding the reporting period, the non-executive members of the Board of Directors were not involved in the executive management of OC Oerlikon Corporation AG, Pfäffikon or any other Group company, with the exception of Vladimir Kuznetsov who briefly assumed the operational management responsibility for Oerlikon Solar from August 25, 2009 until October 31, 2009 and Hans Zieger who acted as CEO ad interim from August 25, 2009 until May 18, 2010. They also do not have any significant business connections with companies of the Oerlikon Group, with the exception of Wolfgang Tölsner, who acted as consultant of Group companies (see page 126, Note 24, to the consolidated statements). However, there are significant business connections between the Renova Group and Oerlikon Solar AG, Trübbach (see page 128, Note 24 to the consolidated financial statements). Tim Summers, Carl Staldelhofer and Vladimir Kuznetsov are members of corporate bodies of the Renova Group. Dr. Urs A. Meyer was CEO of Venetos Management AG (a company of the Renova Group) until May 30, 2011. Since then, he has only been in a mandate relationship with the Renova Group (regarding his Board membership at OC Oerlikon Corporation AG, Pfäffikon).

Composition of the Board of Directors

Name (nationality)	Domicile	Position	Age	Joined	Term expires	Executive/ non-executive
Tim Summers (GB)	CH	Chairman since 10.05.2011	44	2011	2012	Non-executive
Kurt J. Hausheer (CH)	CH	Member	64	2008	2012	Non-executive
Dr. Urs A. Meyer (CH)	CH	Member	47	2008	2012	Non-executive
Gerhard Pegam (AT)	DE	Member	50	2010	2012	Non-executive
Carl Stadelhofer (CH)	CH	Member	58	2008	2012	Non-executive
Wolfgang Tölsner (DE)	DE	Member	63	2010	2012	Non-executive
Hans Ziegler (CH)	CH	Member	59	2008	2012	Non-executive
Vladimir Kuznetsov (RUS)	CH	Member and Chairman until 10.05.2011	51	2007	–	Non-executive

Other activities and vested interests

Regarding the activities of the members of the Board of Directors in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, permanent management and consultancy functions for important Swiss and foreign interest groups and official functions and political posts, see page 58 et seq.

Elections and terms of office

Board members are elected annually by the General Meeting of Shareholders for a term of one year. They are eligible for reelection; a “year” means the period from one ordinary General Meeting of Shareholders to the next. In the event of elections for replacement or elections of additional members during the year, the period until the next ordinary General Meeting of Shareholders shall be deemed to constitute a year. Each member of the Board of Directors shall be elected individually. Eligible are only persons who have not completed their seventieth year of age on the election date. The General Meeting may, under special circumstances, grant an exception to this rule and may elect a member of the Board of Directors for one or several terms of office provided that the total number of these additional terms of office does not exceed three.

Internal organizational structure

The Board of Directors is the ultimate supervisory body of the Oerlikon Group. It is responsible for the overall management, oversight and control of the Oerlikon Group, determines the Group strategy and oversees the CEO. It sets forth guidelines on the general and strategic direction of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group and periodically reviews their implementation.

The Board of Directors consists of at least three but not more than seven members. Their majority shall be independent. In general, a Board member shall be deemed to be independent if during the three years immediately prior to taking up office he was neither a member of the Executive Committee, nor a member of the executive management of an Oerlikon Group company or an audit firm of any of them, nor close to any of the latter, and had no significant business relation, whether directly or indirectly, with the Oerlikon Group. Furthermore, the new credit facility agreement requires that a majority of the members of the Board of Directors be independent from Renova and any other party or group of parties controlling more than 20 % of the voting rights of OC Oerlikon Corporation AG, Pfäffikon.

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

The Chairman of the Board of Directors shall ensure that the Board of Directors may and does effectively carry out its superintendence and oversight role on an informed basis. He shall endeavor, in close contact with the CEO, to provide to the Board of Directors optimal information regarding operating activities of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group. Together with the CEO, the Chairman shall perform a leadership role in the implementation of the strategic orientation of the Group, as set out by the Board of Directors on a collegial basis, and shall represent OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group in relations with important shareholders, clients, further stakeholders, and with the general public.

The Chairman shall convene, prepare and chair Board meetings, may convene meetings of the Board Committees and shall coordinate the work of the Board of Directors and the Board Committees. In cases of uncertainty, he shall delineate authorities between the Board of Directors, its Committees and the CEO, unless the entire Board of Directors intends to address the matter.

The Board of Directors may at any time create committees from amongst its members to assist it in the performance of its duties. These committees are permanent advisory groups supporting the Board of Directors with their particular expertise. Unless expressly stated in the Organizational and Governance Rules, the Chart of Competences or the relevant committee's rules and regulations, they shall not have any authority to decide matters in lieu of the Board of Directors. They may prepare, review and investigate matters of relevance within their field of expertise and submit proposals to the Board of Directors for deliberation, but must not themselves take resolutions beyond recommendations, proposals or motions to be submitted to the Board of Directors for deliberation.

Currently there are three permanent Committees of the Board of Directors, namely the Audit Committee (AC), the Human Resources Committee (HRC) and the Strategy Committee (SC).

Membership of these Committees in the year under review was as follows:

Composition of Committees of the Board of Directors

Name (nationality)	Audit Committee (AC)	Human Resources Committee (HRC)	Strategy Committee (SC)
Tim Summers (GB)		Chairman since 10.05.2011	Chairman since 10.05.2011
Kurt J. Hausheer (CH)	Chairman		
Dr. Urs A. Meyer (CH)	Member		Chairman until 10.05.2011
Gerhard Pegam (AT)			Member
Carl Stadelhofer (CH)		Member	
Wolfgang Tölsner (DE)	Member		
Hans Ziegler (CH)		Member	Member
Vladimir Kuznetsov (RUS)		Chairman and Member until 10.05.2011	

Audit Committee (AC)

As a rule, the AC shall be composed of at least three members of the Board of Directors. Members of the AC are not eligible if they perform any executive management duties within the Oerlikon Group whilst in office, or have significant business relations with OC Oerlikon Corporation AG, Pfäffikon or Oerlikon Group, or have been members of the Executive Committee in the preceding three years. They must by all means have the degree of independence required by the Swiss Code of Best Practice for Corporate Governance, as amended from time to time. The majority of AC members, including its Chairman, must be experienced in the fields of finance and accounting and be familiar with internal and external auditing. As a separate advisory group, independent from the CEO, the AC shall advise the Board of Directors and exclusively follow the Board of Directors' instructions.

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

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

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

Human Resources Committee (HRC)

As a rule, the HRC shall be composed of at least three members of the Board of Directors. Members of the HRC are not eligible if they perform any executive management duties within the Oerlikon Group whilst in office, or have significant business relations with OC Oerlikon Corporation AG, Pfäffikon or Oerlikon Group, or have been members of the Executive Committee in the preceding three years. They must by all means have the degree of independence required by the Swiss Code of Best Practice for Corporate Governance, as amended from time to time.

The HRC supports the Board of Directors with regard to human resources related matters, in particular

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

The HRC approves the appointment and dismissal of Segment CEOs by the CEO as well as the compensation policies for the non-managerial staff and those members of the management who are neither Executive Committee members nor Segment CEOs. Furthermore, the individual compensation packages of the Board of Directors and the members of the Executive Committee are set by the HRC, subject to approval of the Board of Directors.

Strategy Committee (SC)

As a rule, the SC shall be composed of at least three members of the Board of Directors. Only one member of the SC is also eligible if performing any executive management duties within the Oerlikon Group whilst in office, or having significant business relations with OC Oerlikon Corporation AG, Pfäffikon or Oerlikon Group, or having been a member of the Executive Committee in the preceding three years.

The SC monitors that Oerlikon's strategy is properly established, implemented and complied with by the CEO and all other management levels of the Oerlikon Group. Furthermore, it ensures that the Board of Directors becomes aware on a timely basis of changing trends, technologies, markets, habits and terms of trade that could jeopardize Oerlikon's strategy.

The SC has currently no authority to decide matters in lieu of the Board of Directors.

Work methods of the Board of Directors and its Committees

The Board of Directors meets at the invitation of its Chairman at least four times a year, or more often if necessary. As a rule, the members of the Executive Committee are also invited to attend the Board meetings. Each Board member and the CEO may request the Chairman to convene a Board meeting by stating the reasons for such a request.

In 2011, six physical Board meetings and four telephone conferences were held, lasting on average around three hours and forty-five minutes. Eight meetings were attended by all Board members.

The members of the Committees, as well as their respective chairmen, are elected by the Board of Directors at the proposal of the Chairman of the Board. Their respective terms of office correspond to their term of office as a Director. Those Board members who are not member of a committee have the right to attend committee meetings with consultative vote. As a rule, the CFO and the Head of Group Internal Audit should attend the meetings of the AC, the CEO and the CHRO the meetings of the HRC, and the CEO the meetings of the SC. Additional persons (e.g. other members of the Executive Committee, representatives of the external auditors or Heads of Corporate Functions) may be invited, if required.

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

In 2011, there were seven meetings of the AC, lasting on average around three hours. The members of the AC participated in these meetings along with members of the Executive Committee and representatives of the Corporate Functions concerned (in particular Group Accounting and Reporting, and Group Internal Audit). The external auditors (KPMG AG) took part in three AC meetings. The HRC held six meetings in 2011 lasting on average two hours, the SC held five meetings lasting on average around four hours. In addition to the official meetings of the Board Committees, numerous workgroup meetings comprised of different participants were held.

Definition of areas of responsibility

Pursuant to Art. 716b CO and Art. 22 Para. 3 of the Articles of Association, the Board of Directors has in principle delegated the operational management of the business of the OC Oerlikon Corporation AG, Pfäffikon and of the Oerlikon Group to the CEO. The scope of tasks for which the Board of Directors bears responsibility essentially encompasses those inalienable and non-delegable duties defined by law. These include the ultimate management of the corporation, the determination of the strategic direction and of the organization of the Group, the structuring of the accounting system, the financial controls and the financial planning, the appointment and removal of the persons entrusted with the management and representation of the corporation as well as the ultimate supervision of those individuals entrusted with the management of the corporation. According to the company's Organizational and Governance Rules it is also incumbent upon the Board of Directors to decide on the acquisition, divestiture, establishment, restructuring or liquidation of strategy-relevant companies or businesses and on business transactions whose financial value exceeds certain amounts.

The CEO is responsible for all issues relating to the operational management of the business of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group, to the extent such decisions are not expressly reserved to the Board of Directors or delegated to individual Group companies. The Executive Committee is the supreme advisory body advising the CEO with respect to the management of the business of OC Oerlikon Corporation AG, Pfäffikon and the Oerlikon Group. The Executive Committee is chaired by the CEO. In the case of an Executive Committee member dissenting with a decision of the CEO, such member may immediately request the CEO to submit such matter to the Chairman of the Board of Directors for his recommendation. The CEO shall then take the final decision.

More information regarding the areas of responsibility of the Board of Directors, the CEO and the Executive Committee can be found in the company's Organizational and Governance Rules published on the Oerlikon website: www.oerlikon.com/corporate_governance/org.

Information and control instruments vis-à-vis the Executive Committee

The Board of Directors has a wide array of instruments that enable it to perform the tasks of monitoring strategic and operational progress as well as risk exposure. The instruments at its disposal include the following elements:

The Board of Directors' right of access to and the CEO's duty of information: The CEO reports at Board of Directors' meetings on its day-to-day operations, operating results and important business matters. Extraordinary occurrences must be immediately notified to the Chairman of the Board of Directors and to the Chair of the relevant Committee, if any. With the approval of the Chairman, members of the Board of Directors may also access specific business records and/or obtain information from any employees of the Oerlikon Group. The Board of Directors and its Committees regularly take advice from members of the Executive Committee in order to ensure that the most comprehensive and up-to-date information on the state of the company and all relevant elements are included in its decision-making. Additionally, Segment CEOs, Heads of Business Units and Corporate Functions, or other experts may be consulted on a case-by-case basis in order to gain detailed and comprehensive information on complex matters.

Accounting and reporting: The Group Accounting and Reporting function is responsible for the Group's Management Information System (MIS) which links all major Group companies and production sites directly with Group headquarters to provide the Executive Committee and the Board of Dirctors with institutionalized Group reporting on a monthly basis. These are consolidated to show the performance of each Business Unit and the Group, the reasons for any deviations as well as graphs of the key performance indicators. The Board of Directors may demand access to the relevant details at any time. Currently, MIS undergoes a process of further expansion, to further increase the quality and the volume of the reported financial statements and to enable the provision of a wider variety of different financial reports.

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

Risk management: A key component of the risk management system is the half-yearly generation of risk maps for the Group as a whole, as well as for its individual Business Units. All types of risks, internal and external, such as market, credit and operational risks are considered, including compliance and reputational aspects, and actions are defined in order to mitigate the risk exposure. Internal risk reporting is performed via the Group Risk Report, displaying the relevant risks and defined risk mitigation actions from a group-wide perspective. The Group Risk Report is prepared half-yearly and is discussed in the Executive Committee and finally in the Board of Directors (Audit Committee, entire Board). On this basis, the Board of Directors is monitoring the risk profile of the Group and the risk mitigation actions. For further information regarding risk management, see page 84 et seq., section 8.0 Risk management, page 118 et seq., Notes 18–20, to the consolidated financial statements and page 141, Note 19, to the financial statements of OC Oerlikon Corporation AG, Pfäffikon.

Compliance: There is a Group wide compliance function in order to ensure the compliance with legal, regulatory and internal regulations as well as the Group's ethical standards, in particular by preventive measures, training, information and consulting. In this context, in 2009, a new Code of Conduct (including a Whistleblowing Policy) was introduced. To further strengthen the compliance within Oerlikon, an external web and telephone based whistle-blowing hotline was set up. Furthermore, in 2011, emphasis was put on preventing corruption and on the introduction of a process for business partner due diligence. For further information regarding Compliance, see page 50 et seq., section 5.0 Compliance.

Internal audit: Internal Audit is an independent and objective assurance activity that assists Oerlikon in accomplishing its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes. The Head of Group Internal Audit reports functionally to the Chair of the Audit Committee of the Board of Directors and administratively to the CFO. The Audit Committee approves the budget, the resources and the internal audit plan for the following year every autumn. Group Internal Audit closely coordinates their plans and activities with External Audit. Group Internal Audit projects are selected on the basis of a Group-wide risk assessment in coordination with Group Risk Management. The annual audit plan has the appropriate balance between strategy, operational, financial, compliance, information technology and follow-up reviews. The results of internal audits are communicated to the management team responsible, the Executive Committee, the Audit Committee, the Chairman of the Board and the external auditors through formal audit reports. During 2011 more than 55 internal audits were conducted.

External audit: The external auditor examines the books and accounts of OC Oerlikon Corporation AG, Pfäffikon and those of Oerlikon Group, coordinating his audit plan with that of Internal Audit. On completion of the audit the external auditor prepares a comprehensive auditor's report to inform the Audit Committee and the Board of Directors about the detailed findings of the audit, and a summary thereof for the General Meeting of Shareholders. Since 2003 the external audit has been carried out by KPMG AG. For further information regarding auditors, see page 72 et seq.

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

Leadership and accountability
The Oerlikon Executive Committee

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

Professional background and education

Jürg Fedier was appointed Chief Financial Officer effective January 1, 2009. From 2007 to 2008 he acted as CFO of Ciba, Switzerland. Between 2006 and 2007, he was Head of Finance of Dow Europe and a Member of the Executive Board. From 2002 to 2006, Jürg Fedier served as Vice President Finance for Dow Chemical, Performance Chemicals, USA, between 2000 and 2002 as Global Business Finance Director for Dow Chemical, Thermosets. From 1978 to 2000, he filled several management positions with Dow Chemical in the USA and in Asia.
Jürg Fedier holds a Commercial Diploma from the College of Commerce in Zurich, Switzerland, and completed international executive management programs at the IMD, Switzerland, and the University of Michigan, USA.

Other activities and functions

none

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

Professional background and education

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

Other activities and vested interests

Dr. Michael Buscher is Deputy Chairman of the Advisory Board of PCS Power Converter Solutions GmbH.

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

Professional background and education

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

Other activities and vested interests

none

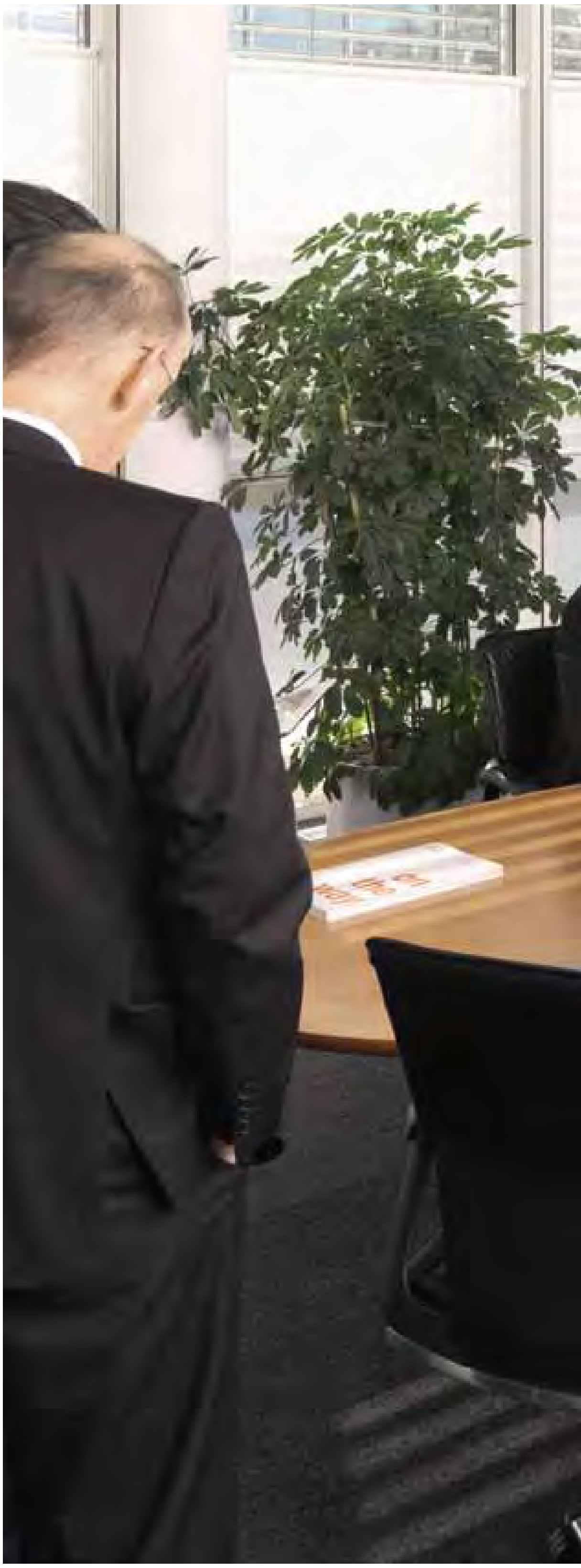
Thomas Babacan[2]
1969; German citizen
Chief Operating Officer (COO)

Professional background and education

Thomas Babacan was appointed Chief Operating Officer effective October 1, 2008 and held this position until his resignation on December 31, 2011. From 2009 to 2011, he additionally held the position of CEO Oerlikon Textile. Between 2005 and 2008, he acted as CEO of Oerlikon Vacuum, Germany, and in 2005, he acted as CFO of Oerlikon Vacuum, Germany. From 2002 until 2005, he served as Regional Executive Europe and member of the Extended Executive Board of Unaxis Group (now Oerlikon Group). Between 2000 and 2002, he served as Deputy Group Treasurer of Unaxis Management AG (now OC Oerlikon Management AG, Pfäffikon), Switzerland, and was also responsible for special corporate finance (M&A) projects and for setting up the Greater China project. From 1999 until 2000, he held a position with Balzers & Leybold Deutschland Holding GmbH (now Oerlikon Deutschland Holding GmbH).
Thomas Babacan holds a degree in economics from the Johann Wolfgang Goethe University, Frankfurt, Germany.

Other activities and vested interests

none



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[1] A description of the role and authority of each member of the Executive Committee can be found in the company's Organizational and Governance Rules published on the Oerlikon website: www.oerlikon.com/corporate_governance/org.
[2] Thomas Babacan left the Group on December 31, 2011.


1
2
3

Executive Committee

Management philosophy

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

Members of the Executive Committee

On December 31, 2011 Dr. Michael Buscher (CEO), Adrian Cojocaru (CHRO), Jürg Fedier (CFO) and Thomas Babacan (COO) were members of the Executive Committee, whereas Thomas Babacan, COO since October 1, 2008, left the Group on December 31, 2011. Raafat Morcos, Chief Restructuring Officer (CRO) since June 1, 2010, resigned from this position on August 17, 2011 and left the Group on November 30, 2011.

With the exception of Thomas Babacan (who left the Group on December 31, 2011), no member of Oerlikon's Executive Committee previously carried out tasks for OC Oerlikon Corporation AG, Pfäffikon or any other Group company. Regarding Thomas Babacan, see page 68.

Composition of the Executive Committee

Name	Nationality	Age	Position	Joined	In position since	Stepped down
Dr. Michael Buscher	DE	46	CEO	2010	19.05.2010	
Adrian Cojocaru	RO	47	CHRO	2010	10.11.2010	
Jürg Fedier	CH	56	CFO	2009	01.01.2009	
Thomas Babacan	DE	42	COO	1999	01.10.2008	31.12.2011
Raafat Morcos	DE	50	CRO	2010	01.06.2010	17.08.2011

Other activities and vested interests

Regarding the activities of the members of the Exective Committee in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, permanent management and consultancy functions for important Swiss and foreign interests groups and official functions and political posts, see page 68.

Management contracts

There are no management contracts with third parties.

Shareholders' participation

Voting-rights and representation restrictions

There are no restrictions on voting rights. Each shareholder may be represented at the General Meeting by the institutional representative (OC Oerlikon Corporation AG, Pfäffikon), by the company-appointed independent voting rights representative or by some other registered shareholder appointed by him to act as proxy with written authorization to represent his shares. The proxy need not be a registered shareholder unless his power of proxy is based on a legal contract.

Statutory quorums

The Articles of Association of OC Oerlikon Corporation AG, Pfäffikon provide for no specific quorums that go beyond the provisions of corporate law.

Convocation of the General Meeting of Shareholders

Supplemental to the provisions of corporate law, the company's Articles of Association provide for the convocation of a General Meeting of Shareholders by a one-off announcement in the Swiss Commercial Gazette.

Inclusion of items on the agenda

The company's Articles of Association provide that shareholders with a holding of CHF 1 000 000 nominal value are entitled to request that an item be included on the agenda, provided that their requests are submitted in writing and include the actual agenda item and the actual motions; this request is to be made at the latest ten weeks prior to the date of the General Meeting of Shareholders.

Inscriptions into the share register

The 39th General Meeting of Shareholders will be held on April 12, 2012 in the KKL Luzern (Culture and Convention Center), Lucerne. Entitled to vote in the General Meeting of Shareholders are the shareholders whose names are inscribed into the share register as shareholders with voting rights at the cut-off date to be determined by the Board of Directors.

Right to inspect the minutes of the General Meeting

The minutes of the 38th Annual General Meeting of Shareholders held on May 10, 2011 can be viewed on the Internet at www.oerlikon.com and shareholders may also read the minutes at the headquarters of the corporation upon prior notice. The minutes of the 2012 General Meeting will be published on the Oerlikon website as soon as they have been compiled.

Changes of control and defense measures

Duty to make an offer

In accordance with the Articles of Association of OC Oerlikon Corporation AG, Pfäffikon, a person who acquires shares in the company is not required to make a public purchase bid pursuant to Articles 32 and 52 of the Federal Act on Stock Exchanges and Securities Trading (opting out).

Clauses on changes of control

Please see under Remuneration Report – Other conditions and payments (page 83).

Auditors

Duration of the mandate and term of office of the lead auditor

KPMG AG has been the auditor of the company since 2003, it was elected by the General Meeting of May 23, 2003 for the first time. The auditor is elected by the General Meeting for a one-year term of office. At the 38th General Meeting of May 10, 2011, KPMG was confirmed in that role for an additional year. The lead auditor responsible for the mandate, Mr. Herbert Bussmann, began serving in this function in respect of the financial year ended December 31, 2005. In accordance with Art. 730a Para. 2 of the Swiss Code of Obligations, the lead auditor's term of office is seven years at maximum.

Auditing fees

In the calendar year 2011, KPMG invoiced the company for CHF 2 852 695 in global auditing fees.

Additional fees

In the calendar year 2011, KPMG invoiced the company for CHF 18 360 in additional services, CHF 9 190 for tax consultancy and the rest (CHF 9 170) for general consultancy work.

Informational instruments pertaining to an external audit

In accordance with Art. 728b Para. 1 of the Swiss Code of Obligations, the external auditors issue to the Board of Directors on an annual basis a comprehensive report including statements pertinent to bookkeeping and company reporting, the internal controlling system and the performance and the result of the audit. Furthermore, the external auditors conduct interim audits during the year, on which they report their findings to the Executive Committee and the Audit Committee.

Once the auditing work has been completed the Audit Committee assesses the results and findings of the external audit, discusses its assessment with the lead auditor in charge and reports the relevant findings to the Board of Directors. Further, the Audit Committee submits proposals in response to the external auditors' recommendations, objections and other discovered deficiencies, if any, to the Board of Directors for deliberation and monitors the implementation of any relevant action decided upon by the Board of Directors.

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

On behalf of the Board of Directors, the Audit Committee evaluates the work done by the external auditors based on the documents, reports, and presentations issued by them as well as on the materiality and objectivity of their statements. Therefore, the Audit Committee consults with the CFO and the Head of Group Internal Audit. The fees paid to the external auditors are reviewed on a regular basis and compared with the auditing fees paid by other comparable listed Swiss companies. Auditing fees are negotiated by the CFO, evaluated by the Audit Committee and subject to approval of the Board of Directors.

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

Information policy

General

Oerlikon provides its shareholders and the capital market with transparent, comprehensive and timely information on facts and developments of relevance to them, and in a manner that is in keeping with the principle of equal treatment of all capital market participants. Apart from its detailed annual report and half-year report, which are prepared in accordance with International Financial Reporting Standards (IFRS), Oerlikon publishes key financial figures (sales, orders received and orders on hand) and a related commentary for the first and third quarters of its financial year. In 2011, the key financial figures sales, orders received and orders on hand were provided. Additionally, press releases keep shareholders and the capital market informed of significant changes and developments in the company. The company’s website, www.oerlikon.com, is a permanently accessible platform for information concerning the company.

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

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

Press releases

Press releases published in 2011, along with all others dating back to January 2007, can be accessed on our website at www.oerlikon.com/pressreleases. Those interested in receiving our press releases regularly by e-mail can register at www.oerlikon.com/pressreleases.

Financial calendar

March 5, 2012
Annual results 2011 and Annual Report 2011

April 12, 2012
Annual General Meeting of Shareholders, Lucerne

April 30, 2012
Q1 results

August 3, 2012
Q2 results and Half-Year Report 2012

October 30, 2012
Q3 results

Contact

Group Communications	Investor Relations
Burkhard Böndel	Andreas Schwarzwälder
T: +41 58 360 96 02	T: +41 58 360 96 22
F: +41 58 360 91 93	F: +41 58 360 98 22
pr@oerlikon.com	ir@oerlikon.com

OC Oerlikon Corporation AG, Pfäffikon
Churerstrasse 120
CH-8808 Pfäffikon SZ
Switzerland
www.oerlikon.com/ir

7.0 Remuneration report

In this remuneration report we inform our shareholders and interested members of the general public about the remuneration paid to our Directors and senior executives. We thus comply with the Art. 663b^{bis} and 663c Para. 3 of the Swiss Code of Obligations (CO) and Para. 5.1 of the Corporate Governance Directive (DCG) of the SIX Swiss Exchange for disclosing the compensation policy and remuneration paid to the Board of Directors and the Executive Committee. Moreover, in regard to remuneration reporting, Oerlikon complies with the Swiss Code of Best Practice for Corporate Governance of Economiesuisse. Oerlikon prepares its consolidated financial statements in accordance with IFRS (International Financial Reporting Standards). These regulations may at times require different interpretations and presentations. See also page 125, Note 23 (OC Oerlikon participation plans) and page 126 et seq., Note 24 (Related Party transactions) to the consolidated financial statements.

Compensation policy

At Oerlikon we believe that compensation must be attractive, motivating and equitable. Our compensation systems provide competitive base salaries and attractive incentive schemes. They take into account individual and company performance, reward excellence and promote an entrepreneurial attitude of sharing opportunities and risks.

To determine competitive and equitable compensation packages, we establish external equity by continuously surveying the markets in which we operate and we establish internal equity by following a performance management process. Performance management is a crucial element in setting expectations, aligning targets and assessing their achievement against individual and business results.

Determining compensation

The Human Resources Committee supports the Board of Directors in all matters relating to the compensation and performance management at Oerlikon, in particular:

- the compensation policies for members of the Board of Directors, the Executive Committee, the Executive Leadership Team and the Group-wide managerial and non-managerial staff;
- the objectives for the CEO and assessing their achievement;
- the performance assessment of Executive Committee members by the CEO.

The compensation policies for the Board of Directors, the Executive Committee and the Executive Leadership Team require a regular review of whether or not the compensation is:

- competitive, transparent and fair by analyzing comparable companies and salary trends in the markets;
- aligned with the consolidated profit and individual performance;
- consistent with the values and long-term strategy of Oerlikon.

This review is the basis for the Board of Directors to approve in:

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

Approval process

Decision on	Prepared by	Set by	Approved by
Remuneration of the members of the Board of Directors (incl. Chairman)	Chairman	Human Resources Committee	Board of Directors
Compensation of the CEO	Chairman	Human Resources Committee	Board of Directors
Compensation of members of the Executive Committee	CEO	Human Resources Committee	Board of Directors
LTI grants	CEO	Human Resources Committee	Board of Directors

Compensation systems

Board of Directors

The compensation paid to members of the Board of Directors consists of a fixed cash component and a restricted stock units (RSU) component with a fixed grant value. The cash component is defined by the responsibility, complexity and requirements for the tasks assumed. Each task is valued differently and depending on the number of tasks assumed by each member, the values are cumulated. The members of the Board of Directors are paid for their service starting with their election for the duration of their term.

The compensation is reviewed by the Human Resources Committee (HRC) on an annual basis and, if necessary, adjusted by the entire Board of Directors based on a proposal by the HRC. Based on a study requested from PwC by the HRC, the Board of Directors decided to lower the cash compensation for the mandate starting in May 2011 while leaving the fixed grant values for restricted stock units (RSU) unchanged.

Cash compensation per task

	2010/11		2011/12	
in CHF 1 000	Fee	Expense Allowance	Fee	Expense Allowance
Board member	75	5	75	5
Chairman of the Board of Directors		10		10
Chairman of Audit Committee	70		50	
Chairman of Human Resources or Strategy Committee	70		40	
Member of Audit Committee	50		30	
Member of Human Resources or Strategy Committee	50		20	

The grant value of the RSU is fixed (CHF 125 000 per board member and CHF 280 000 for the Chairman of the Board). The number of RSU is determined by dividing the fixed grant value by the volume weighted average share price over 10 trading days immediately following the date of the release of the previous year’s annual results. Although the grant values of the RSU are fixed, they are considered a variable compensation element since the development of their values follows the share price. RSU are blocked from their grant at the Annual General Meeting of Shareholders until the following Annual General Meeting of Shareholders at which time they are converted into Oerlikon shares. For Directors resigning their mandate prior to the end of the term, the number of RSU converted into shares is determined at the sole discretion of the Board of Directors.

The total compensation for the eight non-executive members of the Board of Directors in 2011 was CHF 2.3 million. In 2010 the total compensation for the six non-executive members of the Board of Directors amounted to CHF 2.0 million. In 2010, Hans Ziegler was an executive member of the Board of Directors. In 2010, the total amount paid to executive and non-executive members of the Board of Directors was CHF 3.4 million.

Compensation of non-executive members of the Board of Directors

in CHF 1 000	Board of Directors	Strategy Committee	Audit Committee	HR Committee	Cash compensation	Restricted Stock Units (RSU) 2010/11 [1]	Restricted Stock Units (RSU) 2011/12 [1]	Other compensation [2]	Total compensation 2011	Total compensation 2010
Vladimir Kuznetsov	C [3]			C [3]	52	134	–	25	212	562
Tim Summers	C [4]	C [4]		C [4]	99	–	161	17	277	–
Kurt J. Hausheer	M		C		132	60	70	24	287	359
Dr. Urs A. Meyer	M	C [3]	M		138	60	72	25	294	389
Hans Ziegler	M	M		M	137	60	72	25	293	1 311
Carl Stadelhofer	M			M	103	60	72	23	258	338
Gerhard Pegam	M	M			106	60	70	5	241	135
Wolfgang Tölsner [5]	M		M		341	60	72	5	478	260
Total					**1 108**	**494**	**588**	**149**	**2 339**	**3 354**

C(hairman), M(ember)

[1] Accounting value of restricted stock units (RSU) for the mandate 2010/11 is based on a share price of CHF 5.0 (grant date) and for the mandate 2011/12 it is based on a share price of CHF 6.9 (grant date).

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

[3] Until May 10, 2011.

[4] As of May 10, 2011.

[5] Mr. Tölsner received, in addition to his Board remuneration, a fee for his consultancy work for Oerlikon Group Companies, which is already included in the cash compensation.

Executive Committee

Members of the Executive Committee receive compensation consisting of base salary, expense allowances, a performance-related annual bonus and a performance-related Long-Term Incentive (LTI).

The Board of Directors approved the decision by the Human Resources Committee to adjust the compensation of members of the Executive Committee in 2011 based on benchmarks from AonHewitt of comparable positions in multi-national companies of comparable size that are headquartered in Switzerland. No other participants were present when decisions on Executive compensation were made.

The base salary is determined primarily by the executive's tasks, responsibilities, skills, managerial experience and market conditions and is paid in cash. Base salaries were increased by a similar proportion as those of other managers and staff. In addition, the target amounts for Short- and Long-Term Performance Incentives were increased to provide additional incentives for reaching and exceeding challenging business objectives. This adjustment was made in conjunction with the adoption of a new Short-Term Incentive system for the Executive Committee.

As of 2011, members of the Executive Committee receive their performance-related annual bonus in cash and participate in the same STI program as the Executive Leadership Team and other senior managers. This program consists of financial targets (Return on Net Assets, Operating Free Cash Flow) which are weighed 70 % and individual targets which are weighed 30 %. The maximum bonus cannot exceed 205 % of the target amount. In previous years the limit was set at 150 % of target amount.

In 2011, members of the Executive Committee participated in a performance-share program. Following the vesting period of three years, a number of Performance Share Awards (PSA) is converted into Oerlikon shares. Performance is measured by the cumulative economic profit (Oerlikon Value Added) of the Oerlikon Group over a three-year period. In 2011, no grants were made under the Restricted Stock Units (RSU) program. (See equity plans below.) The variable portion of the total target compensation (Short- and Long-Term Incentive) of members of the Executive Committee is on average 56 %.

The total compensation paid to members of the Executive Committee for the year 2011 was CHF 9.9 million. The highest compensation paid to an individual Committee member was CHF 4.1 million.

Compensation of members of the Executive Committee

in CHF 1 000	Base Salary	Bonus[1]	LTI (2008–11)[2]	LTI (2009–11)[2]	LTI (2010–13)[2]	LTI (2011–14)[2]	Pension	Other compensation [3]	Severance payment	Total compensation 2011	Total compensation 2010
Total compensation to members of the Executive Committee	2 870	2 637	–	116	545	434	875	287	2 138	9 902	9 944
Thereof highest paid to one individual: [4] Thomas Babacan (former COO)	562	1 116	–	41	–	–	155	117	2 138	4 128	4 354

[1] Effective bonus 2010 paid in 2011 and one bonus 2011 paid in 2011.The expected bonus outcome for the year 2011 amounts to CHF 3 million. Bonus payments will be made in March/April 2012, after the financial results are published.

[2] Accounting value of Performance Share Awards (PSA) is based on a weighted average share price of CHF 12.3 (grant date in 2008), CHF 4.6 (grant date in 2010) and CHF 6.8 (grant date in 2011). Accounting value of Restricted Stock Units (RSU) is based on a weighted average share price of CHF 4.2 (grant date in 2009).

[3] Other compensation includes expense, housing and car allowances.

[4] Thomas Babacan's employment ended on December 31, 2011. The severance payment included the contractually agreed base salary for 12 months and a contractually agreed termination payment. The highest compensation paid in 2010 went to the former General Counsel & Corporate Secretary.

Compensation of former members of governing bodies

During 2011, no compensation was paid to former members of the Board of Directors, either by OC Oerlikon Corporation AG, Pfäffikon or by any other company of the Oerlikon Group. A former member of the Executive Committee received a fee of CHF 21 000 for a board membership. No compensation was paid to former members of the Board of Directors and the Executive Committee in 2010.

Executive Leadership Team

The Executive Leadership Team is comprised of the Segment CEOs and the heads of specific Corporate Functions. Their compensation system is composed of a base salary and a performance-related annual cash bonus and a Long-Term Incentive (LTI) program. The base salary is determined by the executive's tasks, responsibilities, skills, managerial experience and market conditions. Base salaries were increased by a similar proportion as those of other managers and staff depending on market conditions and individual performance evaluations.

The Executive Leadership Team participates in the Corporate Short-Term Incentive (STI) program, which applies to all senior managers as well as the Executive Committee of the Oerlikon Group. This program consists of financial targets (Return on Net Assets, Operating Free Cash Flow) which are weighed 70 % and individual targets which are weighed 30 %. Each financial target has a lower threshold below which no bonus for this target is paid and an upper threshold above which no additional bonus is paid. Individual targets are defined at the beginning of the year, reviewed in mid-year and evaluated at the beginning of the following year. The performance-related annual bonus cannot exceed 205 % of the target bonus.

Equity plans

Equity plans in the form of Restricted Stock Units (RSU), Performance Share Awards (PSA) and Stock Options are in existence, pursuant to which the holder is entitled to shares of OC Oerlikon Corporation AG, Pfäffikon.

Three RSU plans existed in 2011. One RSU plan was issued in 2008 for the Board of Directors and will be continued in the future. A second RSU plan was issued for the Executive Committee in 2009 and expired upon exercise in 2011. A third RSU plan was issued to members of senior management in 2009 and will be discontinued upon exercise in 2012.

One PSA plan existed in 2011. Grants under this plan were made to the Executive Committee and members of senior management in 2008, 2010 and 2011 and the plan will be continued in the future. The grant made in 2008 was exercised in 2011.

One stock options plan existed in 2011. The options plan was discontinued in 2008 while the rights granted under this plan in 2007 will lapse in 2013.

All of the above equity plans are described in more detail below:

Restricted Stock Units (RSU)

Members of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon receive a portion of their compensation by means of Restricted Stock Units (RSU) which are allocated on the day of the annual ordinary shareholders meeting and vest upon the next annual ordinary shareholders meeting at which time they are converted into Oerlikon shares. For Directors resigning their mandate prior to the end of the term, the number of RSU converted into shares is determined at the sole discretion of the Board of Directors. The value of the RSU per year end is based on the weighted average share price of CHF 6.9.

Members of the Executive Committee receive a portion of their compensation as Long-Term Incentive (LTI) in the form of Restricted Stock Units (RSU) for OC Oerlikon Corporation AG, Pfäffikon shares. The number of RSU is a function of a fixed monetary amount and the share price at the time of vesting but cannot exceed a set limit. The RSU are subject to a vesting period of two years. The value of the RSU per year end is based on the weighted average share price of CHF 4.2. No RSU were granted to the Executive Committee in 2011 as the plan expired upon exercise.

Members of senior management may receive as portion of their compensation a Long-Term Incentive (LTI) in the form of Restricted Stock Units (RSU) for OC Oerlikon Corporation AG, Pfäffikon shares with a vesting period of 3 years. The value of the RSU per year end is based on a weighted average share price of CHF 8.6. No RSU were granted to the members of senior management since 2010.

Restricted Stock Units (RSU)

Year of allocation	Outstanding on 1.1	Granted in 2011	Forfeited in 2011	Exercised in 2011	Outstanding on 31.12	Average share price CHF	Expenses for the period in CHF million	Vesting period
2009	220154	–	98443	121711	–	4.2	0.1	01.05.09–30.04.11
2009	244295	–	–	3619	240676	8.6	0.7	01.05.09–30.04.12
2010	196565	–	–	196565	–	5.0	0.5	09.06.10–10.05.11
2011	–	145684	–	–	145684	6.9	0.6	11.05.11–12.04.12
Total	**661014**	**145684**	**98443**	**321895**	**386360**		**1.9**	

Performance Share Awards (PSA)

Members of the Executive Committee and senior management may receive a portion of their compensation as Long-Term Incentive (LTI) in the form of awards for OC Oerlikon Corporation AG, Pfäffikon shares which are based on performance conditions and a vesting period of three years. The performance conditions consist of the cumulative economic profit (Oerlikon Value Added) over a three-year period of the respective business in which participants operate. Their achievement determines the effective number of total Performance Share Awards (PSA). Upon vesting, the effective number of PSA is converted into shares.

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

Performance Share Awards (PSA)

Year of allocation	Outstanding on 1.1	Granted in 2011	Forfeited in 2011	Exercised in 2011	Outstanding on 31.12	Average share price CHF	Expenses for the period in CHF million	Vesting period
2008	44255	–	43458	797	–	12.3	–	01.05.08–30.04.11
2010	551309	–	66844	–	484465	4.6	1.1	01.05.10–30.04.13
2011	–	626538	60820	–	565718	6.8	0.5	01.05.11 –30.04.14
Total	**595564**	**626538**	**171122**	**797**	**1050183**		**1.6**	

Stock Options

In previous years, employees could receive a portion of their compensation as options for OC Oerlikon Corporation AG, Pfäffikon with a blocking period of one, two, three or four years. Holders are entitled to purchase one share for each option held. The value per year end is based on a Black-Scholes valuation including a weighted average share price of CHF 75. No options have been granted since 2008.

Share options

Year of allocation	Outstanding on 1.1	Granted in 2011	Forfeited in 2011	Exercised in 2011	Outstanding on 31.12	Exercise price in CHF	Expenses for the period in CHF million	Exercise period
2007	9282	–	–	–	9282	80	–	01.01.08–31.12.13
	9282	–	–	–	9282	80	–	01.01.09–31.12.13
	9282	–	–	–	9282	80	–	01.01.10–31.12.13
	9282	–	–	–	9282	80	–	01.01.11–31.12.13
Total	**37 128**	**–**	**–**	**–**	**37 128**		**–**	

Other conditions and payments

The employment contracts of the most recent members of the Executive Committee (CEO, CRO and CHRO) contain no provisions relating to severance payment or change in control.

The employment contracts of Executive Committee members are of unlimited duration and terminate automatically upon a member reaching the age of 62.

Notice Period: The contracts provide for a notice period of twelve months. The contract of the Chief Restructuring Officer (CRO) provided for a shorter period.

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

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

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

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

Additional fees: Members of the Board of Directors, the Executive Committee or related parties did not receive any fees or other remuneration for additional services to OC Oerlikon or one of its subsidiaries in the 2011 business year.

Loans: In 2011, neither OC Oerlikon nor its subsidiaries granted any guarantees, loans, advances or credit facilities to members of the Board of Directors, the Executive Committee or related parties.

8.0

Risk management

1. The 2011 enhancement of Oerlikon's risk management system has resulted in more detailed risk assessments aligned with the strategic planning process.
2. Oerlikon completed two risk management cycles in 2011 which identified and assessed risks and mitigating actions from across the Group.
3. Oerlikon's new risk management system integrates risk management into the governance of the company through the Group Risk Report, which details risks and mitigations for the Board of Directors and Executive Committee.

Oerlikon takes a company-wide, holistic approach to the identification, assessment and management of business risks. All organizational units, their business processes and projects are evaluated across the entire spectrum of market, credit and operational risks. The risk management system is a management tool that serves to integrate risk management within the company's executive ranks and organizational structure.

Oerlikon's risk management system

The foundation of risk management at Oerlikon is the Group's risk policy, approved by the Board of Directors, and the risk management directive adopted by the Executive Committee. The policy outlines the fundamental objectives and principles, whereas the directive defines the framework and its operative instruments.

Objectives and principles

The Board of Directors has defined four primary objectives for the risk management system. First, it must help the company secure its existence and profitability by creating a transparent risk profile and continuously improving and monitoring it. Second, it must improve strategic planning by helping secure future revenue and reducing potential risk-related expenses, which safeguards and enhances the company's value. Third, it must align total exposure with the company's ability to bear risk and ensure that the risk-return ratio of business activities is transparent. Last, risk management must also help protect the company's reputation.

Organization

Roles and responsibilities within the risk management system are defined as follows:

- According to the Swiss Stock Corporation Law, the Board of Directors bears overall responsibility for oversight and monitoring of risk management. Supported by the Audit Committee, it monitors the Group's risk profile on the basis of internal reporting. In addition, it reviews the risk management system's performance and effectiveness. The Board of Directors also uses internal auditing to fulfill and document its oversight and monitoring duties.
- Pursuant to Oerlikon's Organizational and Governance Rules, the Chief Executive Officer (CEO), with the support of the Executive Committee, bears overall responsibility for the design and implementation of risk management (delegated management responsibility for risk management). The CEO approves the risk management directive and revises it. Moreover, the CEO monitors the Group's risk profile and the implementation of measures to reduce risk.
- In accordance with the principle of risk ownership, the Segments, Business Units and Corporate Departements (assessment units) bear responsibility for risks and damages/losses in their respective areas. Each is responsible for the implementation of the risk management process. Each assessment unit has a risk management coordinator who coordinates the unit's activities with the Group Risk Management Department. The assessment units conduct risk assessments, devise risk-mitigation measures and report results to Group Risk Management. They continuously monitor their risk profiles and report damages/losses to Group Risk Management.
- As process owner, Group Risk Management is tasked with the operative implementation and enhancement of the risk management system. The Head of Group Risk Management assumes technical responsibility for risk management. Group Risk Management provides, among other things, methods and tools, supports the assessment units in conducting risk assessments and developing countermeasures and oversees the implementation of risk-mitigation measures. Other responsibilities include internal reporting, internal audits and training with respect to the risk management system. Group Risk Management also coordinates the risk-related activities of the other units as needed.
- Corporate and decentralized Functions carry out certain risk-related activities, e.g., Group Treasury (liquidity, foreign ex-

change and interest rate risks), Group Tax (tax risks), Group Legal Services (legal risks, including trade control), Group Compliance (compliance risks), IT Security (IT risks), Safety and Security (safety and security risks), Insurance Management (insurable risks), etc.

Culture

Shaping the risk culture at Oerlikon are the Code of Conduct, training, best-practice sharing, continuous implementation of risk management processes and the role model functions of the Executive Committee and senior management. Moreover, statements illustrating the desired risk culture are part of the risk management directive.

Current situation

Oerlikon does business in markets characterized by different risks and uncertainties. The Segments and Business Units have different risk profiles that are contingent upon strategy, business model and operative implementation. From the perspective of the Group's holding company, the following risks might impact Oerlikon's businesses and its performance.

Market risks

- Economic slowdown and business cycles: The deterioration of the macroeconomic environment in Europe (sovereign-debt and euro crisis) and around the world, as well as business cycles in various markets could cause demand to decline. As a result, order intake, sales and profitability could decrease.
- Competition: competition and overcapacities in various markets could exert pressure on prices or trigger a decline in orders. This could cause order intake, sales and profitability to decrease.
- Foreign-currency effects (transaction and translation risk): Unfavorable currency developments, mainly with respect to the euro and US dollar, could trigger higher procurement costs and lower sales figures. In addition, profitability could decline as local currencies are translated into the Group's reporting currency (Swiss franc).
- Technology risks: When technologies do not prove successful in the market, orderintake and sales targets may not be reached. Impairment charges may have to be taken.
- Country risks: for example, new or higher taxes and fees, currency appreciation or depreciation, higher interest rates, slowed growth, loss of proprietary information (intellectual property) , etc. could cause sales to decline and costs to rise, resulting in decreased profitability.

Credit risks

Credit risks result when customers cannot meet their obligations as agreed. At present, there are no significant credit risks for the Group.

Operational risks

- Additional costs/warranties: insufficient product quality or machines and equipment that fail to perform as promised could lead to additional costs (contractual warranty obligations). This could reduce profitability.
- Legal risks: Oerlikon is exposed to numerous legal risks as a result of international operations. These include, in particular, risks in the areas of competition and antitrust law, patent law, tax law and environmental protection. Oerlikon has a valuable portfolio of industrial property rights, such as patents and trademarks. These property rights can become the target of attacks and infringements.
- Loss of key people/shortage of qualified skilled workers and lack of qualified managers: When key people leave the company and qualified workers and managers are not available, sales and profitability targets may not be reached.

Further information regarding risk management, see page 66, section 6.0 Corporate Governance, page 118 et seq., Notes 18–20 to the consolidated financial statements and page 141, Note 19, to the financial statements of OC Oerlikon Corporation AG, Pfäffikon.

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II. Financial report

We continued to strengthen both our financial performance and balance sheet in 2011. Strong operating cash flow, reduced net debt and an improved credit profile have built a robust foundation for the future.

Key figures Oerlikon Group

Key figures Oerlikon Group

in CHF million	**January 1 to December 31 2011**	January 1 to December 31 2010
Order intake	4 043	4 520
Order backlog	1 481	1 702
Sales	4 182	3 601
EBITDA	605	278
– as % of sales	14 %	8 %
EBIT [1]	419	51
– as % of sales	10 %	1 %
Net profit	224	5
– as % of sales	5 %	0 %
– as % of equity attributable to shareholders of the parent	14 %	0 %
Cash flow from operating activities before changes in net current assets [2]	541	354
Capital expenditure for fixed and intangible assets	167	150
Total assets	4 573	4 475
Equity attributable to shareholders of the parent	1 586	1 430
– as % of total assets	35 %	32 %
Net debt [3]	86	274
Net Operating Assets [4]	2 205	2 196
Number of employees	17 227	16 657
Personnel expense	984	1 015
Research and development expenditures [5]	213	239

[1] EBIT before restructuring and impairment of goodwill amounts in 2011 to CHF 422 million (previous year: CHF 103 million).

[2] Cash flow from operating activities (after changes in net current assets) amounts to CHF 435 million (previous year: CHF 511 million).

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

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

[5] Research and development expenditures include expenses recognized as intangible assets in the amount of CHF 24 million (previous year: CHF 32 million).

Key share-related figures [1]

in CHF	**January 1 to December 31 2011**	January 1 to December 31 2010
Share price		
High	7.85	12.30
Low	4.06	3.69
Year-end	5.03	4.90
Total shares outstanding	323 124 010	323 085 471
Market capitalization in million	1 625	1 583
EBIT per share	1.30	0.25
Earnings per share	0.68	0.01
Cash flow from operating activities per share [2]	1.68	1.71
Equity per share [3]	4.91	6.92
Dividend per share [4]	0.20	–

[1] Average number of shares with voting and dividend rights
[2] Before changes in net current assets
[3] Attributable to shareholders of the parent
[4] Dividend 2011: proposal of the Board of Directors.

Key figures by Segment

in CHF million	**January 1 to December 31 2011**	January 1 to December 31 2010
Oerlikon Group		
Order intake	4043	4520
Order backlog	1481	1702
Sales	4182	3601
EBITDA	605	278
EBIT	419	51
– as % of sales	10%	1%
Net Operating Assets [1]	2205	2196
Number of employees	17227	16657
Oerlikon Textile		
Order intake	1977	2509
Order backlog	1053	1197
Sales to third parties	2037	1653
EBITDA	233	96
EBIT	183	21
– as % of sales	9%	1%
Net Operating Assets [1]	618	741
Number of employees	6230	6294
Oerlikon Drive Systems		
Order intake	892	792
Order backlog	213	137
Sales to third parties	821	733
EBITDA	94	26
EBIT	49	–27
– as % of sales	6%	–4%
Net Operating Assets [1]	936	895
Number of employees	5471	5141
Oerlikon Vacuum		
Order intake	400	438
Order backlog	77	84
Sales to third parties	409	410
EBITDA	72	44
EBIT	59	30
– as % of sales	14%	7%
Net Operating Assets [1]	165	151
Number of employees	1472	1453
Oerlikon Solar		
Order intake	202	230
Order backlog	130	255
Sales to third parties	323	254
EBITDA	17	–33
EBIT	–10	–59
– as % of sales	–3%	–23%
Net Operating Assets [1]	97	41
Number of employees	660	648
Oerlikon Coating		
Order intake	484	422
Order backlog	–	–
Sales to third parties	484	422
EBITDA	141	101
EBIT	97	52
– as % of sales	20%	12%
Net Operating Assets [1]	303	307
Number of employees	2986	2711
Oerlikon Advanced Technologies		
Order intake	88	129
Order backlog	8	29
Sales to third parties	108	129
EBITDA	14	13
EBIT	11	10
– as % of sales	10%	8%
Net Operating Assets [1]	82	70
Number of employees	200	196

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

Consolidated income statement

in CHF million	Notes	**January 1 to December 31 2011**	January 1 to December 31 2010
Sales of goods		3367	2815
Services rendered		815	786
Total sales		**4182**	**3601**
Cost of sales		–3101	–2788
Gross profit		**1081**	**813**
Marketing and selling		–228	–245
Research and development		–211	–229
Administration		–245	–240
Impairment of goodwill	12	–2	–3
Restructuring costs	3	–1	–49
Other income	2	51	45
Other expense	2	–26	–41
Result before interests and taxes (EBIT)		**419**	**51**
Financial income	4	12	130
Financial expense	4	–116	–188
Result before taxes (EBT)		**315**	**–7**
Income taxes	5	–91	12
Net profit		**224**	**5**
Attributable to:			
Shareholders of the parent		220	3
Non-controlling interest		4	2
Earnings per share in CHF	6	**0.68**	0.01
Fully diluted earnings per share in CHF	6	**0.68**	0.01

Consolidated statement of comprehensive income

in CHF million		**January 1 to December 31 2011**	January 1 to December 31 2010
Net profit		224	5
Other comprehensive income			
Effective portion of changes in fair value of cash flow hedges		–7	–1
Net change in fair value of cash flow hedges reclassified to the income statement		1	–2
Defined benefit plan actuarial losses	13	–47	–62
Income taxes on other comprehensive income		14	21
Conversion differences		–28	–208
Other comprehensive income for the period, net of taxes		**–67**	**–252**
Total comprehensive income for the period		**157**	**–247**
Attributable to:			
Shareholders of the parent		155	–248
Non-controlling interest		2	1

Consolidated balance sheet at December 31

Assets

in CHF million	Notes	**2011**	2010
Cash and cash equivalents	7	742	751
Current financial investments and derivatives	8	8	38
Trade receivables	9	635	588
Other receivables	9	234	164
Current tax receivables		18	19
Inventories	10	582	468
Prepaid expenses and accrued income		20	21
Assets classified as held for sale	22	–	37
Current assets		**2 239**	**2 086**
Loans and other non-current financial receivables	9	8	8
Non-current financial investments	8	39	33
Property, plant and equipment	11	915	942
Intangible assets	12	1 261	1 293
Deferred tax assets	5	111	113
Non-current assets		**2 334**	**2 389**
Total assets		**4 573**	**4 475**

Liabilities and equity

in CHF million		**2011**	2010
Trade payables	14	457	419
Other current financial liabilities and derivatives	14	24	53
Other current liabilities	14	62	76
Accrued liabilities	15	271	245
Current customer advances		471	335
Current income taxes payable		61	48
Current post-employment benefit provisions	13	28	28
Other current provisions	16	111	125
Liabilities classified as held for sale	22	–	31
Current liabilities		**1 485**	**1 360**
Non-current loans and borrowings	14	832	1 025
Non-current post-employment benefit provisions	13	525	499
Deferred tax liabilities	5	73	77
Other non-current provisions	16	48	60
Non-current liabilities		**1 478**	**1 661**
Total liabilities		**2 963**	**3 021**
Share capital		323	323
Treasury shares		–3	–2
Reserves and retained earnings		1 266	1 109
Equity attributable to shareholders of the parent		**1 586**	**1 430**
Non-controlling interest		24	24
Total equity		**1 610**	**1 454**
Total liabilities and equity		**4 573**	**4 475**

Consolidated cash flow statement

in CHF million	Notes	**January 1 to December 31 2011**	January 1 to December 31 2010
Net profit		224	5
Income taxes		91	–12
Interest expense (net)		89	178
Depreciation of property, plant and equipment	11	137	156
Amortization of intangible assets	12	38	39
Impairment losses on property, plant and equipment	11	7	22
Impairment losses on intangible assets	12	4	10
Addition to other provisions (net)	16	30	85
Decrease in post-employment benefit provisions		–13	–16
Gains on sale of non-current assets		–2	–
Income taxes paid		–63	–28
Other non-cash income		–1	–85
Cash flow from operating activities before changes in net current assets		541	354
Increase in receivables/prepaid expenses and accrued income		–127	–175
Increase in inventories		–128	–9
Increase in payables/accrued liabilities and use of other provisions		7	83
Increase in customer advances		143	241
Non-cash impact on net current assets due to hedge accounting		–1	17
Cash flow from changes in net current assets		–106	157
Cash flow from operating activities		**435**	**511**
Capital expenditure for property, plant and equipment	11	–141	–115
Capital expenditure for intangible assets	12	–26	–35
Proceeds from sale of Group companies, net of cash disposed of		–6	–
Purchase of financial investments		–6	–1
Decrease in loans receivable		–	1
Increase in marketable securities [1]		–129	–
Acquisition of Group companies, net of cash acquired		–	–22
Proceeds from sale of property, plant and equipment		14	6
Interest received		11	8
Cash flow from investing activities		**–283**	**–158**
Dividends paid		–3	–2
Purchase of treasury shares		–3	–3
Sale of treasury shares		–	–
Proceeds from capital increase (net of transaction costs)		–	835
Increase of financial debt		25	55
Repayment of financial debt [1]		–139	–675
Acquisition of non-controlling interest		–	–10
Interest paid		–52	–127
Cash flow from financing activities		**–172**	**73**
Translation adjustments to cash and cash equivalents		6	–27
Decrease (–)/increase (+) in cash and cash equivalents		**–14**	**399**
Cash and cash equivalents at the beginning of the year [2]	7	756	357
Cash and cash equivalents at the end of the year	7	742	756
Decrease (–)/increase (+) in cash and cash equivalents		**–14**	**399**

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

[2] Includes CHF 5 million which are included in “Assets classified as held for sale” in the balance sheet as of January 1, 2011.

Consolidated statement of changes in equity

in CHF million	Share capital[1]	Additional paid-in capital[2]	Treasury shares	Conversion differences	Retained earnings	Hedge accounting	Income taxes	**Total equity attributable to shareholders**	Non-controlling interest	**Total share-holders' equity**
Balance at January 1, 2010	**283**	**622**	**–292**	**–234**	**110**	**2**	**2**	**493**	**27**	**520**
Net profit	–	–	–	–	3	–	–	3	2	5
Other comprehensive income										
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	–1	–	–1	–	–1
Net change in fair value of cash flow hedges reclassified to the income statement	–	–	–	–	–	–2	–	–2	–	–2
Defined benefit plan actuarial losses	–	–	–	–	–62	–	–	–62	–	–62
Income taxes on other comprehensive income	–	–	–	–	–	–	21	21	–	21
Conversion differences	–	–	–	–207	–	–	–	–207	–1	–208
Total other comprehensive income for the period	**–**	**–**	**–**	**–207**	**–62**	**–3**	**21**	**–251**	**–1**	**–252**
Reduction of nominal share value	–269	269	–	–	–	–	–	–	–	–
Capital increase	309	817	–	–	–	–	–	1 126	–	1 126
Dividend distributions	–	–	–	–	–	–	–	–	–2	–2
Acquisition of non-controlling interest	–	–7	–	–	–	–	–	–7	–2	–9
Share-based payments	–	–	–	–	2	–	–	2	–	2
Purchase of treasury shares	–	–	–3	–	–	–	–	–3	–	–3
Transfer and sale of treasury shares	–	–226	293	–	–	–	–	67	–	67
Balance at December 31, 2010	**323**	**1 475**	**–2**	**–441**	**53**	**–1**	**23**	**1 430**	**24**	**1 454**
Net profit	–	–	–	–	220	–	–	220	4	224
Other comprehensive income										
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	–7	–	–7	–	–7
Net change in fair value of cash flow hedges reclassified to the income statement	–	–	–	–	–	1	–	1	–	1
Defined benefit plan actuarial losses	–	–	–	–	–47	–	–	–47	–	–47
Income taxes on other comprehensive income	–	–	–	–	–	–	14	14	–	14
Conversion differences	–	–	–	–26	–	–	–	–26	–2	–28
Total other comprehensive income for the period	**–**	**–**	**–**	**–26**	**–47**	**–6**	**14**	**–65**	**–2**	**–67**
Dividend distributions	–	–	–	–	–	–	–	–	–2	–2
Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	–	–
Share-based payments	–	–	–	–	4	–	–	4	–	4
Purchase of treasury shares	–	–	–3	–	–	–	–	–3	–	–3
Transfer of treasury shares	–	–	2	–	–2	–	–	–	–	–
Balance at December 31, 2011	**323**	**1 475**	**–3**	**–467**	**228**	**–7**	**37**	**1 586**	**24**	**1 610**

[1] The share capital of OC Oerlikon Corporation AG, Pfäffikon consists of 323 124 010 registered shares with a par value of CHF 1.

[2] As of December 31, 2011, additional paid-in capital includes CHF 1 247 million of legal reserves in OC Oerlikon Corporation AG, Pfäffikon.

Treasury shares	Number of shares	Price per share in CHF	Cost in CHF million	Fair value in CHF million	Result in CHF million
Balance at January 1, 2010	**1 318 309**	**221**	**292**	**–**	**–**
Sale 2010[3]	–1 318 309	35	–292	–47	–245
Transfer 2010 due to employee purchase plan	–215 855	5	–1	–1	–
Purchase 2010	515 855	5	3	–	–
Balance at December 31, 2010	**300 000**	**5**	**2**	**–**	**–245**
Transfer 2011 due to employee purchase plan	–280 989	6	–2	–2	–
Purchase 2011	570 000	6	3	–	–
Balance at December 31, 2011	**589 011**	**6**	**3**	**–**	**–**

[3] As part of the financial restructuring, the company has granted the lenders the option to purchase some or all of the 1 318 309 treasury shares held by the company at the volume-weighted average price (VWAP) of the existing shares during the four trading days following the public announcement of the lenders' consent to the restructuring on April 1, 2010. The option to purchase theses shares has been fully exercised.

Accounting principles

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

Apart from its activities in Switzerland, the Oerlikon Group operates in the EU region, North America and Asia, and employs some 17 227 individuals.

Basis of preparation
The consolidated financial statements of OC Oerlikon Corporation AG, Pfäffikon have been prepared in accordance with International Financial Reporting Standards (IFRS) and Swiss company law. These accounting standards have been applied consistently in all periods presented in this report. The reporting period is twelve months. The consolidated financial statements are presented in Swiss francs (CHF). The consolidated income statement shows operating costs grouped by function. Assets and liabilities in the consolidated balance sheet are classified as current or non-current. The consolidated financial statements were approved by the Board of Directors on March 1, 2012 and will be submitted to the Annual General Meeting of Shareholders on April 12, 2012, for approval. All standards issued by the IASB and all interpretations of the IFRS Interpretations Committee (IFRIC) effective at the date of the consolidated financial statements have been taken into account. The consolidation is based on audited annual individual company accounts of the Group's material subsidiaries, prepared according to uniform Group accounting principles. All line item amounts in the consolidated financial statements are presented in millions of Swiss francs and all such amounts (including totals and subtotals) have been rounded according to normal commercial practice. Thus an addition of the figures presented can result in rounding differences. Values of assets and liabilities have been determined in accordance with the historical cost convention, with the exception of derivative financial instruments and financial assets held available for sale or held for trading purposes, which are stated at fair value. These consolidated financial statements are published in English and German. If there is any divergence in the wording, the English original text is authoritative.

Judgements, estimates and assumptions
Preparation of the consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the values of reported revenues, expenses, assets, liabilities and contingent liabilities at the reporting date. These estimates and assumptions are constantly being revised. Depending on the issues involved, revision of such assumptions can have an effect on the current period as well as potentially on future periods. These estimates, judgements and assumptions are based on historical experience and other factors that are believed to be reasonable and justified as expectations of future events. However, actual results can differ from these estimates. Moreover, consistent application of the chosen accounting principles can require management to make decisions that may have a material impact on the amounts reported in the annual financial statements. Above all, assessment of business transactions that involve complex structures or legal forms calls for decisions on management's part. The most important accounting estimates are to be found in:

Business combinations: Where the Group acquires control of another business, goodwill is measured at the acquisition date as the fair value of the consideration transferred less the net recognized amount of the identifiable assets acquired and liabilities assumed (which are generally recognized at fair value). This process calls for an assessment by management of the fair values of these items. Management's judgement is particularly involved in recognition and measurement of patents, licenses and trademarks, scientific knowledge associated with research projects, recoverability of tax losses accumulated in the acquired company and contingencies such as legal and environmental matters. In all cases management makes an assessment based on the underlying economic substance of the items concerned, not only on the contractual position. The aim is to present all values fairly in economic terms.

Discontinued operations and non-current assets held for sale: In compliance with IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations), a distinction is made between continuing operations and discontinued operations. The non-current assets held for sale are recognized as separate line items in the balance sheet and discontinued operations in the income and cash flow statements. Depreciation of non-current assets allocable to discontinued operations ceases when the respective divestment is announced. All data in these notes refer to continuing operations, except where otherwise indicated.

Impairment of value: Property, plant and equipment, goodwill and intangibles: A detailed test for impairment of value is carried out for goodwill and other intangible assets with indefinite useful life annually or, as for all other assets, if there is any indication of a loss of value. Goodwill is allocated to the cash-generating units (CGUs) or a group of CGUs that is expected to benefit from the synergies of the business combination to which goodwill gave rise. The recoverable amount of the CGUs is determined based on the higher of either value-in-use or fair value less cost to sell calculations. In the same way, future cash flows from the use of tangible fixed assets can be estimated and the carrying value tested, using the same rules. These tests use estimates of future cash flows to be expected from use of the assets concerned, or from their possible sale. Actual cash flows may vary significantly from these estimates following changes of plan for the use of assets such as land and buildings, technological obsolescence or market changes.

Provisions: In the ordinary course of their business, companies of the Group may become involved in litigious conflict or disagreement with third parties. Provisions are made to cover the Group's exposure in such matters, based on a realistic estimate of the economic outflow that may result. However, the ultimate resolution of such disputes can give rise to claims against the Group, which may not be fully covered by provisions or insurance. Specific warranty provisions are set up for known warranty claims as required, and also for situations where it is known from recent experience that the company is exposed to claims, usually for technical reasons. Besides this, a general provision is made for other possible claims, based on experience and linked to sales volumes. In cases where the company has entered into contractual obligations whose cost exceeds the economic benefit to be expected, corresponding provisions are made. These are based on management's estimates. Restructuring provisions are made in accordance with IAS 37.

Pensions: The estimates and assumptions used are based on future projections and actuarial calculations which have been determined together with the actuaries.

Taxes on income: Estimates are used initially to determine amounts receivable and payable in respect of current and deferred taxes on income. These estimates are based on interpretation of existing tax law and regulation. Many internal and external factors can influence the final determination of amounts receivable or payable, such as changes in tax law, changes in tax rates, the level of future profits and fiscal audits carried out by the tax authorities.

Adoption of new and revised accounting standards
As of January 1, 2011, the Group has adopted the following new or revised standards:

- IAS 32 amended – Financial Instruments: Presentation – Classification of Rights Issues
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments
- Improvements to IFRSs (May 2010)
- IAS 24 rev. – Related Party Disclosures
- IFRIC 14 amended: IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction – Prepayments of a Minimum Funding Requirement.

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

Newly published accounting standards not early adopted

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

Standard/Interpretation	Impact Level	Effective date	Planned application by Oerlikon
IFRS 7 amended – Disclosures: Transfers of Financial Assets	*	1 July 2011	Reporting year 2012
IAS 12 amended – Deferred Tax: Recovery of Underlying Assets	*	1 January 2012	Reporting year 2012
IFRS 7 amended – Offsetting Financial Assets and Liabilities	***	1. January 2013	Reporting year 2013
IFRS 10 – Consolidated Financial Statements	*	1 January 2013	Reporting year 2013
IFRS 11 – Joint Arrangements	*	1 January 2013	Reporting year 2013
IFRS 12 – Disclosure of Interests in Other Entities	**	1 January 2013	Reporting year 2013
IFRS 13 – Fair Value Measurement	***	1 January 2013	Reporting year 2013
IAS 1 amended – Presentation of Items of Other Comprehensive Income	**	1 July 2012	Reporting year 2013
IAS 19 amended – Employee Benefits	*	1 January 2013	Reporting year 2013
IAS 27 rev. – Separate Financial Statements	*	1 January 2013	Reporting year 2013
IAS 28 rev. – Investments in Associates and Joint Ventures	*	1 January 2013	Reporting year 2013
IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine	*	1 January 2013	Reporting year 2013
IAS 32 amended – Offsetting Financial Assets and Financial Liabilities	***	1 January 2014	Reporting year 2014
IFRS 9 – Financial Instruments and related amendments to IFRS 7 regarding transition	***	1 January 2015	Reporting year 2015

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

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

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

Principles of consolidation

Method and scope of consolidation

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

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

Business combinations and goodwill

The equity consolidation follows the "acquisition method of accounting". At the date of their initial consolidation the identifiable assets acquired and liabilities assumed of subsidiaries are measured at fair value. Goodwill is measured at the acquisition date as the fair value of the consideration transferred less the net recognized assets. Goodwill denominated in foreign currencies is translated into Swiss francs at the rates prevailing at the balance sheet date. Goodwill is not amortized, but instead is tested annually for possible value impairment.

Translation of foreign currencies

The accounts of foreign entities are prepared in the relevant functional currency and translated into Swiss francs in accordance with IAS 21. An entity's functional currency is the currency of the primary economic environment in which the entity operates, or its local currency. In the consolidation, assets and liabilities of foreign subsidiaries are translated into Swiss francs at the exchange rate prevailing on the balance sheet date, while income, expenses and cash flows are translated using average rates for the year. Differences resulting from the application of different exchange rates are recognized in other comprehensive income. Exchange gains and losses, as recorded in the individual company accounts of subsidiaries, are included in the income statement. Excluded from this rule are specific long-term intercompany monetary items that form part of the net investment in a foreign subsidiary, whose exchange translation differences are recognized in other comprehensive income. In the year that a foreign entity is divested, the cumulative translation differences recorded in other comprehensive income are reclassified to the income statement as part of the gain or loss upon disposal.

Elimination of inter-company profits

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

Segment information

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

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

- Textile Segment develops and manufactures textile machinery.
- Drive Systems Segment manufactures gears and other components for power transmission, mainly in motor vehicles.
- Vacuum Segment develops application- and customer-specific systems for the creation of vacuums and extraction of processing gases.
- Solar Segment supplies equipment for mass production of solar panels.
- Coating Segment supplies metal coatings that improve the performance of tools and precision components, offering coating services at 87 centers worldwide.
- Advanced Technologies Segment develops applications and technologies, from which the highest precision and accuracy is required and mainly specializes in nanotechnology.

Assets

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

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

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

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

Trade receivables: Receivables are stated at the original invoiced amount less any necessary value adjustments for default risks. These risks are insured with third parties only in exceptional cases. Value adjustments are set at varying levels corresponding to risks recognized in the different Business Units.

Inventories: Inventories of raw materials, purchased components and trade merchandise are carried at the lower of cost or net realizable value, using FIFO and weighted average cost valuation methods. Self-made components, work in progress and finished goods are carried at production cost. This includes all related material and labor costs as well as a reasonable allocation of indirect production costs. Recognizable reductions in value resulting from excess inventory, reduced replacement cost or sales price and similar are taken into account through appropriate write-downs of inventory items.

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

Property, plant and equipment: Tangible fixed assets are recorded at historical purchase or production costs, less necessary depreciation. Components of PP&E that have a differing useful life are recorded separately and depreciated accordingly (component approach). Depreciation is calculated on a straight-line basis according to the expected useful life of the asset, as follows:

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

Estimated useful life and residual values are examined annually.

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

Intangible assets: Intangible assets are identifiable non-monetary assets without physical substance from which future economic benefits are expected to flow to the Group. Intangible assets are amortized on a straight-line basis over their useful lives, where these can be clearly determined, for example software over two to three years or development costs over five years. In the case of intangible assets with indefinite useful lives, an impairment test of the asset value is conducted annually at the balance sheet date, or earlier on the occurrence of a triggering event.

Discontinued operations and assets held for sale: An operating segment is reclassified into "discontinued operations" if its divestment is intended and if it fulfils the criteria for being classified as "held for sale".

Non-current assets held for sale are carried at the lower of their carrying amount or fair value less cost to sell, and any value impairments are recognized in the income statement.

Liabilities

Short- and long-term financial liabilities: Short- and long-term financial liabilities are initially valued at fair value less directly attributable costs. Subsequent valuation is at amortized cost adjusted using the effective interest rate method. The financial liabilities consist mainly of loans raised for past acquisitions.

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

Restructuring provisions: provisions are established in cases where a detailed restructuring plan exists and the Group has informed those concerned, or the restructuring process has started.

Onerous customer contracts: provisions are established when unavoidable estimated costs to fulfill a contract exceed the related contract revenues. The difference is provided against income in the current period. When accounts are prepared the related risks are reassessed systematically by all Business Units and all costs are adjusted as required. This reassessment is based on the so-called "most likely outcome", which uses assumptions regarding technical feasibility and timely realization of the projects and includes a quantification of the risks. The actual future obligation can vary from these estimates.

Warranty provisions: provisions are established for known customer claims and also for potential warranty exposure.

Product liability: provisions are established for known claims; potential exposure is not provided for.

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

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

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

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

Treasury shares: Treasury shares are shown as a reduction of shareholders' equity. Gains or losses arising from the sale of treasury shares are also shown in the consolidated statement of changes in equity, in retained earnings.

Income Statement

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

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

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

Research and development: Development costs are recognized as intangible assets if they meet the criteria for such recognition set forth in IAS 38. The cost capitalized comprises all costs directly attributable to the development process. After the development phase is complete the asset is amortized over its estimated useful life, usually five years.

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

Financial expense: Interest expense is charged to the income statement without restriction. In principle borrowing costs are recognized in the income statement by using the effective interest rate method. Borrowing costs which can be directly allocated to the construction, build-up or purchase of a qualified asset are capitalized through the costs of the assets.

Current income taxes: Current income taxes are accrued on the basis of income reported locally for the financial year by the individual Group companies in keeping with the current year taxation principle. The valuation of assets and liabilities pertaining to both current and deferred taxation calls for extensive use of judgement and estimation.

Deferred taxes: Wherever local company tax values differ from Group values (temporary differences), deferred taxes are determined and recorded by applying tax rates enacted or substantially enacted at the balance sheet date to the differences (liability method). Taxes on dividends from subsidiaries are only accrued when distributions are contemplated. The value of deferred tax assets deriving from tax losses carried forward is subject to annual review. Tax losses are only recognized as assets if they are expected to be realized within the next five years, by offset against taxable profits of Group companies individually or in tax groups. In countries or companies where realization of the losses cannot be foreseen, no asset is recognized. Management believes that its estimates are appropriate and that uncertainties in the valuation of tax assets and liabilities have been appropriately addressed. Deferred tax is not recognized for: a) temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit or loss b) temporary differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future; and c) taxable temporary differences arising on the initial recognition of goodwill.

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

Risks

Financial risk management/financial instruments: Due to its international activities, the Group is exposed to various financial risks, such as foreign exchange risk, interest rate risk, pricing risk, credit risk and liquidity risk. The Group's financial risk management aims to limit any adverse effects that the markets may have on the Group's financial health, at an acceptable hedging cost. Risk limitation does not mean complete exclusion of financial risks; rather it means following a policy of economically sensible management of the Group's finances within an agreed framework of documented authority. The Group uses derivative financial instruments to hedge certain risks. Only pre-approved instruments are used, and as a fundamental rule no speculative transactions are conducted in the areas of foreign exchange or interest rates. No hedges are entered into without a corresponding underlying transaction. Management monitors and steers such risks continuously with the support of Group Treasury, who identifies and evaluates all financial risks, working with the Group's operating companies and hedging the risks as appropriate. The Group has documented guidelines for financial risk management, covering the use of derivative and non-derivative financial instruments and policies for use of surplus funds.

Foreign exchange risks: The Group's consolidated financial statements are reported in Swiss francs. Due to its most significant markets, the Group is primarily exposed to exchange risks versus the US dollar and euro. If costs and revenues of Group companies are incurred or earned in differing or non-local currencies, the underlying business transactions are hedged on a centrally coordinated basis by means of commonly used financial instruments (see "Derivative financial instruments"). Group companies make regular plans for receipt or payment of cash in foreign currencies and either advise these to Group Treasury, who hedge the related exchange risks using internal hedging contracts with the companies concerned, and external contracts with first-class banks or the Group companies hedge directly with banking institutions. The Group's hedging strategy for exchange risks distinguishes between the routine business of supplying components or spare parts and the Group's project activities. For the routine business, cash flows in foreign currencies are hedged for a whole year in advance, based on the annual budget. The hedging quota, i.e. the percentage of the base volume to be hedged, is set forth in the related guidelines. Every month a check is made as to whether the latest forecast of business volumes calls for an increase or a reduction in the hedging volume. For projects the exchange risks are hedged when the contract is entered into. For special transactions which do not fall into either category – routine or project – the hedging strategy can be determined for individual cases.

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

Credit 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.

Liquidity risks: On the basis of a consolidated, rolling liquidity plan, Group Treasury determines the Group's required liquidity. They then arrange to make this liquidity available in the financial markets (see "Financial liabilities"). Group companies are financed primarily on a central basis by Group Treasury, or where justified, by local banks.

Contingent liabilities

Contingent liabilities represent potential obligations whose impact depends on the occurrence of one or more future events which cannot be influenced. Contingent liabilities are also existing obligations which are not expected to result in a future outflow of benefits, or where the outflow of benefits can not reliably be quantified.

Participation plans/share-based payments

OC Oerlikon Corporation AG, Pfäffikon offers members of the Board of Directors and Executive Committee, as well as senior managers, options to purchase shares of the company under various participation plans. The fair value is determined on the day such share-based remuneration is granted and charged to the income statement on a straight line basis over the vesting period as personnel expense, with a corresponding increase in equity (equity settled plans). For cash-settled plans, a liability is recorded, which is measured at fair value at each reporting date with any movements in fair value being recorded as personnel expense.

Related-party transactions

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

Notes to the consolidated financial statements

Changes in scope of consolidation and Group structure

Note 1

As of January 3, 2011, Oerlikon Group sold its investment in Schlafhorst Engineering (India) Ltd. The company's assets and liabilities were classified as assets and liabilities held for sale as of December 31, 2010.

As of August 31, 2011, Oerlikon Group sold Oerlikon Neumag Austria GmbH and Oerlikon Neumag Italy SpA. The assets and liabilities of both companies were classified as assets and liabilities held for sale as of December 31, 2010. On December 28, 2011 Oerlikon Graziano Trasmissioni Czech s.r.o. was sold.

On November 21, 2011, Neumag Denmark a/s and on December 23, 2011, Schlafhorst de Columbia Ltd. were liquidated. On September 3, 2011 Allma Machines Pvt. Ltd., Barmag Machines Pvt. Ltd., Neumag Machines Pvt. Ltd. as well as Volkmann Machines Pvt. Ltd. were liquidated.

On December 23, 2011, Oerlikon Textile Components India Pvt. Ltd. was merged into Oerlikon Textile India Pvt. Ltd. and on December 31, 2011, Sauer Holding Inc. was merged into Oerlikon USA Holding Inc.

As of August 19, 2011, Oerlikon Drive Systems (Suzhou) Co. Ltd. was founded.

The above changes in scope of consolidation had no material effect on the consolidated financial statements 2011.

Other income and expense

Note 2

in CHF million	**2011**	2010
Licensing, patent and know-how income	4	1
Change in post-employment benefit plan accruals	1	2
Rental income from non-operating real estate	13	12
Gain on sale of non-operating real estate	8	8
Other income	25	22
Other income	**51**	**45**
Taxes not based on income	–6	–9
Impairment of non-current assets	–6	–23
Other expenses	–14	–9
Other expense	**–26**	**–41**
Other income and expense	**25**	**4**

Expenses included in EBIT

Note 3

in CHF million	**2011**	2010
Personnel expense		
Salaries and wages	773	797
Social security and other employee benefits [1]	211	218
Total	**984**	**1 015**
Depreciation and amortization		
– operating property, plant and equipment	137	156
of which in:		
Cost of sales	104	120
Marketing and selling	3	3
Research and development	13	12
Administration	17	21
– intangible assets (excluding goodwill)	38	39
of which in:		
Cost of sales	1	3
Marketing and selling	2	2
Research and development	30	25
Administration	5	9
Total	**175**	**195**
Restructuring costs [2]	**1**	**49**

[1] Included in the CHF 211 million expense for social security and other benefits is CHF 26 million (previous year: CHF 27 million) attributable to specific post-employment benefit plans of the individual companies. The remainder includes the legally required benefit contributions of Group companies as well as other social security expenses.

[2] Of the total restructuring cost of CHF 49 million in 2010, CHF 34 million relates to the Drive Systems Segment incurred in connection with the reorganization of this Segment. The other restructuring costs of CHF 15 million relate to the Segments Vacuum (CHF 8 million), Textile (CHF 5 million) and Coating (CHF 2 million) and were incurred in connection with measures taken for the purpose of cost-cutting and reduction of break-even levels.

Financial income and expense

Note 4

in CHF million	**2011**	2010
Interest income	7	4
Other financial income [1]	5	126
Financial income	**12**	**130**
Interest on financial debt [2]	–73	–96
Interest on provisions for post-employment benefit plans	–11	–19
Other financial expense	–21	–49
Foreign currency loss, net	–11	–24
Financial expens	**–116**	**–188**
Total	**–104**	**–58**

[1] In the prior year, other financial income included the debt waiver of CHF 125 million in connection with the capital and debt restructuring.

[2] The total interest expense amounted to CHF 85 million (previous year: CHF 139 million) which is included in interest on financial debt and other financial expense.

Income taxes

Note 5

in CHF million	2011	2010
Current income tax expense	–78	–38
Deferred tax expense (–)/income (+)	–13	50
Total	**–91**	**12**

Analysis of tax expense

in CHF million	2011	2010
Result before taxes	315	–7
Tax expense (–)/income (+)	–91	12
Expected tax expense (–)/income (+) [1]	–86	2
Difference between actual and expected tax expense (–)/income (+)	**–5**	**10**

The difference between the tax expense calculated using the weighted average tax rate of Oerlikon Group (expected tax expense) of 27.4 % (previous year tax income: 28.9 %) and the effective tax expense (previous year: tax income) arises from the following factors:

Non-taxable income and expenses	1	–22
Unrecognized deferred taxes on current-year losses	–12	–20
Non-refundable withholding tax	–9	–8
Utilization of unrecognized tax loss carry forwards from previous periods	3	2
Tax expense (–)/income (+) from prior periods	–1	7
Recognition of previously not recognized tax losses	8	45
Other effects	5	6
Total	**–5**	**10**

[1] The expected tax expense (prior year: tax income) 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.

Deferred taxes

Note 5 (cont.)

Composition of deferred taxes	**2011**		2010	
	Deferred tax balances		Deferred tax balances	
in CHF million	Assets	Liabilities	Assets	Liabilities
Trade accounts receivable	4	2	1	1
Other receivables and accruals	2	26	3	10
Inventories	44	1	35	1
Financial assets	1	1	1	2
Property, plant and equipment	20	54	16	57
Intangible assets	3	111	4	114
Assets	**74**	**195**	**60**	**185**
Other current and long-term liabilities	11	18	8	18
Financial liabilities	7	1	5	2
Provisions	97	4	82	4
Liabilities	**115**	**23**	**95**	**24**
Deferred tax asset from recognized tax loss carry forwards [1]	67	–	90	–
Netting	–145	–145	–132	–132
Total	**111**	**73**	**113**	**77**

[1] In 2011 tax loss carry forwards of CHF 380 million for federal taxes and CHF 128 million for state/local taxes were recognized (previous year: CHF 483 for federal taxes and CHF 220 million for state/local taxes).

Tax income of CHF 14 million (previous year: CHF 21 million) has been recognized in other comprehensive income.

Utilization of tax loss carry forwards is limited as follows:

in CHF million	Tax losses not recognized as deferred tax assets		Total tax loss carry forwards	
	federal tax	state/local tax	federal tax	state/local tax
1 year	4	4	4	4
2 years	7	2	10	6
3 years	5	4	7	4
4 years	40	45	53	45
5 years	18	2	188	16
over 5 years	440	356	632	466
Total	**514**	**413**	**894**	**541**

Compared to previous year tax loss carry forwards not recognized increased moderately (increase of CHF 8 million for federal taxes and CHF 67 million for state/local taxes). This was mainly caused by companies which generate non-recognizable losses.

The deferred tax on unrecognized tax loss carry forwards would amount to CHF 90 million in 2011 (previous year: CHF 92 million).

Earnings per share

Note 6

in CHF million	**2011**	2010
Net profit	**224**	**5**
Non-controlling interest	4	2
Net profit attributable to shareholders	**220**	**3**
Earnings per share in CHF [1]	0.68	0.01
Diluted earnings per share in CHF [1]	0.68	0.01

[1] Earnings per share of CHF 0.68 has been calculated on the basis of a net profit of CHF 220 million attributable to shareholders (previous year: CHF 3 million) and the average weighted number of outstanding shares (issued shares less treasury shares). In 2011, the average weighted number of shares entitled to vote and receive dividends amounted to 322 718 881 (previous year: 206 792 397). Diluted earnings per share amounted to CHF 0.68. The average weighted number of shares used in the calculation of diluted earnings per share amounted to 322 718 881 (previous year: 206 792 397).

Number of outstanding shares:	**2011**	2010
Total shares issued at year-end	323 124 010	323 085 471
Weighted average number of shares outstanding for the year	322 718 881	206 792 397
Effect of potential excercise of option rights	–	–
Weighted average number of shares diluted for the year	322 718 881	206 792 397

Cash and cash equivalents

Note 7

in CHF million	**2011**	2010
Cash, postal and bank current accounts	584	665
Time deposits	158	86
Total	**742**	**751**

CHF 214 million (previous year: CHF 147 million) of total cash and cash equivalents are held in countries in which prior approval is required to transfer funds abroad. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposal within a reasonable period of time.

Cash and cash equivalents are held in the following currencies:

Currency in CHF million	**2011**	2010
CHF	265	346
EUR	188	212
USD	81	38
CNY	153	105
Others	55	50
Total	**742**	**751**

Financial investments

Note 8

in CHF million	**2011**	2010
Current [1]	5	6
Non-current	–	–
Financial assets, carried at fair value	**5**	**6**
Current	–	–
Non-current [2]	39	33
Financial assets, carried at cost	**39**	**33**
Current	3	32
Non-current	–	–
Derivatives used for hedging [3]	**3**	**32**
Total current financial investments and derivatives	**8**	**38**
Total non-current financial investments	**39**	**33**
Total	**47**	**71**

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

[2] Non-current financial investments include Pilatus Flugzeugwerke AG with a book value of CHF 28 million. The investment remains unchanged at 13.97 %. The investment is valued at cost due to lack of information regarding fair values. The company's shares are not publicly traded. Oerlikon has access only to financial information available in the public domain, which is not sufficient to determine the fair value of the investment. Other investments consist of several small investments, which are not publicly traded and for which no financial information is available. These investments are held at cost. Currently, Oerlikon has no intention to sell these investments.

[3] Valued at forward rates.

Loans and receivables

Note 9

in CHF million	**2011**	2010
Current		
Trade receivables	577	508
Trade notes receivable	58	80
Other receivables [1]	234	164
Non-current		
Loans and other non-current financial receivables	8	8
Total	**877**	**760**

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

Inventories

Note 10

	2011			2010		
in CHF million	Gross value	Value adjustment	**Net value**	Gross value	Value adjustment	**Net value**
Raw material and components	298	–54	**244**	270	–60	**210**
Work in progress	176	–17	**159**	162	–42	**120**
Finished goods	113	–15	**98**	98	–23	**75**
Trade merchandise	110	–29	**81**	93	–30	**63**
Total	697	–115	**582**	623	–155	**468**

Amounts charged to the income statement for write-downs of inventories in the reporting year were CHF 3 million (previous year: CHF 26 million).

Construction contracts according to the percentage of completion method (POC)

The accrued sales under the POC method pertain to customer orders in the segments Oerlikon Solar and Oerlikon Textile, summarized as follows:

in CHF million	**2011**	2010
POC sales recognized as revenue in the period	**766**	576
Aggregate contract costs incurred and recognized contract profits to date	**752**	725
Gross amount due from customers for contract work as an asset	**138**	74
Net amount of customer advances for POC projects [1]	**121**	46

[1] This amount is included in the current customer advances totaling CHF 470 million (previous year: CHF 335 million).

Property, plant and equipment

Note 11

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

Open purchase commitments for property, plant and equipment at the end of 2011 amounted to CHF 12 million (previous year: CHF 5 million).

Property, plant and equipment

Note 11 (cont.)

in CHF million	Plant, equipment and furniture	Production and administration buildings	Developed land	Facilities under construction	Non-operating real estate	**2010 Total**
Cost						
Balance at January 1, 2010	1 429	642	112	38	2	2 223
Conversion differences	–153	–53	–15	–5	–	–226
Changes in the scope of consolidated companies	2	–	–	–	–	2
Additions	74	5	–	36	–	115
Disposals	–38	–2	–3	–2	–	–45
Reclassifications to assets held for sale	–17	–12	–1	–	–	–30
Transfers	8	23	2	–31	–2	–
Balance at December 31, 2010	1 305	603	95	36	–	2 039
Accumulated depreciation and impairment losses						
Balance at January 1, 2010	–858	–227	–1	–	–	–1 086
Conversion differences	105	1	–	–	–	106
Changes in the scope of consolidated companies	–	–	–	–	–	–
Depreciation	–132	–24	–	–	–	–156
Impairment losses	–5	–16	–1	–	–	–22
Disposals	34	3	2	–	–	39
Reclassifications to assets held for sale	14	8	–	–	–	22
Transfers	8	–8	–	–	–	–
Balance at December 31, 2010	–834	–263	–	–	–	–1 097
Net Group values at December 31, 2009	571	415	111	38	2	1 137
Net Group values at December 31, 2010	**471**	**340**	**95**	**36**	**–**	**942**
Of which assets held under finance leases	263	75	–	–	–	338
Insured values in event of fire	2 625	1 429	2	5	–	4 061

Intangible assets

Note 12

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

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

[2] Other intangible assets include brands of CHF 339 million (previous year CHF 344 million) with indefinite life.

The capitalized development costs pertain to the segments as follows:

Capitalized development costs for the period

in CHF million	**2011**	2010
Oerlikon Textile	6	11
Oerlikon Drive Systems	–	–
Oerlikon Vacuum	5	6
Oerlikon Solar	4	9
Oerlikon Coating	6	5
Oerlikon Advanced Technologies	3	1
Total	**24**	**32**

Intangible assets

Note 12 (cont.)

Goodwill and brands are allocated to the Segments as follows:

Goodwill and Brands in CHF million	**2011**	2010 Goodwill	**2011**	2010 Brands
Oerlikon Textile	248	252	267	271
Schlafhorst	–	–	127	129
Neumag	6	7	39	39
Barmag	109	111	98	99
Saurer	54	55	–	–
Components	79	79	3	3
Oerlikon Drive Systems	494	497	72	73
Graziano	241	245	58	59
Fairfield	253	252	14	14
Oerlikon Solar	–	2	–	–
Oerlikon Coating	26	27	–	–
Oerlikon Advanced Technologies	38	38	–	–
Total	**806**	**816**	**339**	**344**

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

Asset values used in the goodwill impairment testing are based on net realisable values (fair value less costs to sell), and on the latest forecasts approved by management. The forecast period used for future cash flows covers the years 2012 to 2016. The discount rates used are based on the weighted average cost of capital (WACC) derived from peer groups adjusted to specific risks of the businesses concerned and the countries in which they operate. The capital costs were determined using the capital asset pricing model (CAPM).

The annual impairment tests carried out at business unit level call for an impairment of CHF 2 million within the Solar Segment (previous year: CHF 3 million within the Coating Segment).

Detailed results of the goodwill impairment testing are presented below for the four goodwill items (Textile, Drive Systems, Advanced Technologies, and Coating), representing 100 % of the net book value at December 31, 2011.

The following pre-tax discount rates were used:

Discount rates per Segment	
Oerlikon Textile	9.8–11.2 %
Oerlikon Drive Systems	10.3–10.4 %
Oerlikon Coating	11.7 %
Oerlikon Advanced Technologies	9.7 %

Because the discount rates for the Segments Textile and Drive Systems reflect the conditions in the textile and drive systems industries, the same post-tax discount rates were used for the business units within the Segments.

For periods following the five-year plan period 2012 to 2016, the cash flows of the Business Units of the two Segments Oerlikon Drive Systems and Oerlikon Textile were extrapolated with a growth rate of 2.5 % and 2 % respectively (exception: Neumag 1 %), while for the Segments Advanced Technologies and Coating a growth rate of 2 % was used. In the case of the Business Unit Neumag, management assumes no change in future business volume.

For the sensitivity analysis a growth rate of 1.5 % for the Business Units of Drive Systems were assumed, while for the Business Units of Textile, Advanced Technologies, and Coating a rate of 1 % was assumed (exception: Neumag 0 %).

For the Business Units of the Textile Segment, Advanced Technologies Segment, and for the Coating Segment, neither a reduction of the growth rate of the terminal value to 1 % nor an increase in the discount rate of 0.5 % would give rise to an additional impairment of goodwill.

For the Graziano and Fairfield Business Units of the Drive Systems Segment, neither a reduction of the growth rate of the terminal value to 1.5 % nor an increase in the discount rate of 0.5 % would give rise to an additional impairment of goodwill.

Intangible assets

Note 12 (cont.)

Previous year in CHF million	Goodwill	Software	Technology and Development costs	Other intangible assets	**2010 Total**
Cost					
Balance at January 1, 2010	1 367	50	102	535	2 054
Conversion differences	–167	–4	–11	–62	–244
Changes in the scope of consolidated companies	19	–	–	2	21
Additions	–	2	33	–	35
Disposals	–	–4	–1	–	–5
Reclassifications to assets held for sale	–	–	–2	–4	–6
Transfers	–	–	–	–	–
Balance at December 31, 2010	1 219	44	121	471	1 855
Accumulated amortization and impairment losses					
Balance at January 1, 2010	–452	–33	–24	–74	–583
Conversion differences	52	3	3	2	60
Changes in the scope of consolidated companies	–	–	–	–	–
Amortization	–	–5	–16	–18	–39
Impairment losses	–3	–	–6	–1	–10
Disposals	–	4	1	–	5
Reclassifications to assets held for sale	–	–	1	4	5
Transfers	–	–	–	–	–
Balance at December 31, 2010	–403	–31	–41	–87	–562
Net Group values at December 31, 2009	915	17	78	461	1 471
Net Group values at December 31, 2010	**816**	**13**	**80**	**384**	**1 293**

Post-employment benefit provisions

Note 13

in CHF million	**2011**	within 1 year	Due beyond 1 year	2010	within 1 year	Due beyond 1 year
Post-employment benefit provisions	539	26	513	510	26	484
Other long-term employee benefit provisions	14	2	12	17	2	15
Total	**553**	28	525	527	28	499

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

			2011			2010
in CHF million	**Total**	Defined benefit	Defined contribution	Total	Defined benefit	Defined contribution
Number of plans						
Funded plans	**40**	26	14	38	26	12
Unfunded plans	**27**	27	–	29	29	–
Number of insured members						
Active members	**12 342**	10 644	1 698	12 968	11 211	1 757
Vested terminations [1]	**6 373**	5 060	1 313	5 438	4 873	565
Retired members	**8 530**	8 454	76	8 842	8 521	321
in CHF million						
Pension cost (operative)	**26**	23	3	27	23	4
Pension cost (financial)	**11**	11	–	19	19	–
Total post-employment benefit plan cost	**37**	34	3	46	42	4
Post-employment benefit provisions	**539**	539	–	510	510	–
Post-employment benefit assets	**–**	–	–	–	–	–

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

Post-employment benefit provisions and pension surplus

Note 13 (cont.)

Defined benefit plans

in CHF million	**2011** **Total**	Funded	Unfunded	2010 Total	Funded	Unfunded
Plan assets at market value[2]	**673**	673	–	682	682	–
Projected benefit obligation (PBO)	**–1 184**	–812	–372	–1 158	–763	–395
Assets below PBO	**–511**	–139	–372	–476	–81	–395
Post-employment benefit provisions	**539**	167	372	510	120	390
Post-employment benefit assets	**–**	–	–	–	–	–
Unrecognized surplus	**28**	28	–	39	39	–
of which:						
– past service costs	**2**	2	–	2	2	–
– unrecognized assets (effect of capitalization limit IAS 19.58(b))	**26**	26	–	37	37	–

[2] Plan assets include:	**2011**		2010	
Equity instruments	**173**	26 %	195	29 %
Bonds and other obligations	**229**	34 %	225	32 %
Real estate[3]	**101**	15 %	94	14 %
Other	**170**	25 %	168	25 %
Total plan assets	**673**	100 %	682	100 %

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

Funded status and experience adjustments	**2011**	2010	2009	2008	2007
Projected benefit obligation (PBO)	**–1 184**	–1 158	–1 215	–1 335	–1 471
Plan assets at market value	**673**	682	730	861	1 028
Assets below PBO	**–511**	–476	–485	–474	–443
Experience adjustments					
– to obligations	**9**	12	–3	–7	–43
– to plan assets	**–28**	7	14	–147	–8

Post-employment benefit provisions

Note 13 (cont.)

in CHF million	2011	2010
Plan assets at market value at January 1	**682**	**730**
Expected return on plan assets	32	34
Employee contributions	10	9
Employer contributions	20	19
Actuarial losses (–)/gains (+)	–28	7
Curtailments/settlements	–	–20
Amounts paid out	–42	–61
Changes in the scope of consolidated companies	–	–
Conversion differences	–1	–36
Plan assets at market value at December 31	**673**	**682**
Present value of projected benefit obligation (PBO) at January 1	**1 158**	**1 215**
Service cost	33	33
Interest cost	43	53
Plan curtailments	–	–20
Actuarial losses	28	94
Amounts paid out	–68	–92
Changes in the scope of consolidated companies	–5	–
Conversion differences	–5	–125
Present value of projected benefit obligation (PBO) at December 31	**1 184**	**1 158**
Pension cost – defined benefit plans		
Current service cost	–33	–33
Employee contributions	10	9
Current service cost after deduction of employee contributions	**–23**	**–24**
Interest cost	–43	–53
Expected return on plan assets	32	34
Gains from terminations and curtailments	–	1
Total pension cost – defined benefit plans	**–34**	**–42**

Assumptions used in actuarial calculations	2011	2010
(weighted average rates)		
Discount rate	3.9 %	3.9 %
Salary progression	2.1 %	1.8 %
Benefit progression	0.7 %	0.8 %
Return on plan assets	4.3 %	3.8 %

The expected return on funded plan assets is based on the long-term historical performance of the separate categories of plan assets for each funded pension plan.The calculation includes assumptions concerning expected income and realized or unrealized gains on plan assets. The expected return on plan assets included in the income statement is calculated by multiplying the expected rate of return by the fair value of plan assets.The difference between the expected return and the actual return in any twelve month period is an actuarial gain/loss and is recorded directly in other comprehensive income. In 2011, the actual return on plan assets was CHF 4 million (previous year: CHF 41 million).

Actuarial losses recognized in other comprehensive income

in CHF million	2011	2010
Accumulated values at January 1	**97**	**35**
Actuarial losses recognized during year	47	62
Accumulated values at December 31	**144**	**97**
Effect of capitalization limit IAS 19.58(b)	–9	–29

The employer contributions for 2012 are expected to be approximately CHF 27 million (previous year: CHF 21 million).

Liabilities

Note 14

in CHF million	Note	2011	2010
Current			
Bank debts		1	1
Financial leases		–	1
Loans payable		–	4
Trade payables		457	419
Other payables, excluding derivatives		62	76
Total		**520**	**501**
Derivatives used for hedging		23	47
Total current financial liabilities		**543**	**548**
Non-current			
Loans payable	18	830	1 022
Financial leases	18	2	3
Total non-current financial liabilities		**832**	**1 025**

Accrued liabilities

Note 15

in CHF million	2011	2010
Accrued personnel costs	117	109
Accrued material costs	70	58
Other accrued liabilities	84	78
Total	**271**	**245**

Provisions

Note 16

in CHF million	Product warranties	Onerous contracts [1]	Restructuring [2]	Other provisions [3]	**2011 Total**
Balance at January 1, 2011	70	17	60	38	**185**
Conversion differences	–	–1	–1	–	**–2**
Change in the scope of consolidated companies	–	–	–	–	**–**
Additions	40	2	3	9	**54**
Amounts used	–19	–4	–20	–6	**–49**
Amounts reversed	–13	–3	–3	–5	**–24**
Transfers	–	–	–	–5	**–5**
Balance at December 31, 2011	**78**	**11**	**39**	**31**	**159**
Due within 1 year	76	4	13	18	**111**
Due beyond 1 year [4]	2	7	26	13	**48**

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

[2] The restructuring provisions pertain to the Segments as follows:

in CHF million	Restructuring
Textile	5
Drive Systems	27
Vacuum	1
Coating	6
Total	**39**

The restructuring provisions in the Drive Systems Segment relate to the reorganization of this Segment.

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

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

Financial instruments

Note 17

	2011			2010		
		Fair value			Fair value	
in CHF million	**Contract volume**	**positive**	**negative**	Contract volume	positive	negative
Forward exchange contracts	**505**	**3**	**23**	**499**	**29**	**47**
Interest-rate derivatives	**600**	**–**	**–**	**600**	**3**	**–**
Interest-rate swaps	–	–	–	–	–	–
Interest caps [1]	600	–	–	600	3	–
Total	**1 105**	**3**	**23**	**1 099**	**32**	**47**

Based on the Group's business activities, the following main currencies are hedged: Euro and US dollar. Positive and negative changes in fair values of currency derivatives are offset by the corresponding gain or loss on the underlying hedged transactions. The maximum risk of counterparty non-performance is equal to the positive deviation from fair value. In view of the reputation of the counterparties, this risk is deemed to be minimal.

In principle, the maturities of currency and interest rate hedges correspond to the maturity of the underlying base transaction. If the maturity of the base transaction shifts, the maturity of the hedge contract will be shifted correspondingly (roll-over/swaps). Thus, the cash flows deriving from the hedge contracts are synchronised with the impact of the base transaction in the income statement. The hedging transactions are first recorded in other comprehensive income, then recycled to the income statement when the base transaction is recorded. For this reason there is no need for a separate presentation of the maturities of hedge contracts and their underlying transactions.

Maturity structure of open foreign exchange contracts and interest-rate derivatives at December 31:

in CHF million	**Carrying amount**	**Expected cash flows**	**6 months or less**	**6–12 months**	**1–2 years**	**2–5 years**	**more than 5 years**
Forward exchange contracts							
2011	–20	**505**	417	82	6	–	–
2010	–18	**499**	461	35	3	–	–
Interest-rate swaps							
2011	–	**–**	–	–	–	–	–
2010	–	**–**	–	–	–	–	–
Interest caps							
2011	–	**–**	–	–	–	–	–
2010	3	**3**	–	–	–	3	–

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

Every 3 months a comparison is made between current 3-month-CHF-LIBOR and the interest rate upper limit of 2 %. If 3-month-LIBOR exceeds 2 %, Oerlikon receives a payment in compensation.

The total premiums of CHF 6.9 million payable at the inception of this contract were capitalized and were remeasured to fair value in the balance sheet at December 31, 2011. The interest cap is booked through the income statement.

Liquidity risk

Note 18

Liquidity risk is the risk that Oerlikon may be unable to discharge its financial liabilities in a timely manner or at an acceptable cost. Oerlikon Group supervises and manages the Group's liquidity centrally to ensure that outstanding financial liabilities can at all times be met within their maturity period and at an acceptable financing cost. Corporate Treasury prepares and provides the relevant decision support and arranges for the availability of the relevant funds once approval is given.

Oerlikon's liquidity is monitored using short, medium and long term rolling liquidity forecasts, about which senior management are kept informed. On the basis of this plan, Oerlikon mobilizes the necessary liquid funds and takes any further steps necessary on a timely basis.

Terms and debt repayment schedule

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

[1] The difference of CHF 207 million between carrying amount and contractual cash flow is based on capitalized transaction costs of CHF 16 million from the refinancing of the credit facility in 2010 and future gross interests on loans and borrowings (including PIK) of CHF 191 million.

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

						2010
in CHF million	Carrying amount	Contractual cash flow	within 1 year	1 to 5 years	more than 5 years	of which secured
Bank overdrafts	–1	–1	–1	–	–	–
Fixed advances	2	2	2	–	–	–
Trade payables	419	419	419	–	–	–
Loans and borrowings	1 026	1 382	47	1 335	–	–
Gross finance lease obligation	4	4	–	1	3	–
Accrued liabilities	130	130	130	–	–	–
Non-derivative financial liabilities	**1 580**	**1 936**	**597**	**1 336**	**3**	**–**
Forward exchange contracts used for hedging	18	499	496	3	–	–
– thereof: for hedging fx-outflows	–	90	87	3	–	–
– thereof: for hedging fx-inflows	18	409	409	–	–	–
Derivative financial instruments	**18**	**499**	**496**	**3**	**–**	**–**
Total	**1 598**	**2 435**	**1 093**	**1 339**	**3**	**–**

Terms and debt repayment schedule

Note 18 (cont.)

in CHF million	**Currency**	**Nominal interest rate**	**Year of maturity**	**2011** **Face value**	**Carrying amount**
Syndicated loan/Term Loan (Facility B)[1]	CHF	Libor + 2.00 %	2014	235	219
Syndicated loan/Term Loan (Facility B)	EUR	Libor + 2.00 %	2014	83	83
Syndicated loan/Term Loan (Facility B)	USD	Libor + 2.00 %	2014	43	43
Syndicated loan/Term Loan (Facility C)[2]	CHF	Libor + 11.00 %	2014	483	483
Finance lease long-term[3]	var.	var.	2013–2027	2	2
Finance lease short-term[3]	var.	var.	2012	–	–
Various short- and long-term liabilities[4]	var.	var.	var.	2	2
Total interest-bearing liabilities					**832**

in CHF million	Currency	Nominal interest rate	Year of maturity	2010 Face value	Carrying amount
Syndicated loan/Term Loan (Facility B)[5]	CHF	Libor + 2.50 %	2014	132	105
Syndicated loan/Term Loan (Facility B)	CHF	Libor + 2.50 %	2014	121	121
Syndicated loan/Term Loan (Facility B)	EUR	Libor + 2.50 %	2014	149	149
Syndicated loan/Term Loan (Facility B)	EUR	Libor + 2.50 %	2014	105	105
Syndicated loan/Term Loan (Facility B)	USD	Libor + 2.50 %	2014	55	55
Syndicated loan/Term Loan (Facility C)[6]	CHF	Libor + 11.00 %	2014	485	485
Finance lease long-term[3]	var.	var.	2011–2027	3	3
Finance lease short-term[3]	var.	var.	var.	1	1
Various short- and long-term liabilities[7]	var.	var.	var.	7	7
Total interest-bearing liabilities					**1 031**

Due to the increased demand for advance payment guarantees CHF 33 million of the revolving credit facility and CHF 71 million of the Facility B was transferred to the ancillary facility. As of December 31, 2011, the revolving credit facility balance was CHF 68 million (totally unused) and the ancillary credit facility CHF 438 million (thereof CHF 204 unused).

In 2011 CHF 53 million cash was used to reduce the syndicated loan facility (Facility B CHF 40 million and Facility C CHF 13 million) as stated in clause 9.4 of the credit agreement (mandatory prepayment in case of excess cashflow). Furthermore due to favorable conditions CHF 129 million of own debt was bought back and was offset with the syndicated credit facility (Facility B CHF 104 million and Facility C CHF 25 million) as of December 31, 2011.

As of December 31, 2011 the credit facility still contains the following financial covenants, which are tested for compliance quarterly or annually:
- Net Debt/EBITDA
- Interest cover covenant
- Equity covenant

The interest rates of the loans under facility A and B are Libor plus a margin, as at December 31, 2011, 2 % per annum, subject to a downward ratchet based on the ratio of net debt to EBITDA (with the lowest possible interest margin being 2 %).

CHF 600 million of the facility is hedged with an interest rate cap at 2 % on a 3-month Libor basis with maturity 14.6.2014.

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

[2] The junior term loan (facility C) includes a cash interest of Libor + 4 % and a compounded interest of 7 %. The 7 % interest is added to the facility C quarterly hence increasing the interest amount constantly.

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

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

[5] Face value differs from book value in respect of the senior term loan (facility B) because CHF 27 million of directly attributable transaction costs related to the financing of the new credit facility were deducted from the senior term loan for simplification purposes and are being expensed over the term of the loan.

[6] The junior term loan (facility C) includes a cash interest of Libor + 4 % and a compounded interest of 7 %. The 7 % interest is added to the facility C quarterly hence increasing the interest amount constantly.

[7] Various currencies including: CHF, EUR, INR, USD, PLN.

Credit risk

Note 19

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investment securities.

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

Trade receivables are valued at the original invoiced amount less any necessary value adjustments for default risks. These risks are insured with third parties only in exceptional cases.

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

Oerlikon Group's maximum credit risk from financial instruments is reflected in the book values of the individual financial assets. There are no commitments or obligations which might lead to an exposure exceeding these book values. The maximum credit risk is therefore:

in CHF million	**2011**	2010
Cash and cash equivalents	742	751
Financial assets, carried at fair value	5	6
Financial assets, carried at cost	39	33
Derivatives used for hedging	3	32
Trade receivables	635	588
Accrued sales under percentage of completion (POC) method for orders without customer advances	138	74
Loans and other financial receivables	8	8
Total	**1 570**	**1 492**

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

in CHF million	**2011**	2010
Asia	148	156
Europe	410	364
North America	68	58
Other	9	10
Total	**635**	**588**

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

Note 19 (cont.)

Ageing of trade receivables

in CHF million	**2011** **Gross amount**	**Value adjustment**	2010 Gross amount	Value adjustment
Current (not due)	**555**	**–2**	**518**	**–4**
Total past due	**97**	**–15**	**91**	**–17**
0–30 days	51	–1	41	–1
31–60 days	16	–1	19	–1
61–90 days	8	–	5	–1
91–120 days	4	–1	5	–1
over 120 days	18	–12	21	–13
Total	**652**	**–17**	**609**	**–21**

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

Reconciliation of changes in allowance accounts for credit losses:

in CHF million	**2011**	2010
Balance at the beginning of the period	–21	–40
Change in the scope of consolidated companies	–	2
Additional impairment losses charged to income	–4	–4
Reversal of impairment losses	6	4
Write-off	2	14
Conversion differences	–	3
Balance at the end of the period	**–17**	**–21**

Market risk

Note 20

Market risk is the risk that the fair value or the future cash flows of a financial instrument may change as a result of fluctuations in market prices. Oerlikon is exposed in particular to fluctuations in foreign exchange and interest rates. The Group also has a minor risk from exposure to fluctuations in raw material prices.

The Group's financial risk management aims to limit any adverse effects that the markets may have on the Group's financial health, at an acceptable hedging cost. Risk limitation does not mean complete exclusion of financial risks, rather it means following a policy of economically sensible management of the Group's finances within an agreed framework of documented authority. The Group uses derivative financial instruments to hedge certain risks. Only pre-approved instruments are used, and as a fundamental rule, no speculative transactions are conducted in the areas of foreign exchange or interest rates. No hedges are entered into without a corresponding base transaction. Management monitors and steers such risks continuously with the support of Group Treasury, who identifies and evaluates all financial risks, working with the Group's operating companies and hedging the risks as appropriate. The Group has documented guidelines for financial risk management, covering the use of derivative and non-derivative financial instruments and policies for use of surplus funds.

Currency risk

Foreign exchange transaction risk

The Group has adopted the Swiss franc as its reporting currency. Due to its most significant markets, the Group is primarily exposed to exchange risks versus the US dollar and Euro. If costs and revenues of Group companies are incurred or earned in differing or non-local currencies, the underlying business transactions are hedged on a centrally coordinated basis by means of commonly used financial instruments. Group companies make regular plans for receipt or payment of cash in foreign currencies and advise these to Group Treasury, who hedges the related exchange risks using internal hedging contracts with the companies concerned and external contracts with first-class banks.

The Group's hedging strategy for exchange risks distinguishes between the routine business of supplying components or spare parts and the Group's project activities. For the routine business, cash flows in foreign currencies are hedged for a whole year in advance, based on the annual budget. The hedging quota, i.e. the percentage of the base volume to be hedged, is set forth in the related guidelines. Every month a check is made as to whether the latest forecast of business volumes calls for an increase or a reduction in the hedging volume. For projects, the exchange risks are hedged when the contract is entered into. For special transactions, which do not fall into either category – routine or project – the hedging strategy can be determined for individual cases.

Foreign exchange translation risk

Translation exposure arises from consolidation of foreign currency denominated financial statements of the Group's subsidiaries. The Group's consolidated financial statements are reported in Swiss francs. The risk arising from foreign subsidiary balance sheets – the effect of which is a currency impact on consolidated Group equity – is not hedged, however foreign currency debts partially minimize this currency translation risk.

Foreign exchange economic risk

The Group policy is not to hedge long-term foreign exchange risk.

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

		Average rates	Change		**Year-end rates**	Change
	2011	2010	10/11	**2011**	2010	10/11
1 USD	0.887	1.043	–15.0 %	0.940	0.935	0.5 %
1 EUR	1.233	1.382	–10.8 %	1.219	1.243	–1.9 %
100 CNY	13.700	15.400	–11.0 %	14.900	14.200	4.9 %
100 HKD	11.300	13.400	–15.7 %	12.100	12.000	0.8 %
100 JPY	1.112	1.188	–6.4 %	1.212	1.148	5.6 %
1 SGD	0.705	0.765	–7.8 %	0.723	0.726	–0.4 %

Sensitivity analysis

For the sensitivity analysis the two most important currencies were selected in which the Group holds significant amounts of receivables and payables. Based on a two-year volatility of 13.8 % (USD/CHF) and 12.67 % (EUR/CHF) a corresponding change in exchange rates at December 31, 2011 would have changed the equity and the income statement by the amounts listed below.

31 December		**2011**		2010
Effect in CHF million	Equity	Income Statement	Equity	Income Statement
USD	–1	6	2	–
EUR	1	3	–	–

A 13.8 % (USD/CHF) and 12.67 % (EUR/CHF) weakening of the Swiss francs against the above currencies would have had the same but opposite effect on the above currencies to the amounts shown above, assuming all other variables remain constant. In the previous period the sensitivity analysis was calculated with 11.55 (USD/CHF) and 7.74 (EUR/CHF).

Exposure to currency risk

Note 20 (cont.)

The Group's exposure to foreign currency risk was as follows based on nominal amounts as of December 31, 2011:

			2011			2010
in million	EUR	USD	CHF	EUR	USD	CHF
Trade receivables	11	26	–	16	22	2
Trade payables	14	13	4	5	11	4
Net financial position	33	48	–	–5	–7	–2
Gross exposure consolidated balance sheet	**58**	**87**	**4**	**16**	**26**	**4**
Foreign currency risk in business operations	**159**	**121**	**–31**	**62**	**101**	**68**
Open foreign exchange forward contracts	**–147**	**–128**	**21**	**–67**	**–80**	**–53**
Net exposure	**70**	**80**	**–6**	**11**	**47**	**19**

Interest rate risk

Oerlikon is exposed to interest rate risk mainly from its financial debt, which is placed at variable interest rates, but also on a much smaller scale from its liquid funds, which are also placed at variable rates or held as short-term investments. Amounts drawn down from the syndicated loan are subject to interest rate fluctuations.

Group Treasury prepares and provides the relevant decision support for senior management (Board of Directors, senior financial management) and arranges for hedging against interest rate fluctuations once approval is given. Such hedging is carried out using derivative financial instruments, such as Interest Rate Swaps and Interest Rate Caps.

At December 31, 2011, the interest rate profile of the Group's interest-bearing financial instruments was:

in CHF milllion	**2011 Net carrying amount**	2010 net carrying amount
Fixed rate interest		
Financial assets	3	4
Financial liabilities	–	–
Total	**3**	**4**
Variable rate interest		
Financial assets	745	754
Financial liabilities	–832	–1 033
Total	**–87**	**–278**

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have decreased (increased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Income Statement	
Effect in CHF million	**100 bp increase**	**100 bp decrease**
2011		
Cash flow sensitivity	–2	3
2010		
Cash flow sensitivity	–5	9

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

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

Capital management

Note 20 (cont.)

The capital transactions in 2010 have resulted in a sustainable increase in equity and in the equity ratio. The positive result in 2011 has lead to an improved equity ratio, return on equity and debt-to-equity ratio.

The ratios are shown in the table below:

in CHF million	**2011**	2010
Total assets	4 573	4 475
Equity attributable to shareholders of the parent	1 586	1 430
Equity ratio in %	**35 %**	**32 %**
Interest-bearing debt	832	1 031
Equity	1 610	1 454
Debt-to-equity ratio	**0.5**	**0.7**
Average equity	1 532	987
Net profit attributable to the shareholders of the parent	220	3
Return on equity	**14 %**	**0 %**

Oerlikon strives to maintain an adequate equity base, in order to preserve its investment grade in the capital markets. As a guide, Oerlikon management keeps watch on the net debt to EBITDA ratio. The ratio as of December 31, 2011 was 0.14:1 compared to 0.99:1 as of December 31, 2010.

Fair values versus carrying amounts at December 31

Note 21

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

	2011		2010	
in CHF million	**Carrying amount**	**Fair Value**	Carrying amount	Fair Value
Cash and cash equivalents	**742**	**742**	751	751
Financial assets	**44**	**44**	39	39
Loans and receivables	**781**	**781**	670	670
Interest rate derivatives				
– Assets	**–**	**–**	3	3
– Liabilities	**–**	**–**	–	–
Forward exchange contracts				
– Assets	**3**	**3**	32	32
– Liabilities	**–23**	**–23**	–47	–47
Secured bank loans	**–828**	**–828**	–1 022	–1 022
Unsecured bank loans	**–2**	**–2**	–6	–6
Finance lease liabilities	**–2**	**–2**	–4	–4
Trade payables	**–457**	**–457**	–419	–419
Accrued liabilities	**–151**	**–151**	–130	–130
Total	**107**	**107**	**–133**	**–133**
Unrecognized gains/losses	**–**	**–**		**–**

Fair value hierarchy
The fair values have been calculated from a hierarchy point of view as level 2 assessments (observable inputs other than quoted prices in markets for identical assets and liabilities) and contain financial assets of CHF 44 million (prior year: CHF 39 million), derivative financial assets of CHF 3 million (prior year: CHF 35 million) and derivative financial liabilities of CHF 23 million (prior year: CHF 47 million).

Assets and liabilities classified as held for sale

Note 22

With the sale of Schlafhorst Engineering (India) Ltd. on January 3, 2011 and the sale of Oerlikon Neumag Austria GmbH, Oerlikon Neumag Italy SpA as well as certain assets and liabities of AUTEFA automation GmbH as of August 31, 2011, all assets (CHF 37 million) and liabilities (CHF 31 million) presented as held for sale as of December 31, 2010 have been sold in 2011.

OC Oerlikon participation plans

Note 23

On December 31, 2011 the following equity-settled plans were open, pursuant to which the holder is entitled to shares of OC Oerlikon Corporation AG, Pfäffikon:

Restricted Stock Units (RSU)

Members of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon receive a portion of their compensation by means of Restricted Stock Units (RSU) which are allocated on the day of the Annual General Meeting of Shareholders and vest upon the next Annual General Meeting of Shareholders at which time they are converted into Oerlikon shares. For Directors resigning their mandate prior to the end of the term, the number of RSU converted into shares is determined at the sole discretion of the Board of Directors. The value of the RSU per year end is based on the weighted average share price of CHF 6.9.

Members of the Executive Committee receive a portion of their compensation as long-term bonus in the form of Restricted Stock Units (RSU) for OC Oerlikon Corporation AG, Pfäffikon shares. The number of RSU is a function of a fixed monetary amount and the share price at the time of vesting but cannot exceed a set limit. The RSU are subject to a vesting period of two years. The value of the RSU per year end is based on the weighted average share price of CHF 4.2. No RSU were granted to the Executive Committee in 2011.

Members of senior management may receive as portion of their compensation a long-term bonus in the form of Restricted Stock Units (RSU) for OC Oerlikon Corporation AG, Pfäffikon shares with a vesting period of 3 years. The value of the RSU per year end is based on a weighted average share price of CHF 8.6. No RSU were granted to the members of senior management in 2011.

Year of allocation	Outstanding on 1.1.	Granted in 2011	Forfeited in 2011	Exercised in 2011	Outstanding on 31.12.	Average share price in CHF	Expenses for the period in CHF million	Vesting Period
2009	220154	–	98443	121711	–	4.2	0.1	01.05.09–30.04.11
2009	244295	–	–	3619	240676	8.6	0.7	01.05.09–30.04.12
2010	196565	–	–	196565	–	5.0	0.5	09.06.10–10.05.11
2011	–	145684	–	–	145684	6.9	0.6	11.05.11–12.04.12
Total	**661014**	**145684**	**98443**	**321895**	**386360**		**1.9**	

Performance Share Awards (PSA)

Members of the Executive Committee and senior management may receive a portion of their compensation as long-term bonus in the form of awards for OC Oerlikon Corporation AG, Pfäffikon shares which are based on performance conditions and a vesting period of three years. Performance conditions may consist of individual and financial objectives. Their achievement determines the effective number of total Performance Share Awards (PSA). Upon vesting, the effective number of PSA is converted into shares.

Year of allocation	Outstanding on 1.1.	Granted in 2011	Forfeited in 2011	Exercised in 2011	Outstanding on 31.12.	Average share price in CHF	Expenses for the period in CHF million	Vesting Period
2008	44255	–	43458	797	–	12.3	–	01.05.08–30.04.11
2010	551309	–	66844	–	484465	4.6	1.1	01.05.10–30.04.13
2011	–	626538	60820	–	565718	6.8	0.5	01.05.11–30.04.14
Total	**595564**	**626538**	**171122**	**797**	**1050183**		**1.6**	

Share Options

In previous years, employees could receive a portion of their compensation as options for OC Oerlikon Corporation AG, Pfäffikon with a blocking period of one, two, three or four years. Holders are entitled to purchase one share for each option held. The value per year end is based on a Black-Scholes valuation including a weighted average share price of CHF 75. No options have been granted since 2008.

Year of allocation	Outstanding on 1.1.	Granted in 2011	Forfeited in 2011	Exercised in 2011	Outstanding on 31.12.	Exercise price in CHF	Expenses for the period in CHF million	Vesting Period
2007	9282	–	–	–	9282	80	–	01.01.08–31.12.13
	9282	–	–	–	9282	80	–	01.01.09–31.12.13
	9282	–	–	–	9282	80	–	01.01.10–31.12.13
	9282	–	–	–	9282	80	–	01.01.11–31.12.13
Total	**37128**	**–**	**–**	**–**	**37128**		**–**	

Related Party transactions

Note 24

Related parties include members of the Board of Directors, the Executive Committee, employee benefit plans and important shareholders as well as companies under their control or joint control. Transactions with related parties are generally conducted at arm’s length.

Significant Shareholders

The share capital of CHF 323 124 010 consists of 323 124 010 registered shares, each with a par value of CHF 1.00. On December 31, 2011 conditional capital amounted to CHF 64 174 919 (2010: CHF 64 213 458).

The only shareholder registered as holding more than 5 % as at December 31, 2011 was:

	Share ownership[1]	
Shareholder	**No of shares**	**in %**
Renova Group[2]	155 035 964	47.98 %

[1] Disclosure notification pursuant to Article 20 of the Swiss Stock Exchange Law by Renova Group (published by SIX Exchange Regulation on November 4, 2011).

[2] Renova Group is composed of Liwet Holding AG, Zurich, Switzerland, Renova Industries Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama. Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow. At the end of 2010 Liwet Holding AG held 46.11 % of the issued Oerlikon shares.

Compensation of Non-Executive Members of the Board of Directors

Members of the Board of Directors receive a cash compensation and Restricted Stock Units (RSU). The cash compensation consists of a Board member fee, a fee for Committee Chairmen, a fee for Committee members and a fee for the Chairman of the Board of Directors. In addition, a cash allowance is paid to all Board members. Board members receive Restricted Stock Units (RSU) which are blocked from their grant at the annual shareholders meeting until the following annual shareholders meeting at which time they are converted into Oerlikon shares. For Directors resigning their mandate prior to the end of the term, the number of RSU converted into shares is determined at the sole discretion of the Board of Directors.

The compensation is set by the Human Resources Committee and approved by the Board of Directors after the annual shareholders meeting.

The total compensation for the eight non-executive members of the Board of Directors in 2011 was CHF 2.3 million. In 2010 the total compensation for the six non-executive members of the Board of Directors amounted to CHF 2.0 million. In 2010, Hans Ziegler was an executive member of the Board of Directors. In 2010, the total amount paid to executive and non-executive members of the Board of Directors was CHF 3.4 million.

in CHF 000	Board of Directors	Strategy Committee	Audit Committee	HR Committee	Cash Compensation	Restricted Stock Units (RSU) 2010/11[1]	Restricted Stock Units (RSU) 2011/12[1]	Other Compensation[2]	**Total Compensation 2011**	**Total Compensation 2010**
Vladimir Kuznetsov	C[3]			C[3]	52	134	–	25	212	562
Tim Summers	C[4]	C[4]		C[4]	99	–	161	17	277	–
Kurt J. Hausheer	M		C		132	60	70	24	287	359
Dr. Urs A. Meyer	M	C[3]	M		138	60	72	25	294	389
Hans Ziegler	M	M		M	137	60	72	25	293	1 311
Carl Stadelhofer	M			M	103	60	72	23	258	338
Gerhard Pegam	M	M			106	60	70	5	241	135
Wolfgang Tölsner[5]	M		M		341	60	72	5	478	260
Total					1 108	494	588	149	**2 339**	**3 354**

C(hairman), M(ember)

[1] Accounting value of restricted stock units (RSU) for the mandate 2010/11 is based on a share price of CHF 5.0 (grant date) and for the mandate 2011/12 it is based on a share price of CHF 6.9 (grant date).

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

[3] Until May 10, 2011.

[4] As of May 10, 2011.

[5] Mr. Tölsner received, in addition to his Board remuneration, a fee for his consultancy work for Oerlikon Group companies, which is already included in the cash compensation.

Related Party transactions

Note 24 (cont.)

Compensation of Members of the Executive Committee

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

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

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

The total compensation paid to members of the Executive Committee for the year 2011 was CHF 9.9 million. The highest compensation paid to an individual Committee member was CHF 4.1 million.

Compensation to the Executive Committee is composed as follows:

in CHF 000	Salary	Bonus [1]	LTI (2008–11) [2]	LTI (2009–11) [2]	LTI (2010–13) [2]	LTI (2011–14) [2]	Pension	Other Compensation [3]	Severance payment	**Total Compensation 2011**	Total Compensation 2010
Total compensation to members of the Executive Committee	2 870	2 637	–	116	545	434	875	287	2 138	9 902	9 944
Thereof highest paid to one individual: [4] Thomas Babacan (former COO)	562	1 116	–	41	–	–	155	117	2 138	4 128	4 354

[1] Effective bonus 2010 paid in 2011 and one bonus 2011 paid in 2011.

[2] Accounting value of Performance Share Awards (PSA) is based on a weighted average share price of CHF 12.3 (grant date in 2008), CHF 4.6 (grant date in 2010) and CHF 6.8 (grant date in 2011). Accounting value of Restricted Stock Units (RSU) is based on a weighted average share price of CHF 4.2 (grant date in 2009).

[3] Other compensation includes expense, housing and car allowances.

[4] Thomas Babacan's employment ended on December 31, 2011. The severance payment included the contractually agreed base salary for 12 months and a contractually agreed termination payment. The highest compensation paid in 2010 went to the former General Counsel & Corporate Secretary.

Compensation of Former Members of Governing Bodies

During 2011 no compensation was paid to former members of the Board of Directors, either by OC Oerlikon Corporation AG, Pfäffikon or by any other company of the Oerlikon Group. A former member of the Executive Committee received a fee of CHF 21 000 for a board membership. No compensation was paid to former members of the Board of Directors and the Executive Committee in 2010.

Share Ownership, Options and Related Instruments

The disclosure below follows article 663c para. 3 of the Swiss Code of Obligations which requires disclosure of share ownership, options and related instruments individually for each member of the Board of Directors and Executive Committee including shares, options and related instruments held by persons closely related to, and by companies controlled by members of the Board of Directors and Executive Committee.

Members of the Board of Directors	**Number of Shares**	**Number of Restricted Stock Units (RSU)**	**Number of Options**
Vladimir Kuznetsov	344 368	–	2 000 000
Tim Summers	–	39 604	–
Kurt J. Hausheer	151 068	17 680	–
Dr. Urs A. Meyer	131 068	17 680	–
Carl Stadelhofer	44 580	17 680	–
Hans Ziegler	151 806	17 680	–
Gerhard Pegam	19 084	17 680	–
Wolfgang Tölsner	19 084	17 680	–
Total	861 058	145 684	2 000 000

Tim Summers (Chairman) and Carl Stadelhofer (Board Member) are also in senior positions at Renova Group. Mr. Summers is Chairman of Venetos Management AG. Mr Stadelhofer is Chairman of Renova Industries Ltd. and Renova Holding Ltd., Vice President of Renova Management AG and Chief Legal Counsel of Renova Group. 10 of his shares are held by a related party. Vladimir Kuznetsov (former Chairman) is Management Director, Strategic Development at Renova Group. Dr. Urs A. Meyer (Board Member) was Chief Executive Officer of Venetos Management AG until May 30, 2011. Since then, he has been in a mandate relationship with the Renova Group (regarding his Board membership at OC Oerlikon Corporation AG, Pfäffikon).

Related Party transactions

Note 24 (cont.)

Members of the Executive Committee	Number of Shares	Number of Restricted Stock Units (RSU)	Number of Performance Share Awards (PSA)	Number of Options
Dr. Michael Buscher, CEO	–	–	170 355	–
Thomas Babacan, COO (until 31.12.2011)	32 615	–	–	4 765
Jürg Fedier, CFO	74 882	–	208 270	–
Raafat Morcos, CRO (until 17.08.2011)	–	–	–	–
Adrian Cojocaru, CHRO	–	–	38 307	–
Total	107 497	–	416 932	4 765

Loans and Other Payments to Members of Governing Bodies

No loans were granted and no other payments were made to current or former members of the Board of Directors or the Executive Committee during 2011. No such loans or payments were outstanding as of December 31, 2011.

Group and Associated Companies

An overview of the Group subsidiary companies can be found on pages 132 and 133. Transactions between the parent company and its subsidiaries as well as between the Group subsidiaries themselves have been eliminated in the consolidated annual financial statements.

In Germany, a Group company rents property from its pension fund. The fair value of the real estate included in the fair value of the assets of the pension fund is CHF 9 million (previous year: CHF 9 million) and the annual rent is CHF 1 million (previous year: CHF 1 million).

Participation plans: see page 125, Note 23.

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

In 2009, Hevel LLC has ordered an end-to-end Micromorph® line for production of thin film solar modules with an annual capacity of at least 120 MW for a total consideration of EUR 264 Million. The overall investment including all equipment, processes and services is on an arms length basis. The equipment will be delivered in 2012 to the new site(s) currently under construction. The start of production is scheduled for 2012.

At year-end 2011, 84 % of the contract volume was completed and recognized as sales (CHF 325 million). Down-payments in the amount of 90 % of the total contract volume were received, resulting in no outstanding balance at year-end.

Contingent liabilities

Note 25

Contingent liabilities as of December 31, 2011 amount to CHF 8 million (CHF 13 million as of December 31, 2010) and mainly consist of debt guarantees to banks.

Payments under non-cancellable leases

Note 26

in CHF million	**2011**	2010
Due in 1st year	29	29
Due in 2nd year	25	22
Due in 3rd year	15	17
Due in 4th year	11	11
Due in or beyond 5th year	29	27
Total	**109**	**106**

The expenses of operating leases charged to the income statement amount to CHF 29 million (previous year: CHF 29 million).

Pledged assets

Note 27

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

in CHF million	**2011**	2010
Cash and cash equivalents	129	239
Receivables	171	167
Inventories	83	58
Other current assets	8	10
Property, plant and equipment	306	334
Other non-current assets	248	259
Total	**945**	**1067**

A significant part of the pledged assets was provided as security for the syndicated loan facility. In addition, the facility is secured by collateral pledges of shares held in significant subsidiaries and by guarantees given by such subsidiaries to the benefit of the lenders as well as by intercompany receivables and loans.

Events subsequent to the balance sheet date

Note 28

No events occured between the balance sheet date and the date of this report which could have a significant impact on the consolidated financial statements 2011.

Segment information

in million CHF	**Oerlikon Textile**		**Oerlikon Drive Systems**		**Oerlikon Vacuum**		**Oerlikon Solar**	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
Order intake	1 977	2 509	892	792	400	438	202	230
Order backlog	1 053	1 197	213	137	77	84	130	255
Sales								
Sales to third parties	2 037	1 653	821	733	409	410	323	254
Sales to other segments	–	–	–	–	13	10	29	29
	2 037	**1 653**	**821**	**733**	**422**	**420**	**352**	**283**
Sales by market region to third parties								
Asia/Pacific	1 383	1 052	93	85	143	160	220	117
Europe	314	253	359	360	191	178	29	54
North America	137	176	330	269	71	68	–	–
Other regions	203	172	39	19	4	4	74	83
	2 037	**1 653**	**821**	**733**	**409**	**410**	**323**	**254**
Sales by location to third parties								
Asia/Pacific	401	356	93	80	116	127	3	3
Europe	1 532	1 169	470	447	220	215	320	251
North America	89	105	258	206	73	68	–	–
Other regions	15	23	–	–	–	–	–	–
	2 037	**1 653**	**821**	**733**	**409**	**410**	**323**	**254**
Capital expenditure for fixed and intangible assets								
Asia/Pacific	7	9	14	12	5	2	–	–
Europe	28	30	17	16	10	12	16	18
North America	–	–	11	9	–	–	–	–
Other regions	–	1	–	–	–	–	–	–
	35	**40**	**42**	**37**	**15**	**14**	**16**	**18**
EBITDA	**233**	**96**	**94**	**26**	**72**	**44**	**17**	**–33**
EBIT	**183**	**21**	**49**	**–27**	**59**	**30**	**–10**	**–59**
Other material items								
Research and development expenses	–72	–75	–11	–14	–19	–20	–68	–73
Depreciation and amortization	–44	–54	–45	–51	–13	–13	–24	–22
Impairment/Reversal of impairment on property, plant and equipment	–6	–20	–	–2	–	–	–1	–
Impairment of goodwill	–	–	–	–	–	–	–2	–
Restructuring costs	–1	–5	–	–34	–	–8	–	–
Operating Assets								
Asia/Pacific	252	234	97	89	61	54	1	2
Europe	1 179	1 114	658	648	177	185	235	237
North America	19	22	429	390	20	15	6	–
Other regions	8	17	–	–	–	–	–	–
	1 458	**1 387**	**1 184**	**1 127**	**258**	**254**	**242**	**239**
Operating Liabilities	–840	–646	–248	–232	–93	–103	–145	–198
Net Operating Assets[1]	**618**	**741**	**936**	**895**	**165**	**151**	**97**	**41**
Number of employees								
Asia/Pacific	2 686	2 616	1 901	1 686	336	315	73	62
Europe	3 325	3 469	2 333	2 421	1 060	1 061	585	582
North America	150	153	1 237	1 034	76	77	2	4
Other regions	69	56	–	–	–	–	–	–
	6 230	**6 294**	**5 471**	**5 141**	**1 472**	**1 453**	**660**	**648**

[1] Net Operating Assets include current and non-current operating assets (including goodwill and brands), less operating liabilities, whereas cash and cash equivalents (CHF 742 million), current and non-current financial liabilities (CHF 856 million), current (CHF 18 million) and deferred (CHF 111 million) tax receivables as well as current (CHF 61 million) and deferred (CHF 73 million) tax payables are not included.

Segment information

Oerlikon Coating		Oerlikon Advanced Technologies		Total Segments		Corporate/ Eliminations		Total Oerlikon Group	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
484	422	88	129	4043	4520	–	–	4043	4520
–	–	8	29	1481	1702	–	–	1481	1702
484	422	108	129	4182	3601	–	–	4182	3601
2	1	1	1	45	41	–45	–41	–	–
486	**423**	**109**	**130**	**4227**	**3642**	**–45**	**–41**	**4182**	**3601**
143	119	49	60	2031	1593	–	–	2031	1593
248	217	45	31	1186	1093	–	–	1186	1093
58	53	13	36	609	602	–	–	609	602
35	33	1	2	356	313	–	–	356	313
484	**422**	**108**	**129**	**4182**	**3601**	**–**	**–**	**4182**	**3601**
130	115	–	–	743	681	–	–	743	681
267	222	95	92	2904	2396	–	–	2904	2396
53	52	13	37	486	468	–	–	486	468
34	33	–	–	49	56	–	–	49	56
484	**422**	**108**	**129**	**4182**	**3601**	**–**	**–**	**4182**	**3601**
27	16	–	–	53	39	–	–	53	39
18	14	6	4	95	94	4	–	99	94
3	3	–	–	14	12	–	–	14	12
1	4	–	–	1	5	–	–	1	5
49	**37**	**6**	**4**	**163**	**150**	**4**	**–**	**167**	**150**
141	**101**	**14**	**13**	**571**	**247**	**34**	**31**	**605**	**278**
97	**52**	**11**	**10**	**389**	**27**	**30**	**24**	**419**	**51**
–30	–27	–11	–15	–211	–224	–	–5	–211	–229
–44	–44	–3	–4	–173	–188	–2	–7	–175	–195
–	–1	–	–	–7	–23	–	–	–7	–23
–	–3	–	–	–2	–3	–	–	–2	–3
–	–2	–	–	–1	–49	–	–	–1	–49
140	118	–	–	551	497	–	–	551	497
188	195	105	90	2542	2469	43	47	2585	2516
33	33	6	9	513	469	–	1	513	470
26	33	–	–	34	50	–	–	34	50
387	**379**	**111**	**99**	**3640**	**3485**	**43**	**48**	**3683**	**3533**
–84	–72	–29	–29	–1439	–1280	–39	–57	–1478	–1337
303	**307**	**82**	**70**	**2201**	**2205**	**4**	**–9**	**2205**	**2196**
923	824	–	–	5919	5503	–	–	5919	5503
1557	1399	180	173	9040	9105	203	206	9243	9311
279	262	20	23	1764	1553	1	4	1765	1557
227	226	–	–	296	282	4	4	300	286
2986	**2711**	**200**	**196**	**17019**	**16443**	**208**	**214**	**17227**	**16657**

Companies by country

Country	Production	Distribution	R&D	Service	Name, registered office of significant companies by country	Currency	Share Capital[1]	Group owns %	Number of employees
Austria	■	■			Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT	EUR	350 000	100.00	93
Austria				■	Saurer Holding GmbH, Leonding/AT	EUR	35 000	100.00	–
Belgium	■	■			Oerlikon Balzers Coating Benelux N.V., St.-Truiden/BE	EUR	620 000	100.00	47
Brazil	■	■			Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR	BRL	30 662 100	99.99	139
Brazil		■		■	Oerlikon Textile do Brasil Máquinas Ltda., São Leopoldo, RS/BR	BRL	9 384 968	100.00	40
Cayman Islands				■	Saurer Group Investments Ltd., George Town/KY	CHF	474 469 300	100.00	–
China	■	■			Jintan Texparts Component Co. Ltd., Jintan/CN	USD	5 062 288	70.00	178
China	■	■		■	Oerlikon (China) Technology Co. Ltd., Suzhou/CN	USD	30 000 000	100.00	805
China	■	■			Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN	USD	6 150 000	100.00	280
China	■			■	Oerlikon Drive Systems (Suzhou) Co. Ltd., Suzhou/CN	USD	2 000 000	100.00	89
China		■			Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Tianjin/CN	USD	200 000	100.00	91
China	■	■			Oerlikon Leybold Vacuum Equipment (Tianjin) Co. Ltd., Tianjin/CN	USD	4 960 000	100.00	111
China				■	Oerlikon Solar (Shanghai) Trading Co. Ltd., Shanghai/CN	USD	100 000	100.00	29
China				■	Oerlikon Textile China Investments Ltd., Hongkong/CN	HKD	266 052 505	100.00	–
China		■			Oerlikon Textile Components Far East Ltd., Hongkong/CN	HKD	10 000	100.00	–
China		■		■	Oerlikon Textile Far East Ltd., Hongkong/CN	HKD	100 000	100.00	30
China	■	■	■		Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN	USD	7 000 000	100.00	205
China	■	■	■	■	Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN	USD	1 112 220	100.00	185
China		■			Oerlikon Textile Trading and Services Ltd., Hongkong/CN	HKD	275 200	100.00	–
China				■	Saurer China Equity Ltd., Hongkong/CN	HKD	253 910 000	100.00	–
China	■	■	■	■	Saurer Jintan Textile Machinery Co. Ltd., Jintan/CN	USD	22 482 422	70.00	521
Czech Republic	■	■	■	■	Oerlikon Czech s.r.o., Cerveny Kostelec/CZ	CZK	30 000 000	100.00	33
Finland	■	■			Oerlikon Balzers Sandvik Coating Oy, Helsinki/FI	EUR	2 500	51.00	7
France	■	■			Oerlikon Balzers Coating France SAS, St. Thibault des Vignes/FR	EUR	3 150 000	100.00	107
France				■	Oerlikon France Holding SAS, St. Thibault des Vignes/FR	EUR	4 000 000	100.00	–
France	■	■	■		Oerlikon Leybold Vacuum France SAS, Villebon-sur-Yvette/FR	EUR	3 095 750	100.00	175
Germany	■	■	■	■	Afetau GmbH, Remscheid/DE (formerly AUTEFA automation GmbH)	EUR	25 000	100.00	–
Germany				■	Barmag Liegenschaften GmbH & Co. KG, Remscheid/DE	EUR	5 000 000	100.00	–
Germany	■	■			Oerlikon Balzers Coating Germany GmbH, Bingen/DE	EUR	511 300	100.00	538
Germany	■				Oerlikon Balzers Hartec GmbH, Stetten am kalten Markt/DE	EUR	25 000	100.00	44
Germany				■	Oerlikon Deutschland Holding GmbH, Köln/DE	EUR	30 680 000	100.00	–
Germany		■			Oerlikon Deutschland Vertriebs GmbH, Aschheim/DE	EUR	26 000	100.00	28
Germany	■	■	■		Oerlikon Laser Systems GmbH, Krailling/DE	EUR	5 150 000	100.00	18
Germany	■	■			Oerlikon Leybold Vacuum Dresden GmbH, Dresden/DE	EUR	100 000	100.00	59
Germany	■	■	■		Oerlikon Leybold Vacuum GmbH, Köln/DE	EUR	1 200 000	100.00	768
Germany				■	Oerlikon Real Estate GmbH, Köln/DE	EUR	50 000	100.00	–
Germany	■	■	■		Oerlikon Textile Components GmbH, Fellbach/DE	EUR	51 400	100.00	423
Germany	■	■	■	■	Oerlikon Textile GmbH & Co. KG, Remscheid/DE	EUR	41 000 000	100.00	2 648
Germany				■	Oerlikon Vacuum Holding GmbH, Köln/DE	EUR	25 000	100.00	–
Germany				■	Oerlikon Vermietungs- und Verwaltungsgesellschaft mbH, Köln/DE	EUR	25 000	100.00	–
Germany				■	Oerlikon Vermögens-Verwaltungs GmbH, Köln/DE	EUR	25 000	100.00	–
Germany				■	W. Reiners Verwaltungs-GmbH, Remscheid/DE	EUR	38 346 900	100.00	–
Great Britain		■			Graziano Trasmissioni UK Ltd., St. Neots/UK	GBP	40 000	100.00	7
Great Britain	■	■			Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK	GBP	2 000 000	100.00	44
Great Britain	■	■	■		Oerlikon Fibrevision Ltd., Macclesfield/UK	GBP	48	78.00	18
Great Britain		■			Oerlikon Leybold Vacuum UK Ltd., Chessington/UK	GBP	300 000	100.00	23
Great Britain		■			Oerlikon Optics UK Ltd., London/UK	GBP	1	100.00	–
Great Britain		■	■		Vocis Limited, Warwick/UK	GBP	200	51.00	22
India	■	■	■		Fairfield Atlas Ltd., Kolhapur/IN	INR	273 205 400	83.87	826
India	■	■			Graziano Trasmissioni India Pvt. Ltd., New Delhi/IN	INR	267 124 880	100.00	987
India	■	■			Oerlikon Balzers Coating India Ltd., Pune/IN	INR	70 000 000	100.00	203
India		■			Oerlikon Leybold Vacuum India Pvt. Ltd., Pune/IN	INR	2 000 000	100.00	16
India		■	■	■	Oerlikon Textile India Pvt. Ltd., Mumbai/IN	INR	57 360 000	100.00	342
India	■	■	■	■	Peass Industrial Engineers Ltd., Gujarat/IN	INR	15 000 000	51.00	161
India	■	■	■	■	Zinser Textile Systems Pvt. Ltd., Ahmedabad/IN	INR	45 500 000	70.00	42
Italy	■	■			Oerlikon Balzers Coating Italy S.p.A., Brugherio/IT	EUR	130 000	100.00	76
Italy				■	Oerlikon Graziano Group S.p.A., Torino/IT	EUR	59 669 000	100.00	–
Italy	■	■	■	■	Oerlikon Graziano S.p.A., Cascine Vica Rivoli/IT	EUR	58 697 357	100.00	2 303
Italy		■			Oerlikon Leybold Vacuum Italia S.r.l., Milano/IT	EUR	110 000	100.00	12
Japan		■			Oerlikon Leybold Vacuum Japan Co. Ltd., Yokohama/JP	JPY	450 000 000	100.00	38
Japan	■	■			Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP	JPY	100 000 000	100.00	131
Liechtenstein	■	■	■	■	OC Oerlikon Balzers AG, Balzers/LI	CHF	30 000 000	100.00	618
Luxembourg	■	■			Oerlikon Balzers Coating Luxembourg S.à r.l., Differdange-Niedercorn/LU	EUR	1 000 000	60.00	15
Mexico	■	■			Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX	MXN	71 458 000	100.00	78
Netherlands		■			Oerlikon Leybold Vacuum Nederland B.V., Utrecht/NL	EUR	463 000	100.00	7
Netherlands				■	SAC Saurer Automotive Components B.V., Rotterdam/NL	EUR	11 500 000	100.00	–

Companies by country

Country	Production	Distribution	R&D	Service	Name, registered office of significant companies by country	Currency	Share Capital [1]	Group owns %	Number of employees
Poland	■	■			Oerlikon Balzers Coating Poland Sp.z o.o., Polkowice Dolne/PL	PLN	5 000 000	100.00	59
Russia	■	■		■	OOO Oerlikon Balzers Rus, Elektrostal/RU	RUB	1 000 000	100.00	11
Russia		■			OOO Oerlikon Rus, Moskwa/RU	RUB	7 790 760	100.00	5
Singapore	■	■			Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG	SGD	6 000 000	100.00	44
Singapore		■			Oerlikon Leybold Vacuum Singapore Pte. Ltd., Singapore/SG [2]	EUR		100.00	16
Singapore		■			Oerlikon SEA Pte. Ltd., Singapore/SG	SGD	100 000	100.00	–
Singapore		■	■		Oerlikon Solar Singapore Pte. Ltd., Singapore/SG	SGD	16 900 000	100.00	22
Singapore	■	■	■		Oerlikon Textile Components Singapore Pte. Ltd., Singapore/SG	SGD	1 000 000	100.00	190
South Korea	■	■			Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR	KRW	6 300 000 000	89.90	191
South Korea		■			Oerlikon Leybold Vacuum Korea Ltd., Cheonan/KR	KRW	7 079 680 000	100.00	31
Spain	■	■			Oerlikon Balzers-ELAY Coating S.A., Antzuola/ES	EUR	150 000	100.00	68
Spain		■			Oerlikon Leybold Vacuum Spain S.A., Cornellà de Llobregat/ES	EUR	168 283	100.00	9
Sweden	■	■			Oerlikon Balzers Sandvik Coating AB, Stockholm/SE	SEK	11 600 000	51.00	51
Switzerland				■	Aktiengesellschaft Adolph Saurer, Arbon/CH	CHF	10 000 000	100.00	1
Switzerland		■			GTG-Graziano Trasmissioni Group AG, Arbon/CH	CHF	250 000	100.00	1
Switzerland				■	InnoDisc AG, Windisch/CH	CHF	100 000	100.00	–
Switzerland				■	OC Oerlikon Corporation AG, Pfäffikon, Freienbach SZ/CH	CHF	282 848 740	100.00	–
Switzerland				■	OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH	CHF	2 000 000	100.00	81
Switzerland	■	■			Oerlikon Balzers Coating SA, Brügg, Brügg/CH	CHF	2 000 000	100.00	30
Switzerland		■			Oerlikon Heberlein Temco Wattwil AG, Wattwil/CH	CHF	1 000 000	100.00	87
Switzerland	■	■		■	Oerlikon IT Solutions AG, Pfäffikon, Freienbach SZ/CH	CHF	500 000	100.00	34
Switzerland		■			Oerlikon Leybold Vacuum Schweiz AG, Zürich/CH	CHF	300 000	100.00	8
Switzerland				■	Oerlikon Licensing Arbon GmbH, Arbon/CH	CHF	20 000	100.00	–
Switzerland	■	■	■		Oerlikon Mechatronics AG, Trübbach, Wartau/CH	CHF	100 000	100.00	130
Switzerland	■	■	■	■	Oerlikon Saurer Arbon AG, Arbon/CH	CHF	14 160 000	100.00	116
Switzerland	■	■	■		Oerlikon Solar AG, Trübbach, Wartau/CH	CHF	100 000	100.00	414
Switzerland				■	Oerlikon Solar Holding AG, Trübbach, Wartau/CH	CHF	3 958 000	100.00	–
Switzerland				■	Oerlikon Solar IP AG, Trübbach, Wartau/CH	CHF	100 000	100.00	–
Switzerland			■		Oerlikon Solar-Lab SA, Neuchâtel, Neuchâtel/CH	CHF	1 000 000	100.00	24
Switzerland				■	Oerlikon Trading AG, Trübbach, Wartau/CH	CHF	8 000 000	100.00	2
Switzerland				■	OT Textile Verwaltungs GmbH, Arbon/CH	CHF	20 000	100.00	–
Switzerland				■	Saurer AG, Arbon/CH	CHF	112 019 600	100.00	–
Switzerland				■	Saurer Management AG, Freienbach SZ/CH	CHF	100 000	100.00	–
Switzerland				■	Unaxis GmbH, Freienbach SZ/CH	CHF	20 000	100.00	–
Taiwan		■			Oerlikon Leybold Vacuum Taiwan Ltd., Hsinchu/TW	TWD	20 000 000	100.00	33
Taiwan		■			Oerlikon Solar Taiwan Ltd., Hsinchu/TW	TWD	20 000 000	100.00	22
Thailand	■	■			Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH	THB	80 000 000	99.99	53
Turkey	■	■			Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR	TRY	2 500 000	99.99	21
Turkey		■		■	Oerlikon Tekstil Middle East Tekstil Makinalari Dis Ticaret A.S., Istanbul/TR	TRY	1 964 960	100.00	28
USA	■	■	■		Fairfield Manufacturing Company Inc., Wilmington, DE/US	USD	10 000	100.00	1 232
USA		■			Graziano Trasmissioni North America Inc., Charlotte, NC/US	USD	1	100.00	5
USA	■	■	■	■	Melco Industries Inc., Denver, CO/US	USD	2 407 000	100.00	45
USA	■	■			Oerlikon Balzers Coating USA Inc., Wilmington, DE/US	USD	25 000	100.00	279
USA	■	■	■		Oerlikon Leybold Vacuum USA Inc., Wilmington, DE/US	USD	1 375 000	100.00	76
USA		■			Oerlikon Optics USA Inc., Denver, CO/US	USD	1 000	100.00	–
USA		■			Oerlikon Solar USA Inc., Wilmington, DE/US	USD	1	100.00	2
USA				■	Oerlikon Management USA Inc., Pittsburgh, PA/US	USD	500 000	100.00	1
USA		■		■	Oerlikon Textile Inc., Charlotte, NC/US	USD	3 000 000	100.00	104
USA				■	Oerlikon USA Holding Inc., Wilmington, DE/US	USD	40 234 000	100.00	–
USA	■	■	■		Oerlikon USA Inc., Plantation, FL/US	USD	14 730 000	100.00	20
USA				■	Saurer Financing LP, Charlotte, NC/US	USD	2 000 000	100.00	1

[1] Share capital partly rounded to full hundred. Some articles of association and trade registers still contain old European currencies that are converted to EUR.

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

Report of the Statutory Auditor

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

As statutory auditor, we have audited the accompanying consolidated financial statements of OC Oerlikon Corporation AG, Pfäffikon, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated cash flow statement and notes on pages 91 to 131 for the year ended 31 December 2011.

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

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

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

Opinion
In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Report on Other Legal Requirements

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

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

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

KPMG AG

Herbert Bussmann Licensed Audit Expert Auditor in Charge	Toni Wattenhofer Licensed Audit Expert

Zurich, March 1, 2012

Five-year summary of key figures

in CHF million	**2011**	2010	2009	2008 restated	2007
Orders intake [1]	**4 043**	4 520	2 996	4 209	5 811
Order backlog [1]	**1 481**	1 702	997	1 147	1 821
Sales [1]	**4 182**	3 601	2 877	4 632	5 404
EBITDA [1]	**605**	278	–165	471	688
– as % of sales	**14 %**	8 %	–6 %	10 %	13 %
EBIT [1, 2]	**419**	51	–589	–59	467
– as % of sales	**10 %**	1 %	–20 %	–1 %	9 %
Net profit/loss	**224**	5	–592	–422	319
– as % of sales	**5 %**	0 %	–21 %	–9 %	6 %
– as % of equity attributable to shareholders of the parent	**14 %**	0 %	–120 %	–39 %	17 %
Cash flow from operating activities [3]	**541**	354	–92	411	678
Capital expenditure for fixed and intangible assets [1]	**167**	150	130	336	325
Total assets	**4 573**	4 475	4 342	5 476	6 290
Equity attributable to shareholders of the parent	**1 586**	1 430	493	1 093	1 858
– as % of total assets	**35 %**	32 %	11 %	20 %	30 %
Net debt [4]	**86**	274	1 646	1 585	794
Net Operating Assets [5]	**2 205**	2 196	2 821	3 498	3 266
Number of employees [1]	**17 227**	16 657	16 369	18 372	18 711
Personnel expense [1]	**984**	1 015	1 001	1 277	1 355
Research and development expenditures [1, 6]	**213**	239	210	246	245

[1] 2008 and 2009 continuing operations.

[2] EBIT before restructuring and impairment of goodwill amounts in 2011 to CHF 422 million (previous year: CHF 103 million).

[3] Before changes in net current assets.

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

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

[6] Research and development expenditures include expenses recognized as intangible assets in the amount of CHF 24 million (previous year: CHF 32 million).

OC Oerlikon Corporation AG, Pfäffikon

Income Statement of OC Oerlikon Corporation AG, Pfäffikon

in CHF	Notes	**2011**	2010
Income from investments	2	22 702 828	5 383 467
Financial income	3	62 715 438	188 297 404
Other income	5	61 738 387	48 553 162
		147 156 653	242 234 033
Financial expense	4	–85 918 066	–251 597 199
Other expense	6	–35 396 775	–49 891 067
		25 841 812	–59 254 233
Gain on disposal of investments		440 208	7 147 760
Valuation adjustments on loans and investments in subsidiaries		–9 322 865	–9 936 918
Net profit/loss		**16 959 155**	**–62 043 391**

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

Assets

in CHF	Notes	**2011**	%	2010	%
Cash and cash equivalents	7	334 390 059	9.1	455 259 595	12.1
Treasury shares	8	2 962 725	0.1	1 470 000	–
Receivables					
– from third parties		567 929	–	493 161	–
– from affiliated companies		190 402 108	5.2	128 586 238	3.4
Prepaid expenses and accrued income		3 198 191	0.1	719 324	–
Current assets		**531 521 012**	**14.5**	**586 528 318**	**15.5**
Investments	9	1 709 796 886	46.7	1 707 796 886	45.3
Long-term loans to affiliated companies		1 412 753 040	38.5	1 458 396 853	38.6
Long-term loans to third parties		1 103 203	–	300 000	–
Intangible assets	10	11 303 208	0.3	22 606 416	0.6
Non-current assets		**3 134 956 337**	**85.5**	**3 189 100 155**	**84.5**
Total assets		**3 666 477 349**	**100.0**	**3 775 628 473**	**100.0**

Liabilities and equity

in CHF	Notes	**2011**	%	2010	%
Current payables					
– to third parties		2 611 274	0.1	1 752 771	–
– to affiliated companies		323 189 426	8.8	322 268 588	8.5
Accrued liabilities		16 749 653	0.5	15 403 556	0.4
Long-term loans due from affiliated companies		381 151 099	10.4	305 599 028	8.1
Long-term bank loans	11	842 336 606	23.0	1 046 391 328	27.7
Provisions	12	52 654 236	1.4	53 618 536	1.4
Total liabilities		**1 618 692 294**	**44.2**	**1 745 033 807**	**46.2**
Share capital	13	323 124 010	8.8	323 085 471	8.6
Legal reserves					
– General legal reserves		70 593 765	1.9	196 814 878	5.2
– Reserves from capital contributions	14	1 176 534 314	32.1	–	–
– Reserves for treasury shares	15	3 460 395	0.1	1 512 130	–
Free reserves		293 910 850	8.0	1 344 031 356	35.6
Retained earnings		180 161 721	4.9	165 150 831	4.4
Total equity		**2 047 785 055**	**55.8**	**2 030 594 666**	**53.8**
Total equity and liabilities		**3 666 477 349**	**100.0**	**3 775 628 473**	**100.0**

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

General

Reporting basis (1)

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

Income statement

Income from investments (2)

The income from investments consists mainly of dividend income from subsidiary companies and the financial investment Pilatus Flugzeugwerke AG.

Financial income (3)

Financial income includes interest income.

Financial expense (4)

Financial expense mainly includes interest expenses and net exchange losses.

Other income (5)

Other income consists mainly of trade mark fees.

Other expense (6)

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

Balance sheet

Cash and cash equivalents (7)

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

Treasury shares (8)

The total of 589 011 treasury shares (2010: 300 000) held at December 31, 2011 represents 0.18 % of the company's share capital.

The treasury shares are carried at the lower of cost or market, and therefore have been valued at their market value at close of business on December 31, 2011 (CHF 5.03), giving a total value of CHF 3 million (2010: CHF 1 million).

During the year, 570 000 shares (2010: 515 855) were bought on the stock exchange and 280 989 shares (2010: 215 855) were given to employees.

Investments (9)

The list of the Company's major investments is on page 142.

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

Under the terms of the amended syndicated loan agreement, investments in major subsidiaries with a book value of CHF 1 608 million (2010: CHF 1 606 million) became pledged. More details may be found in Note 17.

Intangible assets (10)

These include mainly trademarks of Oerlikon and Saurer and are amortized over 5 years on a straight-line basis.

Bank loans (11)

Bank loans total to CHF 842 million (2010: CHF 1 046 million). Additional information to the terms and conditions of the syndicated loan and the financial covenants may be found in Note 18 of the Group's consolidated financial statements on page 118 and 119.

Provisions (12)

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

Share capital (13)

The share capital of CHF 323 million (2010: CHF 323 million) consists of 323 124 010 registered shares (2010: 323 085 471), each with a par value of CHF 1.00. On December 31, 2011 conditional capital amounted to CHF 64 174 919 (2010: CHF 64 213 458).

During the year 2011, 38 539 new shares (2010: none) were issued based on exercises of stock options by warrant holders.

The only shareholder registered as holding more than 5 % as at December 31, 2011 was[1]:
47.98 %[2] (155 035 964 registered shares) Renova Group[3] (composed of Liwet Holding AG, Zurich, Switzerland, Renova Industries Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama)

[1] Source: Disclosure notification pursuant to Article 20 of the Swiss Stock Exchange Law by Renova Group (published by SIX Exchange Regulation on November 4, 2011).

[2] At the end of 2010 Liwet Holding AG held 46.11 % of the issued Oerlikon shares.

[3] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow

Reserves from capital contributions (14)

The capital contribution principle was introduced as of January 1, 2011 under Swiss tax law. It allows the distribution of capital contributions contributed to the company (i.e. to OC Oerlikon Corporation AG, Pfäffikon) by its shareholders since 1997 without being subject to Swiss withholding tax, provided certain conditions are met. The distribution of qualifying capital contributions is exempt from Swiss income tax at the level of a Swiss resident shareholder who holds the shares as private assets.

In order to meet the requirements of the Swiss Federal Tax Administration, the 2011 balance sheet has been adapted slightly to reflect the reserves from capital contributions as per December 31, 2011.

As per December 31, 2011, the balance sheet of OC Oerlikon Corporation AG, Pfäffikon, reflects capital contribution reserves of CHF 1 176 534 314. Thereof, the amount of CHF 1 176 341 619 was disclosed as initial declaration vis-à-vis the Swiss Federal Tax Administration as per December 31, 2010. Subsequently and based on its current practice, the Swiss Federal Tax Administration approved capital contributions to the amount of CHF 907 635 316 thereof, but did not confirm capital contributions in the amount of CHF 268 706 303. This result is reflected in a written document (so called "Revers") which was counter-signed by the Swiss Federal Tax Administration. According to the "Revers", distributions may first be made from the confirmed capital contributions reserves. The remaining CHF 192 695 derives from capital contribution reserves only generated in 2011, which have not yet been subject to scrutiny by the Swiss Federal Tax Administration.

Reserves for treasury shares (15)

This reserve represents the acquisition cost of 589 011 treasury shares (2010: 300 000).

Contingent liabilities (16)

Contingent liabilities relate primarily to performance guarantees and guarantees for bank loans of affiliated companies and amount to approximately CHF 330 million (2010: CHF 260 million).

Pledged assets (17)

On 31 March 2010 OC Oerlikon Corporation AG, Pfäffikon (Company), parent company of the Oerlikon Group agreed with a syndicate of banks on a Credit Facility. Additional information may be found in Note 27 of the Group's consolidated financial statements on page 129.

On this occasion the Company provided the following securities:

- Pledge of the shares of material subsidiaries of CHF 1 608 million.
  However, a realization of the pledged shares requires an event of default and the foreclosure of the Credit Facility by the Lenders.
- Pledge of all rights of the Oerlikon trademark of CHF 2 million
- Pledge of the bank accounts in total of CHF 108 million

Additional information to the pledged assets may be found in Note 27 of the Group's consolidated financial statements on page 129.

Disclosure of directors' remunerations (18)

The disclosure of directors' remunerations as required by Swiss Company Law may be found in Note 24 on pages 126 to 128 of the Group's consolidated financial statements.

Risk-assessment disclosure according to the Swiss Code of Obligations (OR 663b, Z. 12) (19)

Oerlikon has a risk management system with which the enterprise-wide risk management is centrally managed and decentrally implemented. Risk assessments are conducted at various levels, and corresponding risk reports are prepared.

From the methodological perspective, risk assessments are conducted according to a standard procedure comprising the following steps: preparation of the risk assessment, identification of risks, risk evaluation and planning of risk mitigation actions. The results are compiled in a risk report.

Internal reporting requirements to the Executive Committee and the Board of Directors (the Audit Committee and the Board) are fulfilled by the Group Risk Report that outlines relevant risks and risk mitigation actions from a Group perspective. The Group Risk Report is published twice a year, discussed by the Executive Committee and subsequently considered by the Board of Directors (the Audit Committee and the Board).

In its meeting on August 10, 2011, the Audit Committee discussed the 2011 Group Risk Report and related its findings to the Board of Directors. The Board of Directors reviewed the Group Risk Report 2012–14 in its meeting on December 1, 2011.

For further information regarding risk management, see page 66, section 6.0 Corporate Governance, page 84 et seq., section 8.0 Risk management and page 118 et seq., Notes 18 to 20, to the consolidated financial statements.

Investments

Company	Currency	Share Capital	Investment in %
Aktiengesellschaft Adolph Saurer, Arbon/CH	CHF	10 000 000	100.00
InnoDisc AG, Windisch/CH	CHF	100 000	100.00
OC Oerlikon Balzers AG, Balzers/LI	CHF	30 000 000	100.00
OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH	CHF	2 000 000	100.00
Oerlikon Balzers Coating India Ltd., Pune/IN	INR	70 000 000	78.40
Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN	USD	6 150 000	100.00
Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH	THB	80 000 000	99.99
Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT	EUR	350 000	100.00
Oerlikon Balzers Coating Italy S.p.A., Brugherio/IT	EUR	130 000	100.00
Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR	KRW	6 300 000 000	89.10
Oerlikon Balzers Coating Luxembourg S.à r.l., Differdange-Niedercorn/LU	EUR	1 000 000	60.00
Oerlikon Balzers Coating Poland Sp.z o.o., Polkowice Dolne/PL	PLN	5 000 000	100.00
Oerlikon Balzers Coating SA, Brügg, Brügg/CH	CHF	2 000 000	100.00
Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG	SGD	6 000 000	100.00
Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK	GBP	2 000 000	100.00
Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR	TRY	2 500 000	99.99
Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR	BRL	30 662 100	99.99
Oerlikon Balzers Sandvik Coating AB, Stockholm/SE	SEK	11 600 000	51.00
Oerlikon Balzers-ELAY Coating S.A., Antzuola/ES	EUR	150 000	100.00
Oerlikon Deutschland Holding GmbH, Köln/DE	EUR	30 680 000	6.00
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 Leybold Vacuum Taiwan Ltd., Hsinchu/TW	TWD	20 000 000	100.00
Oerlikon Licensing Arbon GmbH, Arbon/CH	CHF	20 000	100.00
Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP	JPY	100 000 000	100.00
Oerlikon Optics UK Ltd., London/UK	GBP	1	100.00
Oerlikon SEA Pte. Ltd., Singapore/SG	SGD	100 000	100.00
Oerlikon Solar Holding AG, Trübbach, Wartau/CH	CHF	3 958 000	100.00
Oerlikon Trading AG, Trübbach, Wartau/CH	CHF	8 000 000	100.00
Oerlikon USA Holding Inc., Wilmington, DE/US	USD	40 234 000	62.00
Oerlikon Vermögens-Verwaltungs GmbH, Köln/DE	EUR	25 000	100.00
OOO Oerlikon Balzers Rus, Elektrostal/RU	RUB	1 000 000	100.00
OOO Oerlikon Rus, Moskwa/RU	RUB	7 790 760	100.00
OT Textile Verwaltungs GmbH, Arbon/CH	CHF	20 000	100.00
PT. Oerlikon Balzers Artoda Indonesia	IDR	18 000 000 000	42.00
Saurer AG, Arbon/CH	CHF	112 019 600	100.00
Saurer Management AG, Freienbach SZ/CH	CHF	100 000	100.00
Unaxis GmbH, Freienbach SZ/CH	CHF	20 000	100.00

Changes in equity of OC Oerlikon Corporation AG, Pfäffikon

in CHF million	Share capital	General legal reserves	Reserves from capital contributions	Reserves for treasury shares	Free reserves	Retained earnings	Total shareholders' equity
Balance at January 1, 2009	**282.8**	**196.8**	**–**	**294.1**	**235.0**	**107.1**	**1 115.8**
Changes in reserves for treasury shares	–	–	–	–2.5	–	2.5	–
Net loss 2009	–	–	–	–	–	–172.5	–172.5
Balance at December 31, 2009	**282.8**	**196.8**	**–**	**291.6**	**235.0**	**–62.9**	**943.3**
Changes in capital decrease and capital increase	40.2	–	–	–	1 109.0	–	1 149.2
Changes in reserves for treasury shares	–	–	–	–290.1	–	290.1	–
Net loss 2010	–	–	–	–	–	–62.0	–62.0
Balance at December 31, 2010	**323.0**	**196.8**	**–**	**1.5**	**1 344.0**	**165.2**	**2 030.5**
Changes in capital increase	0.1	–	0.2	–	–	–	0.3
Changes in reserves from capital contributions	–	–126.2	1 176.3	–	–1 050.1	–	–
Changes in reserves for treasury shares	–	–	–	2.0	–	–2.0	–
Net profit 2011	–	–	–	–	–	17.0	17.0
Balance at December 31, 2011	**323.1**	**70.6**	**1 176.5**	**3.5**	**293.9**	**180.1**	**2 047.7**

Proposal of the Board of Directors

The available earnings amount to:

in CHF	2011
Balance brought forward from previous year	165 150 831
Net profit 2011	16 959 155
Changes in reserves for treasury shares	–1 948 265
Available earnings	180 161 721

The Board of Directors proposes to the General Meeting of Shareholders that the available earnings are to be appropriated as follows:

Balance to be carried forward	180 161 721

The Board of Directors proposes to the General Meeting of Shareholders a distribution of a dividend, distributed from reserves from capital contributions:

Dividend from reserves from capital contributions (without withholding tax) of CHF 0.20 on dividend bearing shares with a nominal value of CHF 1.00 each	–68 000 000

The company will not pay dividend on treasury shares held by OC Oerlikon Corporation AG. The proposed dividend includes the maximum number of shares which could be issued from the conditional capital, as a result of the exercise of warrants, before the date of dividend payments.

Pfäffikon SZ, March 1, 2012

On behalf of the Board of Directors
Chairman

Tim Summers

Report of the Statutory Auditor

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

As statutory auditor, we have audited the accompanying statutory financial statements of OC Oerlikon Corporation AG, Pfäffikon, which comprise the balance sheet, income statement and notes on pages 138 to 143 for the year ended 31 December 2011.

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

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

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

Opinion
In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

Report on Other Legal Requirements

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

KPMG AG

Herbert Bussmann Licensed Audit Expert Auditor in Charge	Toni Wattenhofer Licensed Audit Expert

Zurich, March 1, 2012

Legal Structure

Legal Structure of significant companies as at December 31, 2011

OC Oerlikon Corporation AG, Pfäffikon, Freienbach SZ/CH

- Aktiengesellschaft Adolph Saurer, Arbon/CH
- InnoDisc AG, Windisch/CH
- OC Oerlikon Balzers AG, Balzers/LI
- OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH
- Oerlikon Balzers Coating India Ltd., Pune/IN
- Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN
- Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH
- Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT
- Oerlikon Balzers Coating Italy S.p.A., Brugherio/IT
- Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR
- Oerlikon Balzers Coating Luxembourg S.à r.l., Differdange-Niedercorn/LU
- Oerlikon Balzers Coating Poland Sp.z o.o., Polkowice Dolne/PL
- Oerlikon Balzers Coating SA, Brügg, Brügg/CH
- Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG
- Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK
- Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR
- Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR
- Oerlikon Balzers Sandvik Coating AB, Stockholm/SE
  - Oerlikon Balzers Sandvik Coating Oy, Helsinki/FI
- Oerlikon Balzers-ELAY Coating S.A., Antzuola/ES
- Oerlikon France Holding SAS, St. Thibault des Vignes/FR
  - Oerlikon Balzers Coating France SAS, St. Thibault des Vignes/FR
- Oerlikon IT Solutions AG, Pfäffikon, Freienbach SZ/CH
- Oerlikon Leybold Vacuum Taiwan Ltd., Hsinchu/TW
- Oerlikon Licensing Arbon GmbH, Arbon/CH
    - Oerlikon Drive Systems (Suzhou) Co. Ltd., Suzhou/CN
- Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP
- Oerlikon Optics UK Ltd., London/UK
- Oerlikon SEA Pte. Ltd., Singapore/SG
- Oerlikon Solar Holding AG, Trübbach, Wartau/CH
  - Oerlikon Laser Systems GmbH, Krailling/DE
  - Oerlikon Mechatronics AG, Trübbach, Wartau/CH
  - Oerlikon Solar AG, Trübbach, Wartau/CH
  - Oerlikon Solar IP AG, Trübbach, Wartau/CH
  - Oerlikon Solar-Lab SA, Neuchâtel, Neuchâtel/CH
  - Oerlikon Solar Singapore Pte. Ltd., Singapore/SG
    - Oerlikon Solar (Shanghai) Trading Co. Ltd., Shanghai/CN
  - Oerlikon Solar Taiwan Ltd., Hsinchu/TW
- Oerlikon Trading AG, Trübbach, Wartau/CH
  - Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX
- Oerlikon USA Holding Inc., Wilmington, DE/US
  - Oerlikon Balzers Coating USA Inc., Wilmington, DE/US
  - Oerlikon Leybold Vacuum USA Inc., Wilmington, DE/US
  - Oerlikon Optics USA Inc., Denver, CO/US
  - Oerlikon Solar USA Inc., Wilmington, DE/US
  - Oerlikon Management USA Inc., Pittsburgh, PA/US
  - Oerlikon USA Inc., Plantation, FL/US
    - Fairfield Manufacturing Company Inc., Wilmington, DE/US
      - Fairfield Atlas Ltd., Kolhapur/IN
    - Graziano Trasmissioni North America Inc., Charlotte, NC/US
    - Melco Industries Inc., Denver, CO/US
    - Oerlikon Textile Inc., Charlotte, NC/US
- Oerlikon Vermögens-Verwaltungs GmbH, Köln/DE
- OOO Oerlikon Balzers Rus, Elektrostal/RU
- OOO Oerlikon Rus, Moskwa/RU
- OT Textile Verwaltungs GmbH, Arbon/CH
- Saurer AG, Arbon/CH
  - GTG-Graziano Trasmissioni Group AG, Arbon/CH
  - Oerlikon Czech s.r.o., Cerveny Kostelec/CZ
  - Oerlikon Fibrevision Ltd., Macclesfield/UK
  - Oerlikon Saurer Arbon AG, Arbon/CH
    - Oerlikon Heberlein Temco Wattwil AG, Wattwil/CH
    - Oerlikon Textile China Investments Ltd., Hongkong/CN
      - Oerlikon (China) Technology Co. Ltd., Suzhou/CN
      - Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN
    - Saurer China Equity Ltd., Hongkong/CN
      - Jintan Texparts Component Co. Ltd., Jintan/CN
      - Saurer Jintan Textile Machinery Co. Ltd., Jintan/CN

Legal Structure of significant companies as at December 31, 2011

  - W. Reiners Verwaltungs-GmbH, Remscheid/DE
    - Barmag Liegenschaften GmbH & Co. KG, Remscheid/DE
    - Oerlikon Textile GmbH & Co. KG, Remscheid/DE
      - AFETAU automation GmbH, Friedberg/DE (formerly AUTEFA automation GmbH)
      - Oerlikon Deutschland Holding GmbH, Köln/DE
        - Oerlikon Balzers Coating Benelux N.V., St.-Truiden/BE
        - Oerlikon Balzers Coating Germany GmbH, Bingen/DE
        - Oerlikon Balzers Hartec GmbH, Stetten am kalten Markt/DE
        - Oerlikon Deutschland Vertriebs GmbH, Aschheim/DE
        - Oerlikon Leybold Vacuum GmbH, Köln/DE
          - Oerlikon Leybold Vacuum Equipment (Tianjin) Co. Ltd., Tianjin/CN
          - Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Tianjin/CN
          - Oerlikon Leybold Vacuum Dresden GmbH, Dresden/DE
          - Oerlikon Leybold Vacuum France SAS, Villebon-sur-Yvette/FR
          - Oerlikon Leybold Vacuum India Pvt. Ltd., Pune/IN
          - Oerlikon Leybold Vacuum Italia S.r.l., Milano/IT
          - Oerlikon Leybold Vacuum Japan Co. Ltd., Yokohama/JP
          - Oerlikon Leybold Vacuum Nederland B.V., Utrecht/NL
          - Oerlikon Leybold Vacuum Schweiz AG, Zürich/CH
          - Oerlikon Leybold Vacuum Singapore Pte. Ltd., Singapore/SG
          - Oerlikon Leybold Vacuum Spain S.A., Cornellà de Llobregat/ES
          - Oerlikon Leybold Vacuum UK Ltd., Chessington/UK
        - Oerlikon Leybold Vacuum Korea Ltd., Cheonan/KR
        - Oerlikon Real Estate GmbH, Köln/DE
        - Oerlikon Vermietungs- und Verwaltungsgesellschaft mbH, Köln/DE
      - Oerlikon Textile Components GmbH, Fellbach/DE
      - Oerlikon Textile Far East Ltd., Hongkong/CN
        - Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN
      - Oerlikon Textile India Pvt. Ltd., Mumbai/IN
      - Peass Industrial Engineers Ltd., Gujarat/IN
      - Zinser Textile Systems Pvt. Ltd., Ahmedabad/IN
    - Oerlikon Vacuum Holding GmbH, Köln/DE
  - Oerlikon Textile Components Far East Ltd., Hongkong/CN
  - Oerlikon Textile Components Singapore Pte. Ltd., Singapore/SG
  - Oerlikon Textile do Brasil Máquinas Ltda., São Leopoldo, RS/BR
  - Oerlikon Tekstil Middle East Tekstil Makinalari Dis Ticaret A.S., Istanbul/TR
  - Oerlikon Textile Trading and Services Ltd., Hongkong/CN
  - SAC Saurer Automotive Components B.V., Rotterdam/NL
    - Oerlikon Graziano Group S.p.A., Torino/IT
      - Oerlikon Graziano S.p.A., Cascine Vica Rivoli/IT
        - Graziano Trasmissioni India Pvt. Ltd., New Delhi/IN
        - Graziano Trasmissioni UK Ltd., St. Neots/UK
        - Vocis Limited, Warwick/UK
  - Saurer Financing LP, Charlotte, NC/US
  - Saurer Group Investments Ltd., George Town/KY
  - Saurer Holding GmbH, Leonding/AT
- Saurer Management AG, Freienbach SZ/CH
- Unaxis GmbH, Freienbach SZ/CH

Contents

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III. Moving ahead

Innovation is key. With our new technologies and cutting edge production plants we help our customers reach new levels of efficiency and competitive advantage. Our global presence in developed and emerging markets means innovations are always right next door.

9.0

Outlook for global markets

Trends like urbanization, a growing middle class, and technical advancement are offering wide opportunities for profitable growth. Oerlikon focuses its business on structural growth markets: food, clothing, transportation, infrastructure, energy and electronics.

Technical clothing such as the racing suit of world class skier Tina Weirather is made of high quality yarns produced on Oerlikon machines.

Exceeding the demands of our customers

Oerlikon is well prepared for the future. With an EBIT margin of 10 %, we have achieved a breakthrough that has taken us to a new level of profitability. But we have no intention of resting on our laurels. We are determined to sustain growth and steadily increase our profitability. In the medium to long-term, we expect good opportunities, despite the uncertainty of current economic conditions, and intend to take full advantage of them.

Our company is present and active in key global growth markets: clothing, transportation, food, infrastructure, energy and electronics. Approximately 50 % of all high-quality clothing yarn produced in the world is made on Oerlikon's textile machines. State-of-the-art, low-emissions diesel technology relies heavily on Oerlikon's innovative coatings. Every other tire on the road uses cord made on Oerlikon equipment. About 70 % of all agricultural machinery contains components made by our company. Almost every single cell phone in the world contains electronic components produced on Oerlikon machines. The creation and expansion of infrastructure is made possible by construction machinery equipped with Oerlikon transmission components, geotextiles for road building and landscaping woven on Oerlikon machines, and architectural glass produced using Oerlikon vacuums. In the energy sector, Oerlikon facilitates the efficient extraction of conventional energy sources and, with its cutting-edge photovoltaic solutions, currently offers manufacturers the most cost-efficient method of production in the photovoltaic industry.

A growing world population, increasing urbanization and the urgent need to protect the environment are fueling demand for industrial manufacturing solutions that are more efficient, as well as of higher quality and cleaner. This is the focus of Oerlikon's efforts: to develop components and production solutions that meet and exceed the ever-increasing demands of our customers and that allow them to gain competitive advantage. It is for precisely this reason we invest so heavily in research and development every year – expenditures in 2011 totaled CHF 213 million, approximately 5 % of sales.

In 2011, we succeeded in laying the technological basis for sustained economic success through the introduction of new, ground breaking innovations. At the Barcelona ITMA in September 2011, the Textile Segment presented new products and components that use up to 50 % less energy ("e-save") and deliver productivity gains of up to 25 %. Drive Systems presented vehicle manufacturers with transmission prototypes for new electric drive systems and supplied transmissions for an entire fleet of electric vehicles used by a Parisian auto-sharing program. Oerlikon Vacuum expanded its portfolio with the launch of the MAGiNTEGRA turbo-molecular vacuum pump, a product that allows new applications, i.e. in steel manufacturing. With the introduction of its second-generation ThinFab™ production line, Oerlikon Solar now offers the most favorable module production costs in the solar industry. Oerlikon Coating developed the groundbreaking coating technology S3p™, which bonds previously incompatible substances by employing extremely hard, smooth and super-adhesive coatings, opening up totally new areas of application. Advanced Technologies' new HEXAGON semiconductor coating machine features three times greater throughput in the process, significantly improving efficiency.

To best market these solutions, Oerlikon aims to be as close to its customers as possible, particularly in emerging markets. We currently generate 49 % of our sales in Asia, and the trend continues to point upward. With over 1 000 employees, the Suzhou plant is already one of Oerlikon's largest sites, and we continue to expand our presence in Asia, and China in particular. Oerlikon Textile relocated its headquarters to Shanghai – becoming the first Oerlikon Segment to be managed out of Asia.

Food

Agriculture needs more efficient means of production

According to projections, by 2050, around 9 billion people will inhabit the Earth – over 30 % more than today. But according to the United Nations Food and Agriculture Organization (FAO) study “How to Feed the World in 2050”, the global demand for food will rise at a faster rate than population growth. By 2050, demand for food will have increased by 70 %.

A key driver of this is the emergence of a rapidly expanding middle class in the world’s cities, particularly in Asia. Whereas just 40 % of the Asian population lived in urban areas a decade ago, this figure is forecast to reach 55 % by 2030. City residents tend to have greater purchasing power and consume significantly more processed food than those who live in rural areas. As urbanization increases, so, too, does the demand for relatively expensive foods such as meat and dairy products.

In China, for instance, meat consumption has been growing at roughly the same pace as the economy, doubling from 25 kilograms per person in 1980 to 50 kilograms in 2005. Global demand for meat is likely to continue rising: in 2000, 20 % of the calories consumed in developing countries were from meat, dairy products and plant oils. According to the FAO, this figure is expected to increase to 29 % by 2050. 470 million tons of meat – twice as much as today – will be required to meet this demand, and production of plant-based animal feed will have to increase proportionally. For example, the amount of soybeans grown would have to double in comparison with today’s figures to reach 515 million tons by 2050.

To grow, harvest and process such large quantities of food, agricultural and food industry productivity must significantly improve. The productivity gap between developed and emerging countries is still very large: average crop yields in the world’s richest nations are about 300 % higher than in poorer countries.

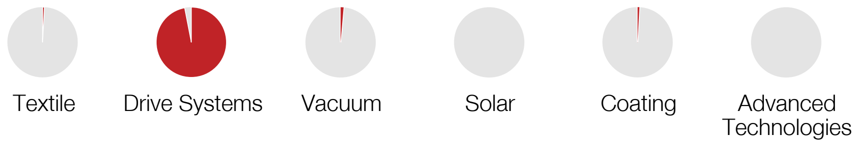
How Oerlikon participates

Efficient farming – by, for instance, sowing high-yield varieties of plants or applying effective fertilizing agents – can only be achieved with high-performance agricultural machinery. This trend is energizing business at Oerlikon Drive Systems, a leading supplier of high-performance power-train solutions for tractors, combines and other agricultural machinery.

The increased consumption of processed foods is benefiting Oerlikon Vacuum, too. The segment produces robust, high-performance vacuum systems used in the food industry packaging process; removal of ambient air from around food products maintains quality and lengthens shelf life.

The packaging industry also employs coated molds for such applications as PET bottle manufacturing. These and other press molds are coated using Oerlikon Coating facilities and processes.

Segment split



End usage of Oerlikon innovations


Tractors


Trucks


Equipment


PET


Packaging


Freezing

Clothing

Fashion trends and technical textiles are key drivers

In 2010, according to the “Fiber Year 2011 Report”, the textile industry experienced its strongest growth in 25 years: 80.8 million tons of natural and synthetic fibers were produced – 6.4 million tons or 8.6 % more than in 2009. And growth will continue.

Demand growth, particularly for clothing and home textiles, is in direct proportion to increases in the standard of living in emerging markets such as India and China. The fashion industry cycles are setting new trends in increasingly shorter cycles. Another key driver also includes the innovations being made in the area of synthetic fibers: these fibers have highly distinctive characteristics and meet a wide variety of demands. These include resistance to soiling, outstanding cleaning performance, exceptional thermal insulation, breathability, durability and strength. These qualitative trends require new, innovative textile machines with high efficiency and flexibility.

Although up to 85 % of today’s textile products originate from China, this powerhouse no longer produces solely for export: the domestic market is strong and is growing – and quickly. In 2000, the country produced only 6.7 million tons of synthetic fibers. In 2011, this figure had risen to 30 million tons, or 40 % of worldwide production.

How Oerlikon participates

The major textile producers in China and other key producing countries such as India, Turkey, Pakistan and Bangladesh, share a common challenge: rising labor, raw materials and energy costs mean cost effective ways to boost operational efficiency must be found. Oerlikon Textile addresses this critical customer need by supplying innovative equipment and solutions. The product line includes the most efficient machines of their kind and ranges from ring and rotor spinning machines, winding machines and equipment for manufacturing and finishing continuous fibers and for producing nonwovens to systems for embroidery and twisting.

Oerlikon is exceptionally well-positioned in China, the largest textile market in the world, and benefits from the continued growth in that country. The segment is managed from Shanghai and therefore firmly rooted in this key market. This will prove ever more important if, as forecasted, certain production steps gradually relocate to the interior of the country and away from the coastal regions.

Oerlikon Textile will especially benefit from the development of the textile industry in these regions as well as from the trend toward cutting-edge technical textiles with highly distinctive characteristics. The Segment is the worldwide market and technology leader and will be the first to drive innovations and to satisfy demand. Oerlikon Textile is the leader, i.e. in melt spinning machines for the manufacture of synthetic fibers as well as in texturing machines for finishing these fibers. Oerlikon Textile is also the preferred partner for spinning mills that produce high-quality yarns from such natural fibers as cotton. The segment’s spinning and winding machines, for instance, offer these spinning mills significantly improved productivity with a lower level of energy consumption. The equipment’s ergonomic design also lowers workforce requirements and maintenance costs, which helps operators be more competitive.

Segment split

●	●	●	●	●	●
Textile	Drive Systems	Vacuum	Solar	Coating	Advanced Technologies

End usage of Oerlikon innovations

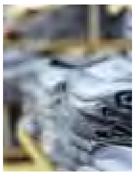

Haute couture


Leisure clothing


Technical clothing


Fashion


Embroidery


Jeans

Transportation

Middle class realizing dream of car ownership

A growing, affluent population segment has sparked a strong surge in demand for vehicles, especially in China and India. Over the next two decades, India's middle class will swell from 5 % of the population to more than 40 %, making the country the fifth-largest consumer market in the world. China's middle class will comprise nearly 600 million people by 2025.

The situation in China shows that more and more people are realizing the dream of car ownership: in 2009, China produced more vehicles than the United States for the first time at 14 million units. In 2010, production exceeded 18 million units, easily making China the largest vehicle manufacturer in the world. By 2020, it is estimated that 200 million cars will be traveling along China's roads, and vehicle density will nearly double to 45 cars per 1 000 residents. Despite these gains, the Chinese market will still have room to grow: the current saturation level in the United States, for instance, is more than 200 vehicles per 1 000 residents. Brazil is also emerging as a mainstay of the automobile industry. By 2020, vehicle sales in South America's largest country are expected to top 6.5 million units. With this upswing, Brazil could soon become the world's third-largest car market after China and the United States.

How Oerlikon participates

With a strong presence in emerging markets such as China and India, Oerlikon's Segments are ideally positioned to profit from future growth in the automotive industry.

From more than 87 locations around the globe, Oerlikon Coating delivers high-quality coating services that help make the tools used in manufacturing cars more efficient and wear-resistant.

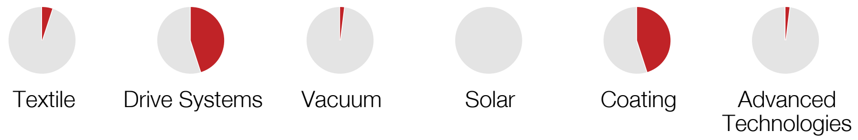
Automakers are also having coatings applied to precision components and such engine parts as diesel fuel injectors which makes them more durable and reduces fuel consumption by up to 10 %.

Rising car sales are also fueling demand for such textile-related products as upholstery, interior trim, tire cord, seat belts and airbags. Oerlikon Textile supplies textile manufacturers with equipment to produce and process the natural and synthetic fibers and nonwovens used in such applications. Oerlikon Drive Systems, which specializes in transmissions and power trains, is also expanding its presence in China. An innovator of transmissions for city buses or locomotives, the segment is benefiting from China's expansion of public transportation.

Today's vehicles are being equipped with a growing number of smart devices, including sensor-controlled assistants and navigation systems. Oerlikon Advanced Technology is benefiting from this trend by supplying production solutions for high-performance automotive-electronics chips, touch screens and LEDs.

Oerlikon is well-positioned for promising mobility products, too: Oerlikon Drive Systems recently introduced a two-speed transmission for electric vehicles, and Oerlikon Textile has carbon-fiber production solutions for lightweight car bodies. Some carmakers have already begun to manufacture car-body parts such as hoods using carbon-fiber material, the fiber mats used in the production of which require textile machines like Oerlikon's.

Segment split



End usage of Oerlikon innovations

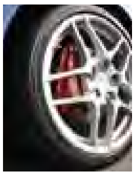

High perfomance coatings


Transmission components


Gearboxes


Lighting systems


Functional textiles


Tirecord

Infrastructure

Urbanization spurs construction

The number of people living in cities, which stood at about 1 billion in 1960, is expected to reach 5 billion by 2030. This rural exodus is rapidly advancing, especially in emerging countries where cities offer better employment opportunities and a higher standard of living. The urban population in China alone is forecast to exceed 1 billion by mid-century.

Urbanization has caused structural economic change: a new population segment with considerable purchasing power is quickly emerging. This demographic shift will continue to yield new and expanded business opportunities. In China, just 8 million Chinese households earned more than USD 5 000 a year in 2000. By 2015, this figure is expected to be nearly 400 million – a 50-fold increase in just 15 years.

The housing and infrastructure needs of this new segment have stimulated construction activity. According to market research firm IHS, annual global construction spending will grow at a constant 4.7 %. Once again, China will play a key role in this growth as the government turns its attention to the lesser-developed interior and western parts of the country.

How Oerlikon participates

The increase in construction activity has boosted demand for machinery such as excavators, wheeled loaders, dump trucks and graders. Oerlikon Drive Systems provides tailored solutions to a who's who list of manufacturers in this segment, supplying highly specialized, co-developed power-train systems, transmissions and transmission components.

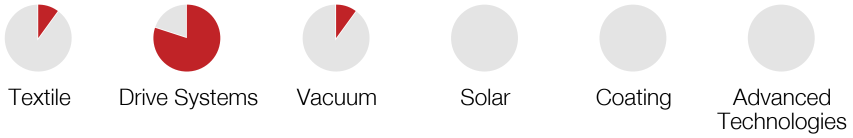
Geotextiles are increasingly used for road construction and erosion protection. Woven and nonwoven materials, and various compounds, are produced for this growing niche with the help of Oerlikon Textile's proven equipment.

New residential areas fuel demand for home, decorative and technical textiles including rugs and upholstery materials for furniture, drapes, bedding, terry-cloth products, blankets and cleaning cloths. Oerlikon Textile supplies the producers in these key emerging markets with plants and processes to manufacture such products.

Coated architectural glass provides effective protection against the sun's rays and minimizes interior heat gain/loss. Oerlikon Vacuum supplies robust, high-performance vacuum systems to glassmakers and operators of large-scale coating plants that produce these products.

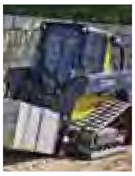
The expansion of urban centers around the world is leading to the establishment of industry clusters in which closely interconnected businesses such as metallurgy, chemicals and semiconductors are grouped for efficiency. This benefits Oerlikon Vacuum thanks to its vacuum systems, Oerlikon Coating with its coating services and Oerlikon Advanced Technology as a supplier of machinery for manufacturing and processing semiconductors. Oerlikon is present at different points in the value creation chain and can profit from the formation of industrial clusters. The company serves a number of suppliers, i.e. in the automotive industry.

Segment split



End usage of Oerlikon innovations


Earth moving


Construction equipment


Arial lifts


Glass coating


Textile construction materials


Geo textiles

Energy

Renewable energy shows great promise

Absolute population growth, combined with increasing urbanization and industrialization, is driving the ongoing rise in energy consumption. According to the International Energy Agency (IEA), global electricity consumption rose at a nearly linear rate between 1945 and 2010, increasing from 500 Terawatt hours per year to about 20000. This trend shows no signs of ending.

The largest proportion of electricity is produced by fossil fuels such as coal, oil and natural gas. Focus on CO_2-free power generation using renewable resources is increasing for environmental reasons. The European Renewable Energy Council (EREC), for instance, has obtained a binding commitment from EU-member countries that 20% of their power requirements will be met using renewable energy sources by 2020. Wind and solar power are the focal points of these efforts.

Wind energy currently accounts for the largest share of power produced from renewable sources. But photovoltaics – the direct transformation of sunlight into electrical energy using solar cells – holds huge potential. With an installed photovoltaic capacity of 16 Gigawatts, Europe is the largest and most important solar market in the world today. According to the European Photovoltaics Industry Association (EPIA), however, Asia – China and India in particular – will significantly expand its capacities and could easily overtake Europe in the near future. The Chinese government’s National Energy Plan, for example, calls for more than 20 Gigawatts of solar capacity by 2020 – 25% more than in all of Europe today.

How Oerlikon participates

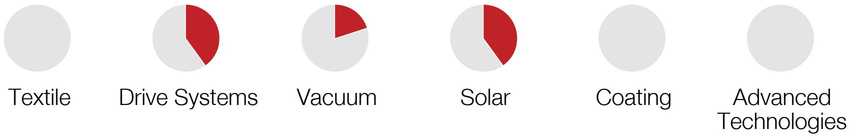
From among the range of photovoltaic technologies in use today, crystalline solar cells are still the most widely used. Over the last several years, however, thin film technology has become increasingly popular. By comparison to crystalline photovoltaics, the manufacture of thin film modules requires fewer process steps, less material and less energy resulting in better cost structures. In terms of efficiency, the technology has made huge strides in recent years and its share in the overall photovoltaic market is forecast to climb to 25% by 2013.

With its ThinFab™ production line, Oerlikon Solar offers the most cost-effective product for manufacturing thin film silicon solar cells today. Unlike competing technologies the ThinFab™ process does not create environmentally hazardous substances. With the new production line, production costs decrease over 20% from EUR 0.50/Watt (peak) (Wp) to EUR 0.35 Wp. Oerlikon Solar is, as a result, ideally positioned to benefit from the forecast increase in production capacities for thin film silicon solar modules, particularly in China and Taiwan.

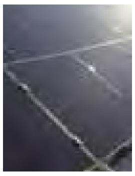
Oerlikon Advanced Technology offers its customers an effective solution for coating crystalline solar cells with SOLARIS. With a 75% share of installed capacity worldwide, this technology has the largest share in the solar market.

The Group is also benefiting from the expansion of wind energy: Oerlikon Drive Systems produces extremely robust transmission components for wind-powered generators.

Segment split



End usage of Oerlikon innovations

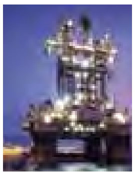

Solar cells


Thin film solar modules


Mining


Thermo electric generators


Windpower


Oil and gas

Electronics

Mobile electronics bolsters chip demand

The worldwide semiconductor market remains cyclical. For 2012, industry experts anticipate a drop of nearly 20 % in sales as a result of global weakness in the PC market.

Over the long term, however, growth in global demand for chips is inevitable. The affluent, growing urban segments in the BRIC (Brazil, Russia, India and China) countries and entirely new consumer groups will fuel demand for a huge range of electronic products such as smartphones and tablet computers. Current figures suggest that more than 2 billion people will own at least one smartphone by 2015. Demand for microchips continues in developed countries as well, driven primarily by new products such as smart TVs and set-top boxes for digital televisions.

Portable devices like smartphones, MP3 players and navigation systems require high-density electronic components with integrated chips that provide maximum functionality and performance in the smallest of spaces. As a result, manufacturers have begun to make a variety of changes, including placement of the components: rather than placing them side-by-side on the circuit board, they are now stacking them on top of one another. Advanced packaging, a special process for high-performance chips made possible by Oerlikon and its machinery, is playing an increasingly important role in this area.

How Oerlikon participates

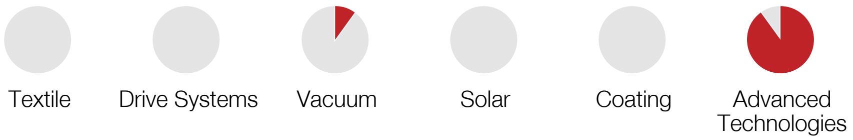
A leading provider of plants and processes for manufacturing ultracompact microchips, Oerlikon Advanced Technologies supplies the majority of major chip manufacturers. Thanks to its turnkey production plants, the segment is positioned to benefit from customer capacity increases in the future because of higher demand for its machinery.

Advanced packaging machines are a key area of focus. These machines make it possible to connect semiconductor components with peripheral elements over high-density, highly integrated conductor elements without the use of wiring. As a result, extremely compact chips with wide-ranging functionality can be manufactured. End uses include smartphones, tablet computers and smart TVs.

Oerlikon Advanced Technologies is also a leader in the area of ultrathin film coating machines. The latest generation of this products can apply coatings just a few nanometers thick. This equipment makes it possible to process touch screens, thermoelectric components used in generators, highly efficient energy storage such as thin film batteries and supercapacitors.

Oerlikon Vacuum is also benefiting from advances in the semiconductor industry. The segment supplies chip manufacturers with high-performance, robust vacuum systems that enable efficient production in highly purified clean rooms.

Segment split



End usage of Oerlikon innovations

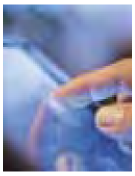

Smartphones


Games


Ultra thin wafers


Hard disk drives


Navigation


Touchpanels

10.0
Research and development

In 2011, Oerlikon made significant investments to further refine its products and services and develop groundbreaking new technologies and products.

In 2011, expenditures for research and development (R&D) totaled CHF 213 million. R&D expenditures as a percentage of sales amounted to 5 % in 2011 (2010: 7 %), remaining at the consistently high level of the past few years. The Group employs 1 200 engineers and scientists across the world whose activities are dedicated to creating innovative products and solutions for Oerlikon customers. These professionals focus on developing solutions that help decrease operating costs, increase production efficiency, lessen the environmental impact of production and, of course, improve the performance of products. In short, Oerlikon helps customers add value and gain competitive advantage.

Focusing on long-term customer benefits

Oerlikon Textile's Autocoro 8 is the world's first rotor spinning machine with individually driven spinning positions. Because the Autocoro 8 allows lot changes while running at full production capacity, piecing downtime is eliminated and much faster production speeds are possible: spinning mills can produce up to 25 % more high-quality yarn in the same period of time.

Oerlikon Advanced Technologies' HEXAGON coating machine, which is mainly used for Wafer Level Backend Packaging, boasts throughput that is two to three times faster than competing systems. HEXAGON not only allows customers to double or triple the number of chips produced in a given amount of time, but delivers a reduced footprint, lower operating costs and higher machine availability compared to other systems.

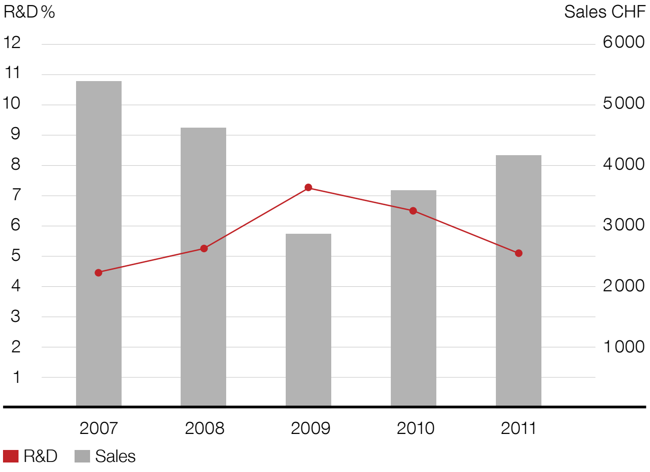
With its outstanding pump speed, greater flexibility and robust, reliable design, Oerlikon Vacuum's new MAGiNTEGRA turbo-molecular vacuum pump offers up to 80 000 hours of maintenance-free operation. The unprecedented performance of the five-axis, magnetically mounted MAGiNTEGRA is delivered in a compact package that saves enough space to boost production efficiency – immediately.

Two dramatic improvements were made to Oerlikon Solar's thin film silicon technology in 2011. First, Oerlikon Solar achieved a stabilized module output of 154 Watt-peak (Wp), which represents a 12.5 % efficiency. Second, the Segment introduced a new production line for solar modules, which produces at significantly lower cost than any other line: with the new ThinFab™ 140 line, production costs can be lowered to a record level of just USD 0.50/Wp.

Breakthrough in coating technology

Oerlikon Coating is leading the way into a new era of coating technology thanks to a pioneering innovation: the newly developed S3p™ method (scalable pulsed power plasma). S3p™,

R&D expenditure as a percentage of sales



part of the new INGENIA coating system, gives customers access to previously unimaginable options with unique properties. For instance, it will be possible to produce extremely hard, very smooth coatings with user-definable nanostructure characteristics. The INGENIA machine also sets new standards for precision and productivity. For the first time ever, a machine is capable of eight coating processes per day – nearly a threefold productivity boost over previous equipment capable of only two to three processes per day.

e-save

Another excellent example of development activities focused on customer needs is the "e-save" label. Introduced in 2004 by Oerlikon Textile to identify machines that use significantly less energy, the label was redefined in 2011 and now identifies units that are more environmentally efficient and operator-friendly than those without: they deliver improvements in at least one of four areas: energy consumption, efficiency, waste and emissions reduction, and ergonomic features. E-save machines boost the quality and productivity of production processes and make it possible for textile producers to operate more efficiently and effectively – they require less maintenance and personnel.

Almost all of the new products introduced by the Textile Segment in 2011 bear the e-save label. Alongside the e-save products presented at the 2011 ITMA Barcelona textile trade fair was the new automatic texturing machine eAFK, that was the first machine to have been fully developed in China. By expanding R&D activities in China, the Segment's largest market, Oerlikon Textile is positioning itself even more closely to its key customers.

A preferred research partner

Oerlikon was once again partner in an array of 2011 research programs. Oerlikon Textile, working with the textile research center ITV Denkendorf and the Fraunhofer Institute for Industrial Mathematics (ITWM) on the NABLO project, continued to form the foundation for the commercial production of nanofibers. The goal of the project is to achieve material advances in the melt-blown process, which could facilitate production of synthetic fibers with a diameter of just 100 to 200 nanometers. Nanofibers of this size, 200 times smaller than a human hair, could, for instance, make air filters significantly more efficient along with a host of other advancements.

Oerlikon Textile has also partnered with the University of Stuttgart's Institute of Human Factors and Technology Management on the "eColleagues" project to develop a joint on-demand learning system for service technicians working in mechanical and plant engineering. The system bundles and organizes decentralized know-how and provides it to technicians working around the globe, allowing services to be delivered more efficiently and at a consistently high level of quality.

Oerlikon Advanced Technologies is jointly developing methods for manufacturing piezoelectric microelectromechanical systems (MEMS) as part of the "piezoVolume" project. Partners include the Fraunhofer Institute for Silicon Technology (ISIT) in Germany and the Ecole Polytechnique Fédérale (EPFL) Ceramics Laboratory in Switzerland. Now used primarily in motion-measurement sensors for consumer electronics and in medical equipment, MEMS combine semiconductor components with miniature mechanical devices. Oerlikon Advanced Technologies has also joined forces with Fraunhofer ASSID in Germany to research the silicon vias (TSVs) process. This technology can support the three-dimensional creation of semiconductor components and make it possible to manufacture higher-performance chips for use in such devices as smartphones and tablet computers.

At the heart of the EU project "NanoHiTec," Oerlikon Advanced Technologies is helping develop thermoelectrical generators in conjunction with such partners as the Spanish National Research Council, the Swiss materials-testing agency EMPA, the Institute for Microelectronics at TU Vienna in Austria and the Fraunhofer Institute for Ceramic Technologies and Systems (IKTS) in Germany. One future use of thermoelectrical generators would be to transform a car's waste heat into electrical energy.

Overseen by Oerlikon Solar, the EU-funded project "PEPPER" is working to develop manufacturing processes that enhance the performance and lower the production cost of thin film silicon solar modules. One goal is to proportionally lower the cost of glass in finished modules, which now amounts to 20 % on, for example, Oerlikon Solar's ThinFab™ production line. By reducing the amount of glass used in production, the overall costs of the module will drop and the competitiveness of thin film silicon technology will rise further.

Oerlikon received a number of awards in 2011 that once again demonstrate the Group's position as a technology leader. Oerlikon Leybold Vacuum, for instance, was recognized by the Vienna University of Economics and Business as one of the 100 most innovative small and medium-sized enterprises in Germany, and Oerlikon Solar received the Solar Industry Award in the "Thin Film Innovation" category for the ThinFAB™ production line. Oerlikon Advanced Technologies was honored by two customers – Amkor Technology with the "Best of Class Equipment Award 2011" and ASE with the "Best Supplier Award 2011." Oerlikon Schlafhorst was honored with the "Vendor of the Year Award" by Parkdale, the largest American spinning company. Oerlikon Saurer received the "Tire Technology Award for Innovation and Excellence 2011" for being the best supplier to the industry.

Innovation highlights

Oerlikon Textile

Autocoro 8: 25 % more productive than the benchmark

One of the seven innovations Oerlikon Textile presented at the textile industry ITMA trade fair held in September 2011 in Barcelona was the Autocoro 8. It is the world's first rotor spinning machine with individually driven spinning positions. This revolutionary concept gives spinning mills exceptional flexibility, substantially boosts their productivity and creates savings in terms of energy, raw materials, logistics and personnel.

The Autocoro 8 has up to 480 spinning positions, each constituting a self-contained production unit with independent spinning and winding processes and integrated piecing. One of the machine's most innovative features is its electromagnetic rotor motor, which delivers speeds of up to 200 000 rotations per minute – ten times faster than a Formula 1 engine. This is made possible by both the innovative drive system and the exceptionally high quality of component workmanship. The Autocoro 8's high RPM make it possible to achieve yarn take-up speeds of up to 300 meters per minute for each machine length. Since lot changes can now be carried out while running at full capacity, faster production speeds are possible and piecing downtime is eliminated. The Autocoro 8 provides up to 25 % more productivity than standard rotor spinning machines with belt drives and is helping Oerlikon Textile expand its position as market and technology leader in rotor spinning machines. A number of orders were placed during ITMA 2011, including a major order from the Noman Group, the largest textile company in Bangladesh.

Oerlikon Drive Systems

CTL drive: as powerful as the biggest 40-ton truck

A core competency of Oerlikon Drive Systems is development of tailored drive solutions with exceptional performance characteristics. With a long history rich with experience in mobile off-highway machinery, Oerlikon Drive Systems focused one of their R&D projects on developing a higher level of technology and performance for compact tracked loaders (CTLs). Although not very large, CTLs are subject to extreme loads which place heavy demands on the drive train and typically operate at 8–12-hour intervals in extremely poor ground surface conditions: mud, gravel and steep grades. Transmitted torque reaches 3800 Nm (Newton meters), which equals the torque of the largest 40-ton truck (3500 Nm) made today.

Unlike standard compact loaders, these vehicles move by means of treads rather than wheels, which increases traction control, mobility and maneuverability. Once propelled by hydraulic direct-driven engines, these loaders had speed and torque limitations and were prone to overheating. The Oerlikon Drive Systems integrated solution eliminates these issues with a very compact two-speed system that is offered in two configurations. Unveiled in March 2011, the two models have been extremely well received in the CTL marketplace and are already in high-volume production with a major global producer of compact tracked loaders.

Other applications for this drive solution include road rollers, mini excavators, and similar equipment requiring demanding performance.

Oerlikon Vacuum

MAGiNTEGRA: robust and maintenance free

Oerlikon Vacuum launched its new MAGiNTEGRA turbomolecular vacuum pump at the leading trade fair COMVAC held in Hannover in April 2011. These pumps create a high vacuum required in such processes as the manufacture of large-surface architectural glass, the application of protective and decorative coatings, the production of flat screens and the manufacture of solar cells.

The MAGiNTEGRA features highest suction speed in the classes of up to 2 000 liters per second and a high gas throughput. Thanks to extremely fast down-pump parameters, cycle times are reduced so that customers can improve on manufacturing processes to a much higher degree. These robust pumps are resistant to process particles and dust, making them suitable for harsh industrial environments, and thanks to the flexible design with integrated electronics, can be deployed in a wide variety of production environments. As the magnetically levitated rotor facilitates virtually maintenance-free operation over the entire life cycle of the pump, production processes do not need to be interrupted for servicing the pumps, thus boosting effective operating time and efficiency.

With the MAGiNTEGRA, Oerlikon Vacuum has a groundbreaking, cost-effective, integrated system solution with outstanding performance, reliability and durability. Oerlikon Vacuum sold 50 systems during the product launch and received orders for an additional 300 shortly thereafter.

Oerlikon Solar

Module production: 25 % better than the competition

Oerlikon Solar continued to focus R&D efforts on further reduction of solar module production costs to help establish photovoltaics as an economical source of energy. In 2011, the Segment presented a new record-breaking R&D cell with stabilized efficiency of 12.5 %.

With the prior generation 120 MW ThinFab™ production line, sold to customers for the first time in 2011, Oerlikon Solar roughly halved the manufacturing cost for its thin film silicon PV modules to less than USD 0.50/Wp output. Customer production of the new record-breaking cell on prior generation ThinFab™ lines is expected to begin in early 2013. At the end of 2011, Oerlikon Solar launched its latest generation ThinFab™, with an annual output of 140 MW. Thanks to this further boost in efficiency and increased throughput, production costs could be lowered by more than 20 % to USD 0.50/Wp.

These improvements make it possible to produce thin film modules at costs that are 25 % less than the best-performing competitor in the industry – an important step toward achieving a competitive electricity supply from renewable sources.

This major performance boost was made possible in part by a redesigned narrow gap reactor that significantly improves the deposition of light-absorbing layers and a very efficient laser scribe system for more precise division of separately applied layers.

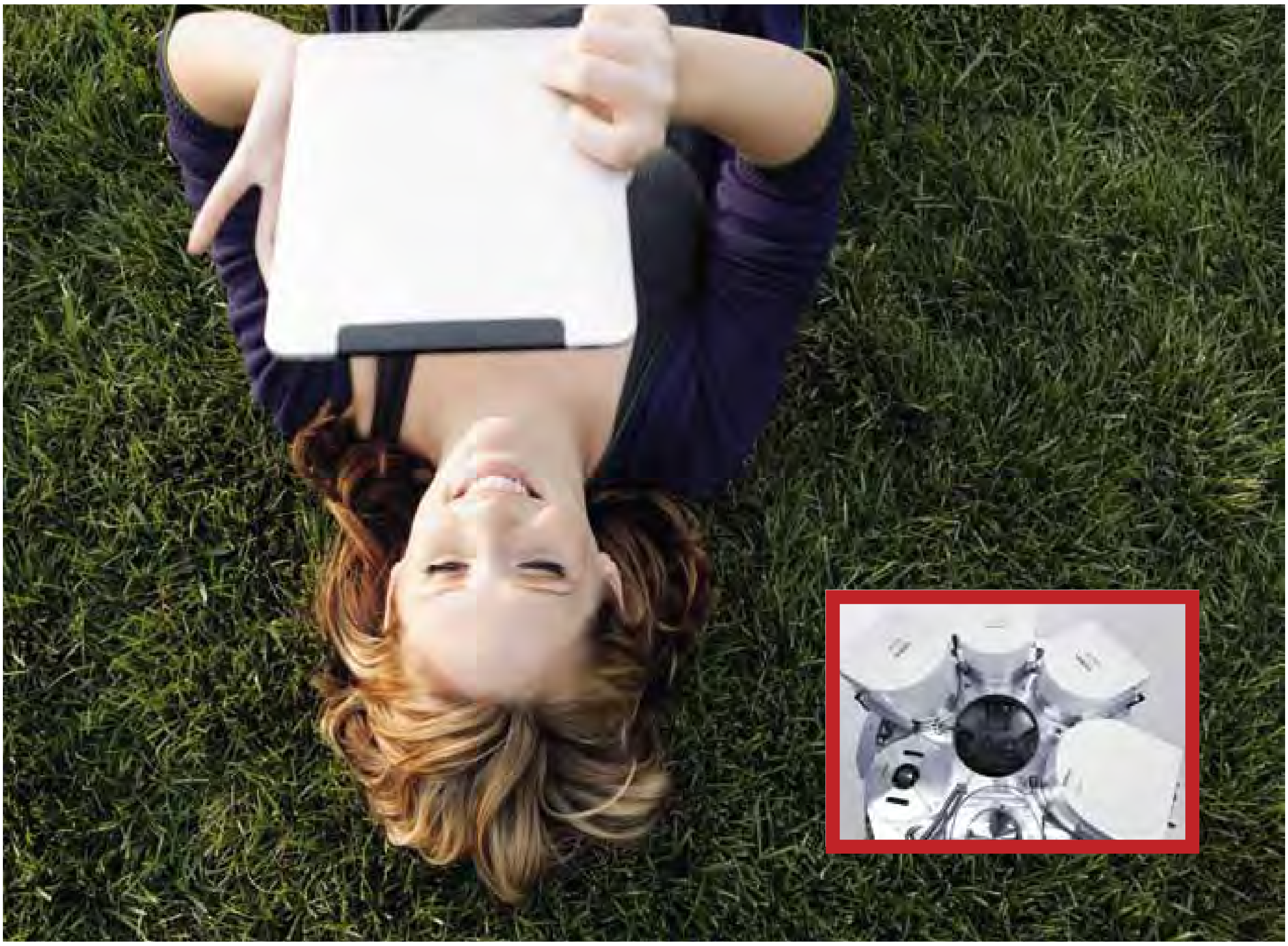
Oerlikon Coating

INGENIA: the quantum leap in PVD coating

At the EMO machine tool trade fair held in Hannover in September 2011, Oerlikon Balzers presented the new INGENIA coating system featuring S3p™ technology, an innovation that sets new standards in physical vapor deposition (PVD).

Significantly faster processing times are possible with INGENIA thanks to an optimized technology that allows up to eight different coating processes per day, a nearly three-fold improvement on to the previous 2–3 processes per day. INGENIA also considerably improves coating thickness distribution and completes the machine portfolio of Oerlikon Balzers. Next to its excellent characteristics of precision, quality and productivity, INGENIA is particularly well suited as a development platform for large customers.

Introduced as part of the new INGENIA was Oerlikon Balzers' ground breaking S3p™ technology, which was developed on the basis of HiPIMS (high-power impulse magnetron sputtering) technology. With INGENIA's S3p™, HiPIMS leaves the laboratory and goes to work for customers, facilitating extremely smooth and dense coatings with unique application possibilities.



Oerlikon Advanced Technologies
HEXAGON: up to three times higher throughput

Oerlikon Advanced Technologies presented its latest solution for wafer level packaging of semiconductor components in 2011 at SEMICON Taiwan. The HEXAGON features a throughput two to three times faster than competing systems, which enables customers to dramatically reduce costs.

The HEXAGON is optimized for advanced packaging technologies, and backside metallization. Semiconductor components can be packed more densely in this process, allowing for a higher degree of integration. This approach enables production of compact components with an extremely wide range of functionality and exceptional performance. They are used in such devices as smartphones, tablet computers, and smart TV's.

HEXAGON's significant throughput rate improvement was made possible by use of an optimized transport concept derived from high-speed machines used in data storage and photovoltaics. For the first time, it was possible to successfully transfer the concept to the demanding advanced packaging applications, allowing wafers to move simultaneously and in the same sequence through the machine – without making compromises in terms of vacuum and process requirements.

11.0

Expanding the global footprint

Oerlikon has gone to where the markets are. Today, the company is present at 150 locations in 38 countries. With a focus on China and India, the Group is expanding in the largest Asian growth markets. Oerlikon is also diversifying its global activities by exploring regional potential in other emerging economies.

- 🟥 Oerlikon locations
- ● Representatives

Shanghai: Oerlikon Textile has been doing business in China for 50 years and 49 % of Group sales come from this market.

Oerlikon further expands in growth markets

In 2011, Oerlikon intensified its focus on Asia in general and China in particular. In doing so, the company increased its customer centricity in the region and is now able to do business more profitably and sustainably in the growth markets there. In addition to China, Oerlikon is expanding in India, where the company already has 17 locations and about 2600 employees.

China

That Oerlikon generated 49 % of its total 2011 sales in China is the result of years of continuous and systematic effort. Oerlikon Textile has been doing business in the country for nearly 50 years.

China

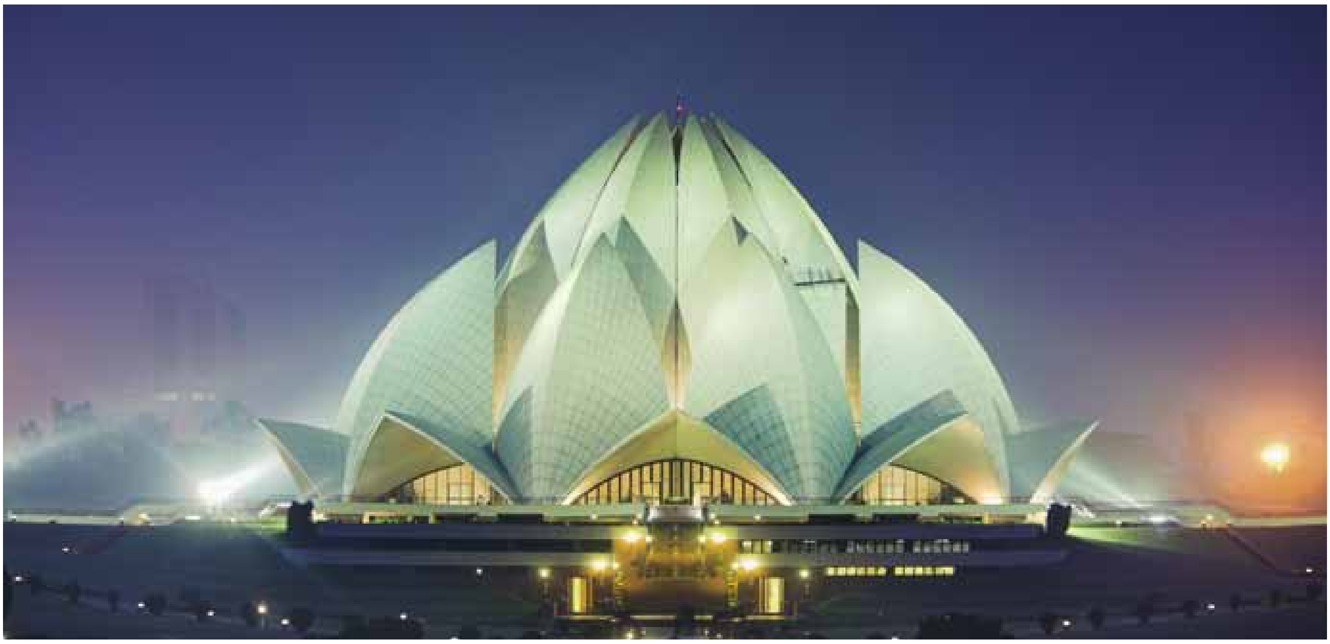
- In 2011, Oerlikon generated 49 % of total sales in China.
- Oerlikon's site in Suzhou is one of the company's largest locations worldwide.
- In 2012, Textile transfers headquarters and top management to Shanghai.
- Sales into China's domestic market have grown in proportion to the economy.
- Oerlikon is now a true local company in China.

Oerlikon Drive Systems completed construction of its Suzhou, China, factory in 2011, with first production already started in the first quarter of 2012. The new facility, which is the Segment's first manufacturing site in China, will provide drive systems, gear components and solutions tailored to the needs of local customers – particularly important now that China is the world's largest automaker. Demand for high-performance off-highway drive solutions, such as those used in construction equipment, is also expected to rise as construction continues.

Oerlikon Vacuum also broadened its activities in China during 2011, including capacity expansion at its factory in Tianjin. The focus of this effort was to deepen solutions know-how in complex vacuum systems that are increasingly being sought by Chinese industry.

During 2011, Oerlikon Coating put two new centers into operation in Jinan and Chongqing, giving the Segment a total of nine coating centers in China. At its existing Suzhou site, Oerlikon Coating expanded capacity threefold and established a center of expertise for hardware technology. These moves were designed to fuel the further expansion of the coating network in Asia and bolster the Segment's position as technology leader. In 2012, the Segment is also planning to open its first coating center in Malaysia – a market that also has significant growth potential.

The Oerlikon China Technology site in Suzhou is one of Oerlikon's largest locations in the world. This 70000-square-meter office and production complex is home to Oerlikon Textile and Oerlikon Coating and most recently Oerlikon Drive Systems, which is also about to begin production at its own factory there. Fundamental to the rapid growth in Suzhou is the Oerlikon China Technology site "shared service concept" in which non-operational activities are centralized and provided across all the Segments; these include IT, cash pooling, administration and personnel devel-



New Delhi: Domestic demand in India is expanding rapidly, providing huge growth potential for Oerlikon.

opment. Another reason for the site's popularity is the instant access to the local market relationships developed over a number of years by Oerlikon Barmag and Oerlikon Schlafhorst. This allows other Segments to tap the world's second largest economy much faster than if they had entered the market on their own.

Systematic focus on the professional growth of the company's Chinese workforce is another success factor. Oerlikon Textile, for example, is now conducting its third trainee program for college graduates at the Suzhou location. These intensive courses prepare young engineers for future jobs in the Group and are one of the reasons Oerlikon has a remarkably low turnover rate.

Management transferred to Asia, R&D activity expanded

That Oerlikon considers the Chinese market to be of critical importance is demonstrated by the decision to place the headquarters and top management of Oerlikon Textile in Shanghai. Several of the Segment's activities will be managed from China. By the end of this year, 40 % of Textile senior management will be based at Oerlikon's new offices in Shanghai.

Government focus on intellectual property laws has facilitated further expansion of R&D activities in China. Oerlikon R&D capability will be expanded to accelerate the regional adaptation of products and solutions.

Not long ago, global companies considered low wages the primary draw of emerging countries. This has changed. Demand for high-quality equipment and processes continues to rise in China, a trend that creates exceptional opportunities for Oerlikon as a technology leader. Sales into China's domestic market have grown in proportion to the economy and an increasingly large proportion of textile production is being consumed locally rather than being exported. As part of this evolution, Oerlikon has transformed itself from an exporter to a local company with regional roots in China that offers products and solutions targeted at domestic customers.

India: South Asia's largest growth market

In 2011, Oerlikon also expanded its strong presence in India. There are many opportunities for Oerlikon to further leverage and expand its businesses in this large market. India's economy is expanding rapidly despite the current slowdown in global demand, albeit at a pace less than was forecasted prior to the emergence of current global economic uncertainties. The Indian economy is expected to grow at an accelerated pace – over six times the rate of OECD economies – over the long-term.

The major driver behind this impressive growth is the country's large and rapidly expanding domestic demand, which is the focus of Oerlikon's Drive Systems, Textile, and Coating segment business in India.

Oerlikon continues to invest and expand in this important emerging market. Sales into India over the past three years were in the range of up to 10 % of total Group sales. The steady increases were led by the Textile, Drive Systems, and Coating segments.

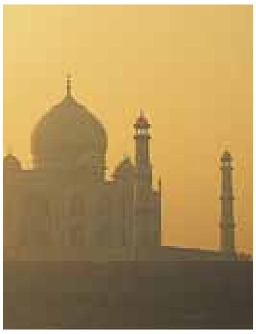
Oerlikon is developing a market penetration strategy for India focused on capturing domestic market share and further leveraging favorable labor costs. To further reduce costs and drive efficiency in its Indian operations, Oerlikon is studying the feasibility of a shared service concept similar to that which has been so successfully implemented in China.

Oerlikon Drive Systems has made significant investment to expand its Indian capacity in recent years and will continue to do so in 2012 and beyond. The Segment is strongly focused on developing innovative, tailored products to further boost domestic sales and penetrate new domestic markets. The more volume Drive Systems produces in India, the lower the product cost and

Moscow: The Russian government is supporting the development to a more innovation oriented economy.

the greater the opportunity for profitable export growth into other emerging markets such as Turkey and Brazil.

Oerlikon Coating also continues to grow in India through its support services to the expanding domestic automotive industry. The regional headquartes in India cooperates with coating centers in Thailand, Malaysia and Indonesia and in the rest of South Asia.



India

- Oerlikon continues to expand in South Asia's largest growth market.
- The major driver for growth in India is the growth of domestic demand.
- In 2011, Oerlikon had 17 locations with a total of about 2600 employees.
- Group sales into India have increased steadily over the last few years.
- Sales were led by the Textile, Drive Systems and Coating Segments.

Growth and Progress in Russia

Russia's economy is forecast to grow at rates above 4% per annum, which is significantly higher than in the OECD countries. Given the Russian economy's sensitivity to export commodity prices, the government is encouraging a rebalancing to a more innovation-based economy. Russia has put technology at the top of the agenda by introducing a variety of incentives and initiatives – all of which make the country a very attractive market for Oerlikon.

Sales into Russia, led by Oerlikon Solar, have been a modest up to 2% of total Group sales over the past 3 years. Oerlikon Textile, Coating, Vacuum and Drive Systems also sell into the Russian market, but currently not at significant levels. The Group will develop a comprehensive market penetration strategy in 2012.

Brazil: new infrastructure and industrial expansion

Economists forecast long-term Brazil GDP growth of up to 5% per annum. Significant expansion in the energy, infrastructure and transportation sectors, along with very large projects such as the 2014 FIFA World Cup and 2016 Olympics, will further drive growth.

The expansion of both the labor force and middle class seen in the last 10 years is forecast to continue, which should significantly increase domestic demand and macroeconomic stability. The country is not, however, without near term challenges: Brazil's strong currency, high interest rates, and skills shortage, combined with weaker global export demand, could have a material impact on the speed of development. The stable long-term growth outlook and rapid expansion of industries in which Oerlikon has core competencies, make Brazil one of the most interesting market development opportunities for the Group.

Today, Oerlikon is slightly represented in Brazil; recent sales have been in the range of up to 3% of the Group total, generated primarily by the Textile, Drive Systems, and Coating Segments. Oerlikon believes that Brazil offers significant growth opportunities for the Group.

Rio de Janeiro: The FIFA World Cup in 2014 and the Olympics in 2016 add impetus to Brazil's already significant growth markets in energy, transport and infrastructure.

The story continues to evolve

Regional expansion is a cornerstone of Oerlikon's strategy. Building on our strong presence in China and India, the company is on the way to explore the potential of other regions. Markets currently underrepresented or unexplored will be developed in the same way that those in Asia were, rounding out the company's global footprint in the process. The aim is to achieve a high degree of global diversification with a well balanced geographical split.

But while the world is our market, Switzerland remains the homeland of Oerlikon.

Financial calendar

March 5, 2012
Annual results 2011 and Annual Report 2011

April 12, 2012
Annual General Meeting of Shareholders, Lucerne

April 30, 2012
Q1 results

August 3, 2012
Q2 results and Half-Year Report 2012

October 30, 2012
Q3 results

Contact

Group Communications	Investor Relations
Burkhard Böndel	Andreas Schwarzwälder
T: +41 58 360 96 02	T: +41 58 360 96 22
F: +41 58 360 91 93	F: +41 58 360 98 22
pr@oerlikon.com	ir@oerlikon.com

OC Oerlikon Corporation AG, Pfäffikon
Churerstrasse 120
CH-8808 Pfäffikon SZ
Switzerland
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Moving ahead together

Oerlikon came a long way in 2011 – but there's still more to come. We will continue to build our strong market positions and increase profitability through Operational Excellence. We will also continue to bring ever more exciting technologies to our customers. But most importantly, we will continue to deliver more value to our shareholders. Together, we have a great future ahead of us.

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