oerlikon

Interim Report **2016**

Key developments

The strategic transformation toward becoming **a surface solutions and advanced materials powerhouse** is progressing well. The divestment of the vacuum business is almost complete and planned to be closed at the end of August.

Investments in new technologies and promising business areas such as **additive manufacturing** are being accelerated and the organizational structure is being simplified to place a stronger focus on customers and markets.

The **challenging macroeconomic and geopolitical climate** continued to impact many industries. The concerns surrounding the deceleration of China's economic growth and the crude oil price slide drove uncertainties across global markets, which triggered a slowdown in investments. A gradual improvement in market sentiments was observed toward the end of the first quarter. However, the surprising outcome of the UK's vote to leave the European Union caused turmoil in the financial markets and took a toll on confidence and investment.

For the first half of 2016, **order intake** amounted to CHF 1 181 million, while **sales** stood at CHF 1 169 million. **EBITDA** came in at CHF 157 million, corresponding to a margin of 13.4 %. **The net result** amounted to CHF 43 million.

Overall, Oerlikon's performance for the first half-year is **in line with market developments and as predicted**.

Based on the company's performance in the first half of 2016 and the initial positive signs in its surface solutions, non-filaments and drive systems businesses, **Oerlikon confirms its outlook for 2016.**

The Surface Solutions Segment reported a solid half-year performance with slight improvements in its second quarter top line and profitability in a challenging market climate.

The Manmade Fibers Segment continued to face tough conditions in the filaments equipment market. Some positive signs were noted in the staple fibers and nonwovens business.

The Drive Systems Segment won new customers, and slightly improved its second quarter sales and operating profitability sequentially.

Financial report

Interim financial report 2016

Key figures Oerlikon Group

in CHF million	**January 1 to June 30, 2016, unaudited**	January 1 to June 30, 2015, unaudited
Order intake[1]	1 181	1 332
Order backlog[1]	401	540
Sales[1]	1 169	1 380
EBITDA[1]	157	242
– as % of sales	13.4 %	17.5 %
EBIT[1]	68	157
– as % of sales	5.8 %	11.4 %
Result from continuing operations[2]	31	98
Result from discontinuing operations, net of income taxes[2,3]	12	–11
Net income	43	87
– as % of equity attributable to shareholders of the parent	3 %	4 %
Cash flow from operating activities[4]	114	110
Capital expenditure for property, plant and equipment and intangible assets[1]	56	65
Total assets (June 30, 2016/December 31, 2015)	4 066	4 097
Equity attributable to shareholders of the parent (June 30, 2016/December 31, 2015)	1 417	1 554
– as % of total assets	35 %	38 %
Net cash (June 30, 2016/December 31, 2015)[5]	–	79
Net Operating Assets (June 30, 2016/December 31, 2015)[6]	1 889	1 875
Number of employees (full-time equivalents) (June 30, 2016/December 31, 2015)	13 725	13 723
Research and development expenditure[1,7]	48	50

[1] 2016 continuing operations, 2015 restated.

[2] 2015 restated.

[3] Includes reclassification of translation differences amounting to CHF 0 million (previous year: CHF –21 million).

[4] Cash flow from operating activities before changes in net current assets amounts to CHF 144 million (previous year: CHF 225 million).

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

[6] Net operating assets include current and non-current operating assets (including goodwill and brands and excluding cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets) less operating liabilities (excluding current loans and borrowings, non-current financial liabilities, current income tax payables and deferred tax liabilities).

[7] Research and development expenditure includes expenses recognized as intangible assets in the amount of CHF 9 million (previous year, restated: CHF 8 million).

Consolidated income statement

in CHF million	**January 1 to June 30, 2016, unaudited**	January 1 to June 30, 2015, restated[1], unaudited
Sales of goods	747	930
Services rendered	422	450
Total sales	**1 169**	**1 380**
Cost of sales	–853	–979
Gross profit	**316**	**401**
Marketing and selling	–83	–79
Research and development	–52	–53
Administration	–119	–110
Other income	17	14
Other expense	–11	–16
Result before interest and taxes (EBIT)	**68**	**157**
Financial income	9	16
Financial expense	–22	–34
Result before taxes (EBT)	**55**	**139**
Income taxes	–24	–41
Result from continuing operations	**31**	**98**
Result from discontinued operations, net of income taxes	12	–11
Net income	**43**	**87**
Attributable to:		
Shareholders of the parent	42	86
Non-controlling interests	1	1
Earnings per share in CHF	**0.12**	0.25
Diluted earnings per share in CHF	**0.12**	0.25
Earnings per registered share continuing operations in CHF	**0.08**	0.28
Diluted earnings per registered share continuing operations in CHF	**0.08**	0.28
Earnings per registered share discontinued operations in CHF	**0.04**	–0.03
Diluted earnings per registered share discontinued operations in CHF	**0.04**	–0.03

[1] Following the announcement of the divestment of the Vacuum Segment, the respective figures are presented as discontinued operations and 2015 figures have been restated. Refer to page 13 and Note "Acquisition and divestment" on pages 16 to 19.

Consolidated statement of comprehensive income

in CHF million	**January 1 to June 30, 2016, unaudited**	January 1 to June 30, 2015, unaudited
Net income	43	87
Other comprehensive income		
Items that will never be reclassified to the income statement		
Remeasurement of defined benefit plans	–117	–5
Income taxes on items that will never be reclassified to the income statement	33	–2
	–84	**–7**
Items that are or may be reclassified subsequently to the income statement		
Changes in fair value of cash flow hedges	4	–4
Conversion differences	–1	–175
Income taxes on items that are or may be reclassified subsequently to the income statement	–1	1
	2	**–178**
Other comprehensive income for the period, net of taxes	**–82**	**–185**
Total comprehensive income for the period	**–39**	**–98**
Attributable to:		
Shareholders of the parent	–39	–98
Non-controlling interests	–	–

Consolidated balance sheet

Assets

in CHF million	June 30, 2016, unaudited	December 31, 2015
Cash and cash equivalents	756	840
Current financial investments and derivatives	10	7
Trade and trade notes receivable	392	405
Other receivables	87	87
Current income tax receivables	45	44
Inventories	378	360
Prepaid expenses and accrued income	20	12
Assets classified as held for sale	307	290
Current assets	**1 995**	**2 045**
Loans and other non-current financial receivables	23	23
Non-current financial investments	7	6
Property, plant and equipment	723	751
Goodwill and intangible assets	1 136	1 130
Post-employment benefit assets	1	–
Deferred tax assets	181	142
Non-current assets	**2 071**	**2 052**
Total assets	**4 066**	**4 097**

Liabilities and equity

in CHF million	June 30, 2016, unaudited	December 31, 2015
Trade payables	226	242
Other current financial liabilities and derivatives	304	310
Other current payables	57	62
Accrued liabilities	195	192
Current customer advances	147	132
Current income taxes payable	41	44
Current post-employment benefit liabilities	16	18
Other current provisions	96	96
Liabilities classified as held for sale	247	233
Current liabilities	**1 329**	**1 329**
Non-current loans and borrowings	459	458
Non-current post-employment benefit liabilities	550	434
Deferred tax liabilities	158	157
Other non-current provisions	136	147
Non-current liabilities	**1 303**	**1 196**
Total liabilities	**2 632**	**2 525**
Share capital	340	340
Treasury shares	–6	–6
Retained earnings and reserves	1 083	1 220
Equity attributable to shareholders of the parent	**1 417**	**1 554**
Non-controlling interests	17	18
Total equity	**1 434**	**1 572**
Total liabilities and equity	**4 066**	**4 097**

Consolidated cash flow statement[1]

in CHF million	**January 1 to June 30 2016, unaudited**	January 1 to June 30 2015, unaudited
Net income	43	87
Income taxes	29	44
Interest expense (net)	15	17
Depreciation of property, plant and equipment	62	66
Amortization of intangible assets	27	25
Addition to other provisions (net)	8	16
Decrease in post-employment benefit liabilities	–3	–1
Loss on sale of discontinued operations, net of tax	–	20
Income taxes paid	–36	–53
Other non-cash items	–1	4
Cash flow from operating activities before changes in net current assets	144	225
Decrease in receivables, prepaid expenses and accrued income	1	15
Increase in inventories	–20	–6
Decrease in payables, accrued liabilities and use of other provisions	–28	–44
Increase/Decrease in customer advances	16	–70
Non-cash impact on net current assets due to hedge accounting	1	–10
Cash flow from changes in net current assets	–30	–115
Cash flow from operating activities	**114**	**110**
Purchase of property, plant and equipment	–42	–55
Purchase of intangible assets	–20	–16
Acquisition of subsidiaries, net of cash acquired	–11	–
Repayment of liabilities relating to acquisition of subsidiaries	–4	–
Proceeds from sale of discontinued operations[2]	–	45
Purchase of financial investments	–	–55
Proceeds from sale of financial investments	–	10
Proceeds from sale of property, plant and equipment	3	1
Interest received	4	3
Cash flow from investing activities	**–70**	**–67**
Dividends paid	–103	–103
Repayment of financial debt	–1	–1
Interest paid	–14	–18
Cash flow from financing activities	**–118**	**–122**
Conversion adjustments to cash and cash equivalents	–4	–18
Decrease in cash and cash equivalents	**–78**	**–97**
Cash and cash equivalents at the beginning of the period[3]	851	826
Cash and cash equivalents at the end of the period[4]	773	729
Decrease in cash and cash equivalents	**–78**	**–97**

[1] The cash flow statement is presented without any effects from discontinued operations as well as assets and liabilities held for sale. Refer to Note "Acquisition and divestments" on pages 16 to 19 for cash flow from discontinued operations.

[2] 2015: net of cash disposed of and related transaction costs.

[3] Includes CHF 11 million (previous year CHF 1 million), which are included in "Assets classified as held for sale" in the balance sheet as of December 31, 2015.

[4] Includes CHF 17 million (previous year: CHF 0 million), which are included in "Assets classified as held for sale" in the balance sheet as of June 30, 2016.

Consolidated statement of changes in equity

in CHF million	Share capital[1]	Additional paid-in capital	Treasury shares	Conversion differences	Retained earnings	Hedge accounting	Income taxes	**Total equity attributable to shareholders**	Non-controlling interests	**Total share-holders' equity**
Balance at January 1, 2015	**340**	**1 319**	**–15**	**–341**	**795**	**–4**	**94**	**2 188**	**13**	**2 201**
Net income	–	–	–	–	86	–	–	86	1	87
Changes in fair value of cash flow hedges	–	–	–	–	–	–4	1	–3	–	–3
Remeasurement of defined benefit plans	–	–	–	–	–5	–	–2	–7	–	–7
Conversion differences	–	–	–	–174	–	–	–	–174	–1	–175
Other comprehensive income for the period	**–**	**–**	**–**	**–174**	**–5**	**–4**	**–1**	**–184**	**–1**	**–185**
Total comprehensive income for the period	**–**	**–**	**–**	**–174**	**81**	**–4**	**–1**	**–98**	**–**	**–98**
Dividend distributions	–	–102	–	–	–	–	–	–102	–1	–103
Share-based payments	–	–	10	–	–8	–	–	2	–	2
Contributions and distributions	**–**	**–102**	**10**	**–**	**–8**	**–**	**–**	**–100**	**–1**	**–101**
Total transactions with owners of the company	**–**	**–102**	**10**	**–**	**–8**	**–**	**–**	**–100**	**–1**	**–101**
Balance at June 30, 2015	**340**	**1 217**	**–5**	**–515**	**868**	**–8**	**93**	**1 990**	**12**	**2 002**
Balance at January 1, 2016	**340**	**1 217**	**–6**	**–453**	**370**	**–5**	**91**	**1 554**	**18**	**1 572**
Net income	–	–	–	–	42	–	–	42	1	43
Changes in fair value of cash flow hedges	–	–	–	–	–	4	–1	3	–	3
Remeasurement of defined benefit plans[2]	–	–	–	–	–117	–	33	–84	–	–84
Conversion differences	–	–	–	–	–	–	–	–	–1	–1
Other comprehensive income for the period	**–**	**–**	**–**	**–**	**–117**	**4**	**32**	**–81**	**–1**	**–82**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**–75**	**4**	**32**	**–39**	**–**	**–39**
Dividend distributions	–	–102	–	–	–	–	–	–102	–1	–103
Share-based payments	–	–	–	–	4	–	–	4	–	4
Contributions and distributions	**–**	**–102**	**–**	**–**	**4**	**–**	**–**	**–98**	**–1**	**–99**
Total transactions with owners of the company	**–**	**–102**	**–**	**–**	**4**	**–**	**–**	**–98**	**–1**	**–99**
Balance at June 30, 2016	**340**	**1 115**	**–6**	**–453**	**299**	**–1**	**123**	**1 417**	**17**	**1 434**

[1] The share capital of OC Oerlikon Corporation AG, Pfäffikon, consists of 339 758 576 fully-paid registered shares (previous year: 339 758 576) of nominal value CHF 1 each.

[2] Actuarial losses due to lower discount rates; mainly in Germany (decrease from 2.3 % to 1.2 %) and Switzerland (decrease from 0.8 % to 0.3 %).

Significant accounting principles

Company operations
OC Oerlikon Corporation AG (the parent), Pfäffikon, is a Swiss public company located in Churerstrasse 120, Pfäffikon, canton of Schwyz, Switzerland. It is the ultimate parent company of the Oerlikon Group, a leading high-tech industrial group specializing in machine and plant engineering, and a provider of innovative industrial solutions and cutting-edge technologies for surface solutions, manmade fibers manufacturing, drive systems and vacuum.

Basis of preparation
The unaudited consolidated interim financial statements of OC Oerlikon Corporation AG, Pfäffikon, for the first half-year of 2016 are presented in a condensed form and have been prepared in accordance with IAS 34 Interim Financial Reporting and Swiss company law. These accounting standards have been applied consistently in all periods presented in this report. The reporting period is six months. The consolidated income statement shows operating costs grouped by function. Assets and liabilities in the consolidated balance sheet are classified as current or non-current. The consolidated interim financial statements do not include all the details contained in the consolidated annual financial statements and should therefore be read in conjunction with the annual consolidated financial statements as of December 31, 2015. The consolidated interim financial statements were approved by the Board of Directors on July 28, 2016. All amounts in the consolidated interim financial statements are presented in millions of Swiss francs (CHF million) and all amounts (including totals and subtotals) have been rounded according to normal commercial practice. Thus, an addition of the figures presented can result in rounding differences.

Judgments, estimates and assumptions
Preparation of the consolidated interim financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the values of reported revenues, expenses, assets, liabilities and contingent liabilities at the reporting date. These estimates and assumptions are constantly being revised. Depending on the issues involved, revision of such assumptions can have an effect on the current period, as well as potentially on future periods. These estimates, judgments and assumptions are based on historical experience and other factors that are believed to be reasonable and justified as expectations of future events. However, actual results can differ from these estimates. The same significant assumptions and estimates were made by management for these consolidated interim financial statements as for the annual consolidated financial statements as of December 31, 2015.

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

Significant accounting policies
The accounting policies in this interim financial report match those applied in the audited annual consolidated financial statements as of December 31, 2015, with exception of the changes shown below under “Adoption of new and revised accounting standards”.

Adoption of new and revised accounting standards
The IASB has published a number of new and revised standards and interpretations, which have been applied by the Oerlikon Group since January 1, 2016:

- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)
- Bearer Plants (Amendments to IAS 16 and IAS 41)
- Annual Improvements to IFRSs 2012–2014
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- IFRS 14 – Regulatory Deferral Accounts
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)

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

Newly published accounting standards not early adopted

The IASB has published a number of new and revised standards and interpretations that will come into force later and have not been implemented ahead of their effective dates. Their effects on the Oerlikon Group's financial statements have not yet been fully analyzed, but an initial review has been conducted, and the expected effects of each standard and interpretation are presented in the following table:

Standard / interpretation	Impact level	Effective date	Planned application by Oerlikon
Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)	*	1.1.2017	Reporting year 2017
Disclosure Initiative (Amendments to IAS 7)	**	1.1.2017	Reporting year 2017
IFRS 15 – Revenue Recognition	***	1.1.2018	Reporting year 2018
IFRS 9 – Financial Instruments	***	1.1.2018	Reporting year 2018
IFRS 16 – Leases	***	1.1.2019	Reporting year 2019

* 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 is currently being assessed.

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), 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. Intersegment pricing is determined on an arm's length basis.

According to the internal Segment reporting, the Group consists of the following reportable Segments:

- Surface Solutions Segment supplies PVD coatings that increase the performance of tools and precision components and offers specialized components and innovative surface engineering products and services.
- Manmade Fibers Segment develops and manufactures textile machinery.
- Drive Systems Segment manufactures gears and other components for power transmission, mainly in motor vehicles.

Adjustment of previously reported figures

Certain comparative figures for 2015 have been restated, reclassified or supplemented to conform to the current year. The following changes to the manner of presentation have been made:

Discontinued operations

Following the announcement of the divestment of the Vacuum Segment, the respective figures are shown as discontinued operations and certain 2015 figures have been restated in accordance with IFRS 5. The effects of the adjustments to the 2015 consolidated income statement are as follows:

Consolidated income statement

in CHF million	January 1 to June 30, 2015, as reported	Vacuum	**January 1 to June 30, 2015, restated**
Sales of goods	1 072	–142	930
Services rendered	491	–41	450
Total sales	**1 563**	**–183**	**1 380**
Cost of sales	–1 093	114	–979
Gross profit	**470**	**–69**	**401**
Marketing and selling	–108	29	–79
Research and development	–65	12	–53
Administration	–123	13	–110
Other income	15	–1	14
Other expense	–17	1	–16
Result before interests and taxes (EBIT)	**172**	**–15**	**157**
Financial income	14	2	16
Financial expense	–35	1	–34
Result before taxes (EBT)	**151**	**–12**	**139**
Income taxes	–43	2	–41
Result from continuing operations	**108**	**–10**	**98**
Result from discontinued operations	–21	10	–11
Net income	**87**	**–**	**87**

Segment information

in CHF million	Surface Solutions Segment 2016	Surface Solutions Segment 2015	Manmade Fibers Segment 2016	Manmade Fibers Segment 2015	Drive Systems Segment 2016	Drive Systems Segment 2015	Total Segments 2016	Total Segments 2015[5]
Order intake	**617**	**616**	**249**	**401**	**315**	**315**	**1 181**	**1 332**
Order backlog	**91**	**81**	**209**	**315**	**101**	**144**	**401**	**540**
Sales								
Sales to third parties	609	609	237	417	323	354	1 169	1 380
Sales to other segments	2	2	–	–	–	–	2	2
Eliminations	–2	–2	–	–	–	–	–2	–2
	609	**609**	**237**	**417**	**323**	**354**	**1 169**	**1 380**
Sales by market region to third parties								
Asia/Pacific	168	159	140	317	46	42	354	518
Europe	296	299	52	47	159	184	507	530
North America	116	118	30	37	107	112	253	267
Other regions	29	33	15	16	11	16	55	65
	609	**609**	**237**	**417**	**323**	**354**	**1 169**	**1 380**
Sales by location to third parties								
Asia/Pacific	156	139	97	160	58	53	311	352
thereof China	49	43	93	157	12	14	154	214
Europe	310	322	131	246	162	147	603	715
thereof Switzerland	40	48	–	–	–	–	40	48
Germany	165	178	131	246	–	–	296	424
Italy	19	19	–	–	159	143	178	162
North America	125	128	9	11	103	154	237	293
thereof USA	112	115	9	11	103	154	224	280
Other regions	18	20	–	–	–	–	18	20
	609	**609**	**237**	**417**	**323**	**354**	**1 169**	**1 380**
Capital expenditure for property, plant and equipment and intangible assets[4]								
Asia/Pacific	5	7	–	–	3	6	8	13
Europe	26	18	5	9	6	6	37	33
North America	7	14	–	–	1	3	8	17
Other regions	2	–	–	–	–	–	2	–
	40	**39**	**5**	**9**	**10**	**15**	**55**	**63**
EBITDA	**133**	**130**	**7**	**73**	**21**	**35**	**161**	**238**
EBIT	**76**	**76**	**–2**	**65**	**–1**	**15**	**73**	**156**
Other material items								
Research and development expense	–36	–36	–9	–11	–7	–6	–52	–53
Depreciation and amortization	–57	–54	–9	–8	–22	–20	–88	–82
Restructuring expenses	–	–	–	–1	–	–	–	–1
Net operating assets	**30.06.16**	31.12.15	**30.06.16**	31.12.15	**30.06.16**	31.12.15	**30.06.16**	31.12.15
Operating assets[2]	1 607	1 583	551	586	581	577	2 739	2 746
Operating liabilities[3]	–251	–258	–338	–361	–238	–228	–827	–847
	1 356	**1 325**	**213**	**225**	**343**	**349**	**1 912**	**1 899**
Number of employees (full-time equivalents)	**30.06.16**	31.12.15	**30.06.16**	31.12.15	**30.06.16**	31.12.15	**30.06.16**	31.12.15
Asia/Pacific	1 620	1 565	870	909	2 302	2 133	4 792	4 607
Europe	3 286	3 256	1 381	1 569	1 896	1 927	6 563	6 752
North America	1 059	1 036	54	50	741	772	1 854	1 858
Other regions	299	283	–	–	–	–	299	283
	6 264	**6 140**	**2 305**	**2 528**	**4 939**	**4 832**	**13 508**	**13 500**

[1] Discontinued operations include the Vacuum Segment, the Advanced Technologies Segment and the Natural Fibers and Textile Components Business Units.

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

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

[4] Does not include non-current assets acquired through business combinations.

[5] Restated.

	Group/ Eliminations		Total from continuing operations		Discontinued operations[1]		Total incl. discontinued operations	
	2016	2015[5]	**2016**	2015[5]	**2016**	2015[5]	**2016**	2015
	–	**–**	**1 181**	**1 332**	**189**	**212**	**1 370**	**1 544**
	–	**–**	**401**	**540**	**67**	**88**	**468**	**628**
	–	–	1 169	1 380	182	184	1 351	1 564
	–2	–2	–	–	–	–	–	–
	2	2	–	–	–	–	–	–
	–	**–**	**1 169**	**1 380**	**182**	**184**	**1 351**	**1 564**
	–	–	354	518	61	62	415	580
	–	–	507	530	80	81	587	611
	–	–	253	267	35	35	288	302
	–	–	55	65	6	6	61	71
	–	**–**	**1 169**	**1 380**	**182**	**184**	**1 351**	**1 564**
	–	–	311	352	55	51	366	403
	–	–	154	214	29	28	183	242
	–	–	603	715	88	94	691	809
	–	–	40	48	–	–	40	48
	–	–	296	424	88	94	384	518
	–	–	178	162	–	–	178	162
	–	–	237	293	38	39	275	332
	–	–	224	280	38	39	262	319
	–	–	18	20	1	–	19	20
	–	**–**	**1 169**	**1 380**	**182**	**184**	**1 351**	**1 564**
	–	–	8	13	1	1	9	14
	1	2	38	35	5	5	43	40
	–	–	8	17	–	–	8	17
	–	–	2	–	–	–	2	–
	1	**2**	**56**	**65**	**6**	**6**	**62**	**71**
	–4	**4**	**157**	**242**	**21**	**–**	**178**	**242**
	–5	**1**	**68**	**157**	**21**	**–6**	**89**	**151**
	–	–	–52	–53	–11	–13	–63	–66
	–1	–2	–89	–84	–	–7	–89	–91
	–	–	–	–1	–	–	–	–1
	30.06.16	31.12.15	**30.06.16**	31.12.15	**30.06.16**	31.12.15	**30.06.16**	31.12.15
	22	19	2 761	2 765	249	244	3 010	3 009
	–45	–43	–872	–890	–72	–63	–944	–953
	–23	**–24**	**1 889**	**1 875**	**177**	**181**	**2 066**	**2 056**
	30.06.16	31.12.15	**30.06.16**	31.12.15	**30.06.16**	31.12.15	**30.06.16**	31.12.15
	–	–	4 792	4 607	417	421	5 209	5 028
	212	220	6 775	6 972	1 125	1 140	7 900	8 112
	–	–	1 854	1 858	83	90	1 937	1 948
	5	3	304	286	9	9	313	295
	217	**223**	**13 725**	**13 723**	**1 634**	**1 660**	**15 359**	**15 383**

Acquisitions and Divestments

Acquisitions

On April 1, 2016, Oerlikon acquired the distribution and after-sales business of I.W.S. Co., LTD., Seoul, Korea. The Surface Solutions Segment has been previously utilizing I.W.S. as distributor for its materials business as well as after sales service provider for its equipment business in Korea. As a step of forward integration into the market the acquisition opens up additional margin and growth potential.

On April 7, 2016, Oerlikon acquired the entire staple fibers technology portfolio of Trützschler Nonwovens & Man-Made Fibers GmbH, Egelsbach, Germany. This company is part of the German Trützschler Group, which is a specialist in fiber preparation for the yarn spinning and nonwovens industries. The acquisition expands the Manmade Fibers Segment's technology portfolio and opens up access to new customers in the market for synthetic staple fibers.

The total consideration for the two acquisitions amounts to CHF 11 million, all of which was paid in cash in the reporting period.

The goodwill of CHF 4 million arising from the acquisitions is mainly attributable to the value of expected synergies and economies of scale expected from combining the operations of the acquired businesses with the Oerlikon Group. The full amount of the goodwill is expected to be deductible for income tax purposes.

The following table summarizes the consideration paid for the two acquisitions and the fair value of assets acquired at the acquisition date.

Consideration at the date of acquisition

in CHF million	**2016**
Cash	11
Total consideration	**11**

Recognized amounts of identifiable assets acquired

in CHF million	**2016**
Property, plant and equipment	1
Intangible assets	6
Total identifiable net assets	**7**
Goodwill	4
Total	**11**

Acquisition-related costs of below CHF 1 million have been recognized under other expense in the consolidated income statement for the half-year period ended June 30, 2016.

Since their acquisition, the acquired businesses have contributed below CHF 1 million to total sales and below CHF 1 million to the net income of the Oerlikon Group. Had the transactions taken place at January 1, 2016, the Group's total sales and net income for the half year ended June 30, 2016 would have amounted to approximately CHF 1170 million and CHF 43 million, respectively. These amounts have been determined based on the assumption that the fair-value adjustments at the acquisition date would have been the same at January 1, 2016.

Divestment of the Vacuum Segment

On November 20, 2015, the Oerlikon Group signed an agreement with Atlas Copco to divest the Vacuum Segment. Consequently, the Vacuum Segment is presented as a disposal group held for sale and as discontinued operations. As per June 30, 2016, the disposal group held for sale comprised assets of CHF 307 million and liabilities of CHF 247 million. The disposal group was not a discontinued operation or classified as held for sale as of June 30, 2015 and the comparative consolidated income statement has been restated to show the discontinued operation separately from the continuing operations.

Cumulative exchange differences relating to foreign operations to be disposed of previously recognized in other comprehensive income will be reclassified to the income statement on disposal of the Segment, i.e. when control of the subsidiaries is lost. As at June 30, 2016, the cumulative exchange differences concerned were negative (CHF –38 million) and therefore management assumes that a loss will be reclassified from other comprehensive income to the income statement on disposal.

All regulatory approvals have been received and the closing of the transaction is planned for August 31, 2016.

Divestment of the Advanced Technologies Segment

On December 22, 2014, the Oerlikon Group signed an agreement with Evatec AG to divest the Advanced Technologies Segment. The transaction closed on February 2, 2015, resulting in the derecognition of assets of CHF 82 million and liabilities of CHF 23 million.

The total consideration amounts to CHF 61 million (including CHF 3 million for the settlement of pre-existing intragroup financing). CHF 56 million of the total consideration have been received as cash and cash equivalents, CHF 5 million are included in an escrow account.

In the first half of 2015, the Oerlikon Group incurred a loss on disposal from this transaction in the amount of CHF 20 million, included in the result from discontinued operations, net of income taxes. This amount includes a loss on the reclassification of cumulative exchange differences up to the closing date previously recognized in other comprehensive income in the equity of CHF 21 million. The loss is fully attributable to the shareholders of the parent.

In connection with this divestment, Oerlikon has assumed certain customary obligations such as warranty obligations and indemnifications. The indemnification obligations cover in particular employment-, intellectual property- and business-related topics. The duration and overall liability caps for these indemnifications vary, but are customary for transactions of this nature.

Divestment of the Natural Fibers and Textile Components Business Units

On December 3, 2012, the Oerlikon Group signed an agreement with the Jinsheng Group of China to divest the Natural Fibers and Textile Components Business Units from its Textile Segment. The sale was closed on July 3, 2013. In connection with the divestment, Oerlikon has assumed certain customary obligations such as warranty obligations and indemnifications. The indemnification obligations cover in particular employment-, intellectual property- and environment-related topics. The duration and overall liability caps for these indemnifications vary, but are customary for transactions of this nature. Most (but not all) of the warranty obligations and indemnifications have lapsed with effect as of June 30, 2015.

Result from discontinued operations

in CHF million	January 1 to June 30, 2016 Advanced Technologies Segment	Vacuum Segment	Total	January 1 to June 30, 2015, restated Advanced Technologies Segment[2]	Vacuum Segment	Total
Sales	**–**	**182**	**182**	**1**	**183**	**184**
Total expenses	–	–165	**–165**	–2	–171	**–173**
Result before taxes (EBT) from operating activities	**–**	**17**	**17**	**–1**	**12**	**11**
Income taxes	–	–5	**–5**	–	–2	**–2**
Result from operating activities	**–**	**12**	**12**	**–1**	**10**	**9**
Gain on sale of discontinued operations before reclassification of translation differences	–	–	**–**	2	–	**2**
Reclassification of translation differences[1]	–	–	**–**	–21	–	**–21**
Income tax on sale of discontinued operations	–	–	**–**	–1	–	**–1**
Net result from discontinued operations	**–**	**12**	**12**	**–21**	**10**	**–11**
Attributable to:						
Shareholders of the parent	–	12	**12**	–21	10	**–11**
Earnings per share in CHF	–	0.04	**0.04**	–0.06	0.03	**–0.03**
Diluted earnings per share in CHF	–	0.04	**0.04**	–0.06	0.03	**–0.03**

[1] In the year that a foreign entity is divested, the cumulative translation differences recorded in other comprehensive income (equity) are reclassified to the income statement as part of the gain or loss upon disposal.

[2] Includes minor amounts relating to the sale of the Natural Fibers and Textile Components Business Units.

Cash flow from discontinued operations

in CHF million	January 1 to June 30, 2016 Advanced Technologies Segment	Vacuum Segment	Total	January 1 to June 30, 2015, restated Advanced Technologies Segment	Vacuum Segment	Total
Cash flow from operating activities	–	25	**25**	–	16	**16**
Cash flow from investing activities	–	–6	**–6**	–	–6	**–6**
Cash flow from financing activities	–	–2	**–2**	–	–2	**–2**
Net cash flows from discontinued operations	–	17	**17**	–	8	**8**

Disposal group classified as held for sale

The assets and liabilities of the disposal group classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell and are presented separately in the balance sheet. Based on the decision to sell the disposal group, an impairment review was performed which revealed no need for impairment. Fair value less cost to sell has been determined based on the expected sales proceeds as contractually agreed with the third party buyer. This is a level 3 fair value measurement.

At June 30, 2016 and December 31, 2015 the following assets and liabilities have been classified as held for sale:

Assets classified as held for sale

	June 30, 2016	December 31, 2015
in CHF million	**Vacuum**	Vacuum
Cash and cash equivalents	**17**	11
Trade receivables	**53**	52
Other receivables, prepaid expenses and accrued income	**13**	10
Inventories	**77**	75
Property, plant and equipment	**91**	88
Intangible assets	**23**	20
Deferred tax assets	**33**	34
Total assets classified as held for sale	**307**	**290**

Liabilities classified as held for sale

	June 30, 2016	December 31, 2015
in CHF million	**Vacuum**	Vacuum
Trade payables	**25**	21
Accrued liabilities	**15**	14
Other current liabilities	**17**	13
Current post-employment benefit liabilities	**5**	5
Other current provisions	**7**	7
Non-current post-employment benefit liabilities	**169**	166
Other non-current provisions	**3**	3
Deferred tax liabilities	**6**	4
Total liabilities classified as held for sale	**247**	**233**

Loans and borrowings

Syndicated loan facility
The unsecured syndicated credit facility includes a CHF 700 million credit facility consisting of a revolving cash facility of CHF 450 million and an ancillary facility of CHF 250 million with an initial maturity in 2015 and two additional one-year extension options. In 2014 and 2015, the maturity was prolonged at first to 2016 and afterwards to 2017. As of June 30, 2016, the drawn revolving credit facility balance was zero. According to the agreement the cash facility will be reduced to approximately CHF 200 million in the second half year 2016 due to the sale of the Vacuum Segment. The ancillary credit facility had an unused amount of CHF 206 million and the amount of CHF 44 million was used for issuing guarantees.

In addition to extending the syndicated facility the terms have been renegotiated in June 2015. The margin was thereby substantially reduced. As per June 30, 2016, the interest rate of the loan under the syndicated credit facility is defined as Libor plus a margin of 0.65 % per year, subject to a margin grid based on the ratio of Net Debt to EBITDA (within a range of 0.65 % and 1.5 %).

As of June 30, 2016, the syndicated credit facility contains the following financial covenants, which are tested quarterly:

– Total Equity

– Total Borrowings/EBITDA

– EBITDA/Net Interest Expense

Bonds
On July 13, 2012, the Oerlikon Group issued a 4 year CHF 300 million straight bond with a nominal interest of 4.25 % (effective interest: 4.46 % with a maturity date at July 13, 2016).

On June 17, 2014, the Oerlikon Group issued a 5 year CHF 300 million straight bond with a nominal interest of 1.25 % (effective interest: 1.33 %) and a 10 year CHF 150 million straight bond with a nominal interest of 2.625 % (effective interest: 2.625 %).

Financial instruments

The carrying amounts and fair values of financial assets and liabilities as of June 30, 2016, including their levels in the fair value hierarchy, are as follows:

in CHF million	Carrying amount					Fair value			
	Fair value – held for trading	Fair value – hedging instruments	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value									
Foreign exchange contracts	–	6	–	–	**6**	–	6	–	**6**
Debt and equity securities	3	–	–	–	**3**	3	–	–	**3**
Total	**3**	**6**	**–**	**–**	**9**	**3**	**6**	**–**	**9**
Financial assets not measured at fair value[1]									
Cash and cash equivalents	–	–	756	–	**756**				
Deposits	–	–	1	–	**1**				
Trade and other financial receivables	–	–	402	–	**402**				
Loans and other non-current financial receivables	–	–	23	–	**23**				
Total	**–**	**–**	**1 182**	**–**	**1 182**				
Financial liabilities measured at fair value									
Foreign exchange contracts	–	4	–	–	**4**	–	4	–	**4**
Total	**–**	**4**	**–**	**–**	**4**	**–**	**4**	**–**	**4**
Financial liabilities not measured at fair value[1]									
Bonds	–	–	–	749	**749**	780	–	–	**780**
Finance lease liabilities	–	–	–	6	**6**				
Trade payables	–	–	–	226	**226**				
Accrued financial liabilities	–	–	–	115	**115**				
Other loans and borrowings	–	–	–	4	**4**				
Total	**–**	**–**	**–**	**1 100**	**1 100**				

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

The carrying amounts and fair values of financial assets and liabilities as of December 31, 2015, including their levels in the fair value hierarchy, are as follows:

in CHF million	Carrying amount					Fair value			
	Fair value – held for trading	Fair value – hedging instruments	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value									
Foreign exchange contracts	–	4	–	–	**4**	–	4	–	**4**
Debt and equity securities	2	–	–	–	**2**	2	–	–	**2**
Total	**2**	**4**	**–**	**–**	**6**	**2**	**4**	**–**	**6**
Financial assets not measured at fair value[1]									
Cash and cash equivalents	–	–	840	–	**840**				
Deposits	–	–	1	–	**1**				
Trade and other financial receivables	–	–	421	–	**421**				
Loans and other non-current financial receivables	–	–	23	–	**23**				
Total	**–**	**–**	**1 285**	**–**	**1 285**				
Financial liabilities measured at fair value									
Foreign exchange contracts	–	4	–	–	**4**	–	4	–	**4**
Total	**–**	**4**	**–**	**–**	**4**	**–**	**4**	**–**	**4**
Financial liabilities not measured at fair value[1]									
Bonds	–	–	–	749	**749**	773	–	–	**773**
Finance lease liabilities	–	–	–	5	**5**				
Trade payables	–	–	–	247	**247**				
Accrued financial liabilities	–	–	–	109	**109**				
Other loans and borrowings	–	–	–	10	**10**				
Total	**–**	**–**	**–**	**1 120**	**1 120**				

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

Financial instruments

Measurement of fair values
The different levels of fair values have been defined as follows:
- **Level 1:** quoted prices (unadjusted) in active markets for identical assets or liabilities
- **Level 2:** inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- **Level 3:** inputs for the asset or liability that are not based on observable market data (unobservable inputs)

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

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

Type of financial instrument	Valuation technique
Foreign exchange contracts	The fair values of foreign exchange hedging contracts are based on broker quotes. Similar contracts traded in an active market and the quotes reflect the actual transactions in similar instruments.

Level 3 fair values
No financial instruments were included in level 3 fair values.

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

Provisions

in CHF million	Product warranties	Acquiree's contingent liabilities[1]	Restructuring[2]	Other provisions[3]	**Total**
Balance at January 1, 2016	41	70	111	21	**243**
Conversion differences	–1	–1	1	1	**–**
Additions[4]	5	1	–	7	**13**
Amounts used	–6	–	–10	–1	**–17**
Amounts reversed	–4	–	–	–3	**–7**
Balance at June 30, 2016	**35**	**70**	**102**	**25**	**232**
of which:					
Due within 1 year	32	–	46	18	**96**
Due beyond 1 year	3	70	56	7	**136**

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

[2] The restructuring provision pertains to the Drive Systems (CHF 63 million), Manmade Fibers (CHF 38 million) and Surface Solutions (CHF 1 million) Segment. The restructuring of the Manmade Fibers Segment is due to a need to adapt the Segment's structure and lower its cost base measurably. The Drive Systems Segment reorganization includes mainly the resizing of the organization. The restructuring provison relates mostly to personnel expenses.

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

[4] Includes unwinding of discount for non-current provisions.

Subsequent events

No events occurred between the balance sheet date and the date on which this report was approved by the Board of Directors that could have a significant impact on the consolidated financial statements as of June 30, 2016.

This interim report is also available in German.
The English language version of Oerlikon’s Interim Report is the binding version.

Disclaimer and cautionary statements