oerlikon

Annual Report **2014**

Oerlikon leads the way

As megatrends such as mobility, energy, infrastructure development and the environment gain focus in global businesses, Oerlikon continues to be at the forefront in offering technologies, solutions and services to leverage the related opportunities.

A leading technology Group with over 100 years of tradition, Oerlikon capitalizes on its innovative technologies and competencies to deliver products, solutions and services in targeted growth markets to achieve sustainable profitable growth. These cutting-edge technologies are developed to benefit customers by improving their product performance, productivity and efficient use of resources and energy, and also by contributing to creating a more sustainable environment.

Today, the Group has over 15 500 employees at more than 200 locations in 36 countries and is a clear market leader in providing value-enhancing proprietary technologies for surface solutions, the manufacturing of manmade fibers and polycondensation systems, drives and shifting solutions, as well as vacuum pumps and components.

The Oerlikon Group is structured in four Segments:

Surface Solutions Segment
The Surface Solutions Segment is a world-leading supplier of surface technologies, offering customers a unique and broad range of coating solutions, products and services. Under the brand Oerlikon Balzers, surface technologies can realize extremely thin and exceptionally hard coatings, thus significantly improving the performance and durability of precision components as well as cutting and forming tools. Under the brand Oerlikon Metco, innovative coating solutions, equipment, materials, specialized machining services and components serve to improve the performance, efficiency and reliability of its customers' products. The Segment operates a dynamically growing network of more than 145 sites, of which over 140 are service and production centers. In 35 countries throughout Asia, Europe, the Americas and Australia, the Segment serves customers in the aviation, power generation, oil and gas, automotive, metal and plastic processing, as well as in other specialized industries.

Manmade Fibers Segment
The Manmade Fibers Segment is a global technology leader of plant solutions for the production of chemical fibers used mainly in fabrics and functional clothing as well as for technical textiles. The Segment offers engineering, machine and component solutions from a single source: from melt to yarn, from polycondensation to high-precision winders. The Oerlikon Barmag brand is a world market leader in spinning and texturing systems for the production of manmade fibers such as polyester, nylon and polypropylene. Oerlikon Barmag is also well positioned in special markets for winders of specialty yarns and applications. The Oerlikon Neumag brand is a global market and technology leader for complete production systems for bulked continuous filament (BCF), carpet yarns as well as solutions for synthetic staple fibers. Furthermore, Oerlikon Neumag is a leading provider of a broad range of nonwoven technologies with a focus on technical applications. Manmade fibers are processed into functional clothing, carpets and upholstery as well as airbags, seat belts and geotextiles. The Segment operates plants in Asia and Europe, and its main markets are China, India, Turkey and the USA.

Drive Systems Segment
The Drive Systems Segment is a leading supplier of high-precision gear, drive and shifting solutions. The Oerlikon Graziano brand is a global player in power transmission and one of the largest manufacturers of gearing and drive solutions. In addition, Oerlikon Graziano is recognized as a technology innovator and is a world leader in the design, development and manufacture of Shifting Solutions™, drivelines and high-performing transmissions for a variety of special applications. The Oerlikon Fairfield brand is one of the world's largest integrated manufacturers of engineered gear and drive solutions for a variety of applications for mobile off-highway equipment and stationary industrial machinery. In addition, Oerlikon Fairfield's competencies include the design, development and manufacturing of custom gears, custom drive assemblies and planetary drives. The Segment's technologies are used in a wide range of applications, from sports cars, hybrid and electric vehicles to machinery and equipment for the agriculture, construction, transportation (on-/off-highway, city buses), energy and mining sectors. The Segment operates its own production facilities in China, India, Europe and the Americas.

Vacuum Segment
Under the brand Oerlikon Leybold Vacuum, the Vacuum Segment offers a wide range of advanced fore- and high-vacuum pumps and components for the high-volume manufacturing process industries, coatings technology applications, instrumental analysis as well as research and development. The core competencies of the Segment lie in the development of application and customer-specific systems for vacuum generation and gas processing. The Segment delivers single components, standardized as well as fully customized vacuum systems and services. The vacuum pumps and components are used in the production of semiconductors, displays, coated architectural glass or solar cells, as well as in steel processing and degassing, food packaging, life science research and analysis. A global sales and service network complements the consulting and engineering expertise in the Segment.

Highlights 2014

Sustained solid profitability

In 2014, the Group continued to record strong operational performance and sustained profitability. Sales grew by 16.1 % to CHF 3.2 billion, and order intake increased by 9.0 % to CHF 3.0 billion. For the 4th consecutive year, Oerlikon achieved an EBITDA margin exceeding 15 % and a double-digit EBIT margin of over 10 %.

Advanced strategic agenda with two further portfolio-optimizing milestones

In 2014, Oerlikon continued its strategic portfolio transformation, further strengthening the Group's business and increasing its resilience. With the acquisition of Metco, Oerlikon executed its tenth, and with the divestment of the Advanced Technologies Segment the eleventh portfolio optimization moves since 2010. The transformation enables Oerlikon to focus on core growth businesses where it offers innovation power in attractive markets globally.

Formed a world-class technology leader for surface solutions

The Metco acquisition and the creation of the new Surface Solutions Segment marked important strategic steps for Oerlikon in 2014. The Segment consolidated the leading brands of Balzers and Metco into a technology powerhouse in surface solutions. With more than 6000 employees in 35 countries at over 145 sites, of which over 140 are service and production centers, the surface solutions business forms the largest Segment of the Group based on pro-forma annual Group sales. The combined business has an addressable market of some CHF 9 billion, and an attractive platform to grow and outperform both the individual markets in which it operates (CAGR 4–6 %) as well as global GDP growth forecasts (~3 %).

Maintained solid operating cash flow and disciplined use of cash

Cash flow from operating activities, before changes in net current assets, was solid at CHF 427 million. Net working capital increased to CHF 394 million, corresponding to 12.3 % of Group sales (2013: CHF 108 million). The Group continued to exercise discipline in the use of cash, investing prudently and strategically. Capital expenditure (CAPEX) amounted to CHF 166 million, a decrease of 6.2 % compared to CHF 177 million (restated) in 2013.

Reinforced financial foundation

At the end of 2014, Oerlikon recorded a strong balance sheet of CHF 4966 million compared to CHF 4094 million in 2013, and had CHF 2188 million of equity (attributable to shareholders of the parent), representing an equity ratio of 44 % compared to 51 % a year ago. In June 2014, Oerlikon extended its financial maturity profile. It took advantage of favorable debt market conditions and placed senior unsecured bonds of CHF 300 million due 2019 and CHF 150 million due 2024. The strong demand for the bonds demonstrated the confidence of the financial markets in the potential of the Group's long-term underlying performance.

Expanded into adjacent markets

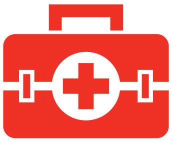
Oerlikon continuously expands into adjacent markets by leveraging its core competencies, technologies and strong customer relationships. In 2014, the Surface Solutions Segment introduced its PPD™ technology in China and Japan; the Manmade Fibers Segment continued to extend its technological process expertise into the PET bottling market; the Drive Systems Segment introduced its latest technologies for hybrid and electric systems in the vehicles markets; while the Vacuum Segment gained access to the Asian OLED market.

Increased service revenues

Oerlikon continued to expand its service business in 2014 through its own sales and service centers as well as setting up service facilities at customers' site. The service expansion improved proximity to key customers, customer interaction, engagement and support, while also shortening response times. In 2014, Oerlikon grew its service business to CHF 917 million, corresponding to an increase of 34.3 % compared to 2013.

Strengthened leadership and employee skills

In 2014, the Executive Committee was extended to enhance the alignment of the Group's strategy. Oerlikon also runs various academies and programs on an ongoing basis, such as the Leadership Academy, the Finance Academy, the Operational Excellence Academy, the Supply Chain Academy and HR programs. A three-year Leadership Academy plan was developed in 2013 and launched in 2014, aimed at developing leaders at all levels. The Finance Academy reinforces the competencies of finance professionals and facilitates the understanding of key financial metrics for non-finance professionals. The Supply Chain Academy trains procurement specialists on how to achieve world-class procurement standards, while the Operational Excellence Academy provides training on how to make operational processes more effective, and therefore more efficient in order to achieve cross-functional excellence. HR programs are for Segment HR specialists to receive annual training in talent certification and talent acquisition.



Significantly improved employee health and safety

Oerlikon is committed as an employer to ensuring the health and safety of its employees and the sustainability of the business. The Group strives to achieve zero accidents in all its offices, plants and facilities, through establishing Group-wide standards and running safety awareness programs and initiatives. In 2014, the Company improved its health and safety record by reducing the average value of lost time accidents within the Group from 1.28 to 0.75, representing an improvement of 41 %. Health and safety remains a priority for the Group and is an ongoing process.

Fortified long-term customer relationships

Being a trusted and reliable business partner is essential to growing the business, particularly in emerging markets where a profound understanding of local requirements, business practices and do's and don'ts is a competitive advantage. Oerlikon has established legacy operations in key and emerging markets. In several markets, the Company has grown and developed the business and market hand in hand with its customers. In 2014, the Manmade Fibers Segment celebrated 50 years of business success in China, while Oerlikon Balzers looked back at 20 years of strong business activity in India.

Continued to foster a culture of technology leadership

Innovation is a key part of the culture and DNA of Oerlikon. In 2014, R&D expenditures increased by 19.8 % to CHF 121 million from CHF 101 million (restated) a year ago. Oerlikon has over 1 300 engineers working on innovations and invests around 4 % of its revenues annually in developing new technologies. In line with its R&D investments, the Group filed 108 patents in 2014, corresponding to a total of 5 921 filings worldwide.

Maintained innovation momentum

Oerlikon sustained its technology leadership and competitive advantage as it introduced further unique and market-leading technologies in 2014. Key products included eco-friendly ePD™ breakthrough coating technologies for chrome-finished items; customizable BALIQ™ coatings based on S3p® technology for tools; the first MetcoClad™ Laser Cladding System for corrosion-resistant coatings used in the oil and gas industry; WINGS POY 1800 in Asia and WINGS PA HOY that increases yarn winder productivity by 20 %; a new staple fiber system solution with a flexible and compact construction; a new 4SED transmission system for electric and hybrid vehicles; and the new generation of TURBOVAC i/iX pumps for analytics, R&D and the process industry, offering up to 60 % higher pump performance than comparable products.

Deepened academic and research partnerships

Oerlikon actively seeks partnerships and collaborations with leading academic and research institutes and associations. The dialogue with innovative and best-practice experts provides Oerlikon with valuable input to drive the development of cutting-edge, market-leading and environmentally friendly technologies. In 2014, Oerlikon partnered with various European and international institutions such as Empa, Fraunhofer Institutes, RWTH Aachen University, Surrey University in the UK, the University of Modena in Italy, Donghua University in Shanghai, China, Texas University and the Ohio State University GearLab in the USA and contributed to industry think tanks including the Commonwealth Center for Advanced Manufacturing and the American Gear Manufacturers Association in the USA.

Expanded global footprint and entered new markets

In 2014, Oerlikon grew its global presence, adding more than 50 sites to offer customers the best possible access to Oerlikon’s technologies and services. The Surface Solutions Segment opened a new coating center in Austria, extended several sites to meet the growing demand from the aircraft and automotive industries and rolled out tool grinding services to four additional coating centers globally. The Manmade Fibers Segment commissioned a logistics center in Remscheid, Germany, and began with the construction of a new technology center in Chemnitz, Germany, and started to set up new service stations in Baroda, India. The Drive Systems Segment constructed a third plant in India, while the Vacuum Segment inaugurated a logistics center in Cologne, Germany, and expanded product lines in China.

Improved operational excellence

Group-wide cost-efficiency initiatives and programs were continued in 2014. Through centrally coordinated procurement initiatives and implementation, the Group managed to achieve considerable double-digit CHF million savings in 2014. All Segments also pursued multiple initiatives to improve their operational effectiveness. For instance, the Manmade Fibers Segment upgraded its assembly lines in Remscheid, Germany, based on lean manufacturing principles, increasing productivity by 15 %, and also optimized shop floor management in Neumünster, Germany, resulting in a 30 % improvement in assembly lead times. The Drive Systems Segment improved their production reject rate and is expanding its production in India with a third plant. The Vacuum Segment realigned its global sales organization and moved parts of its production lines from France to China – increasing proximity to customers and efficiency.

2014 in figures

Oerlikon reported positive operational performance in 2014. Subsequent to effects from the acquisition and divestment, EBITDA was at CHF 525 million, while EBIT reached CHF 360 million, corresponding to strong margins of 16.3 % and 11.2 % respectively. For the fourth consecutive year, the Group achieved an EBITDA margin exceeding 15 % and a double-digit EBIT margin, even after absorbing the one-time integration and acquisition accounting effects from the Metco transaction. Sales reached CHF 3.2 billion, an increase of 16.1 % compared to restated 2013, while order intake grew year-on-year by 9.0 % to CHF 3.0 billion.

Through the disciplined use of cash, Oerlikon's operating cash flow before changes in net current assets in 2014 stood at CHF 427 million and the equity ratio at 44 %. The result from continuing operations amounted to CHF 247 million, and net income of the Group was at CHF 202 million (2013: CHF 201 million), primarily impacted by the divestment of the Advanced Technologies Segment. Earnings per share is at CHF 0.59, compared to CHF 0.60 a year ago. As the Group continues to record strong financial performance, the Board of Directors has, in this context, proposed an increase in dividend payout of CHF 0.30 per share.

Key figures of the Oerlikon Group

in CHF million	**January 1 to December 31, 2014**	January 1 to December 31, 2013
Order intake[1]	3 028	2 779
Order backlog[1]	715	800
Sales[1]	**3 215**	**2 770**
EBITDA[1]	525	483
– as % of sales	16.3 %	17.4 %
EBIT[1]	360	359
– as % of sales	11.2 %	13.0 %
Result from continuing operations[1]	247	253
Result from discontinued operations, net of income taxes[1, 3]	–45	–52
Net income	**202**	**201**
– as % of equity attributable to shareholders of the parent	9 %	10 %
Cash flow from operating activities[4]	256	367
Capital expenditure for property, plant and equipment and intangible assets[1]	166	177
Total assets	4 966	4 094
Equity attributable to shareholders of the parent	2 188	2 072
– as % of total assets	44 %	51 %
Net cash[2, 5]	114	981
Net operating assets[2, 6]	2 685	1 586
Number of employees[1]	15 656	12 660
Personnel expense[1]	909	737
Research and development expenditure[1, 7]	121	101

[1] 2014 continuing operations, 2013 restated.
[2] 2014 continuing operations, 2013 as reported.
[3] Includes reclassification of translation differences amounting to CHF 0 million (previous year: CHF –114 million).
[4] Cash flow from operating activities before changes in net current assets amounts to CHF 427 million (previous year: CHF 435 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 expense recognized as intangible assets in the amount of CHF 14 million (previous year, restated: CHF 13 million).

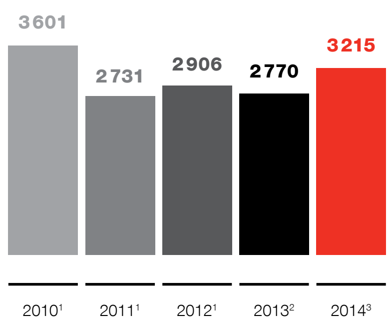
Key share-related figures[1]

in CHF		**January 1 to December 31, 2014**	January 1 to December 31, 2013
Share price	Year high	15.65	13.70
	Year low	10.60	9.91
	Year-end	12.50	13.35
Shares outstanding at year-end		339 758 576	334 633 258
Market capitalization at year-end in CHF million		4 247	4 467
EBIT per share[2]		1.07	1.09
Earnings per share		**0.59**	**0.60**
Cash flow from operating activities per share		0.76	1.11
Equity per share[3]		6.50	6.27
Dividend per share		**0.30[4]**	**0.27[5]**

[1] Average number of shares with voting and dividend rights (undiluted).
[2] 2014 continuing operations, 2013 restated.
[3] Attributable to shareholders of the parent.
[4] Dividend proposal for 2014, to be paid in 2015.
[5] For financial year 2013, paid in 2014.

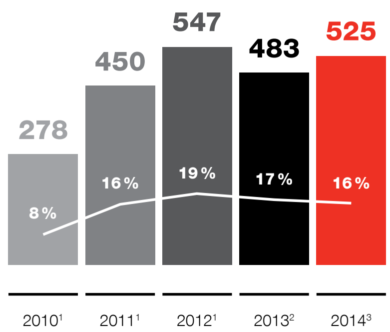
Oerlikon share performance in 2014
While the stock indices continued to climb reaching new record highs in 2014, industries such as the capital goods sector were facing a rather challenging period. The Swiss Market Index (SMI) climbed 9.5 % while the majority of Swiss industrial companies reported a declining share price in 2014.

Oerlikon shares recorded a strong performance in the past three years and continued its rally in the first quarter of 2014. In the second quarter of 2014, the share price eased, in line with its peers, and stabilized at lower levels during the rest of the year. Among other things, the execution of warrants from the financial restructuring in 2010 and the generally uncertain market environment drove the share price in the second half of the year. Share value decreased by 6.4 % and closed out 2014 at CHF 12.50 (2013: CHF 13.35).



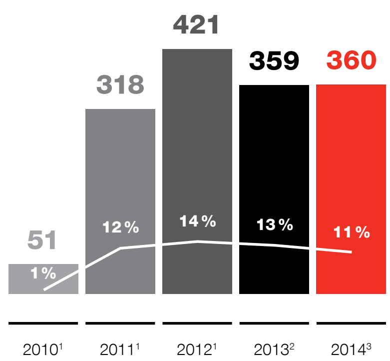
Sales
in CHF million

[1] Reported.
[2] Restated.
[3] Continuing operations.



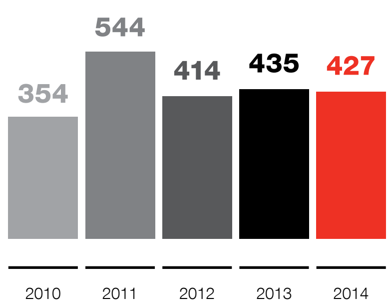
EBITDA and EBITDA margin
in CHF million

— margin
[1] Reported.
[2] Restated.
[3] Continuing operations.



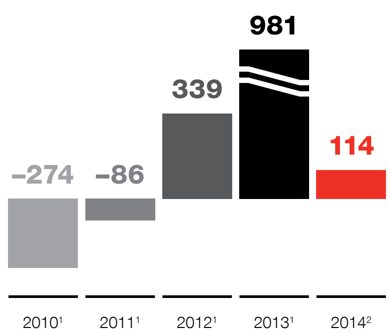
EBIT and EBIT margin
in CHF million

— margin
[1] Reported.
[2] Restated.
[3] Continuing operations.



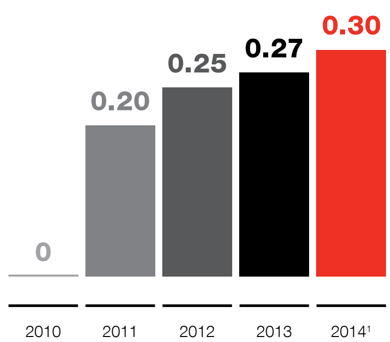
Operating cash flow[1]
in CHF million

[1] Before changes in net current assets.



Net debt / liquidity
in CHF million

[1] Reported.
[2] Continuing operations.



Dividend per share
in CHF

[1] Proposed.

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Business report

Letter from the Chairman

Dear Shareholders

There is no doubt that 2014 has been a challenging year for European industrial companies, with stock prices under pressure, often not linked to operating or strategic performance. Considering the issues that the global economy and our markets have been facing over the past year, we have performed well. We continued to systematically shape and develop the Group's portfolio, while sustaining solid double-digit profitability for the fourth year in a row.

The major strategic milestone in 2014 was the acquisition of Metco from Sulzer AG – this is the Group's tenth strategic portfolio-shaping transaction since 2010. Acquiring Metco was an important step for Oerlikon, creating a global technology leader for surface solutions. The new Surface Solutions Segment, consisting of Oerlikon Balzers and Oerlikon Metco, significantly strengthens and broadens the Group's technological capability and creates our largest Segment. The Management team is currently integrating this business and extracting synergy potential.

We also announced the strategic divestment of our Advanced Technologies Segment to Evatec AG in December, further focusing the Group's structure and business.

Operating performance of the Group was solid and competitive, and the guidance given to the financial markets at the start of the year was met and, indeed, exceeded in the case of profitability. Operating efficiency and benchmarking continue to be core parts of the Group's agenda.

In 2014, we placed two corporate bonds totaling CHF 450 million, reinforcing the Group's strong financial foundations, and increasing the maturity profile of the balance sheet. The solid demand for the bonds reflected the financial market's confidence in the Group's long-term underlying performance.

Based on the operational performance and financial position of the Group, the Board of Directors will recommend a dividend in respect of 2014 earnings of CHF 0.30 per share at the 2015 Annual General Meeting of Shareholders (AGM), an increase of 11 % over the prior year. This is the fourth consecutive dividend payment and the third increase in a row. In addition, based on prior track record, the Board of Directors has approved a change in the Group's dividend policy, which now states that a dividend of up to 50 % of underlying net income can be paid, subject to available funds.

Complying with the developments in Swiss corporate governance standards, at the 2014 AGM, we held binding votes for the maximum total compensation of the Board of Directors, as well as the maximum fixed compensation of the Executive Committee. At the upcoming 2015 AGM, shareholders will in addition be offered a binding vote on the aggregate variable compensation of the Executive Committee for 2014. The implementation of these changes gives shareholders a direct involvement and decision in the remuneration of the Board and Executive Committee.

Looking outwards, the world economy is still showing many signs of uncertainties and a very mixed economic picture. In Europe, countries are trying to regain their economic foothold; there are concerns about deflation, and political tensions remain high in Eastern Europe. Asian growth rates are being closely watched, in particular the developments following the recent elections in India. In the USA, growth continues, although some key sectors such as agriculture and energy are under pressure. The recent fall in oil prices will no doubt create both winners and losers in the global economy. And exchange rates are likely to remain volatile. Oerlikon will encounter currency translation effects in 2015, as we report in Swiss francs. However, our global footprint and business give us a natural hedge and allow us to maintain our competitive position.

2014 was the first year for the Group under the leadership of Dr. Brice Koch as the new CEO of Oerlikon, and the Group has made important progress. The Executive Committee has been extended with the inclusion of the Segment CEOs. The business portfolio has been strengthened, enabling the Company to focus on its core growth businesses, and the operational businesses have been made more efficient and competitive.

Going forward, we remain strategically focused, underpinned by competitive operating performance. Our priority is to achieve sustainable, profitable growth over the long term.

On behalf of the Board of Directors, I extend my thanks to all our Shareholders for your continued support.

February 24, 2015

Sincerely

Tim Summers
Chairman of the Board of Directors

Letter from the CEO

Dear Shareholders

2014 has been an eventful year for Oerlikon in which we continued to sustain our strong profitability, improved the Group's competitiveness in a challenging market environment and took further major steps in the strategic transformation of the Group's business portfolio with the acquisition of Metco and the announced divestment of the Advanced Technologies Segment.

Group order intake increased by 9.0 % to CHF 3028 million compared to CHF 2779 million in 2013[1], while Group sales amounted to CHF 3215 million, an increase of 16.1 % compared to the CHF 2770 million in the previous year. Excluding currency impacts, sales grew by 18.1 % to CHF 3272 million and order intake increased by 10.9 % to CHF 3081 million. With EBITDA of CHF 525 million and EBIT of CHF 360 million, corresponding to margins of 16.3 % and 11.2 % respectively, we recorded an EBITDA margin exceeding 15 % and a double-digit EBIT margin for the fourth consecutive year, even after absorbing the one-time integration and acquisition accounting effects from the Metco transaction. The Group's result from continuing operations amounted to CHF 247 million. Net income of the Oerlikon Group was CHF 202 million (2013: CHF 201 million), impacted primarily by the divestment of the Advanced Technologies Segment, and represents earnings per share of CHF 0.59 compared to CHF 0.60 a year ago.

The Group maintained a strong financial position with an equity ratio of 44 %. Even after the acquisition of Metco, the net liquidity position at the end of 2014 amounted to CHF 114 million. Cash flow from operating activities before changes in net current assets was strong at CHF 427 million, and the Group's return on capital employed (ROCE) stood at 10.4 % as a result of an increased asset base due to the acquisition of Metco, with seven months of Metco profitability being recognized in Net Operating Profit After Tax.

Operationally, we have met our own targets and also delivered on the expectations of the capital markets. As we continue to record profitable growth, we have reinforced our position and competitive standing among industry peers.

In 2014, we took advantage of the favorable debt market conditions and placed senior unsecured bonds of CHF 300 million due 2019 and of CHF 150 million due 2024. In addition, we prolonged our syndicated credit facility until 2016. With these measures, we extended our financing maturity profile and reinforced the foundation for further development of our portfolio along our strategic agenda. The successful financing also confirmed the access and attractiveness of Oerlikon to the capital markets, and underscores the capital markets' confidence in the sustainability of the Group's underlying performance.

In the year under review, the Segments' business made further progress. In focus was the newly formed Surface Solutions Segment, formerly known as the Coating Segment, which delivered a strong top line performance of CHF 973 million as a result of the positive impact from the Metco acquisition as well as its sound underlying organic growth. The Manmade Fibers Segment's sales declined by 5.0 % year-on-year to CHF 1073 million, mainly attributable to the anticipated market normalization, but managed to strengthen its Best-in-Class position. The Drive Systems Segment slightly improved its business performance and competitiveness, resulting in sales growing by 6.1 % to CHF 779 million compared to 2013. The Vacuum Segment delivered orders (CHF 381 million) and sales (CHF 390 million) around prior-year level due primarily to order delays. The Segments have identified strategic and operative measures that are being implemented to strengthen their competitive position and poise them for long-term growth within their respective areas.

As we continue to systematically execute portfolio optimization measures to focus on core growth areas, we acquired Metco and announced the divestment of the Advanced Technologies Segment in 2014. These moves marked the tenth and eleventh strategic transactions respectively to shape Oerlikon's portfolio since 2010. The sale of the Advanced Technologies Segment allows us to concentrate our efforts and investments on our larger, core growth businesses of critical size. With Metco, we further strengthened the competitiveness of our surface solutions business as we gained complementary technologies and created new business opportunities for our existing and potential customers. The newly formed Segment has the expanded expertise of more than 6000 employees in 35 countries at over 145 sites, of which over 140 are service and production centers, and is the largest Segment of the Group based on pro forma annual Group sales. Combining the strengths of both brands, Balzers and Metco, the Segment has an addressable market of some CHF 9 billion and an attractive platform to grow and outperform both the individual markets in which it operates (CAGR 4–6 %) as well as global GDP growth forecasts (~3 %). The integration process is progressing well on all fronts, and the results are further confirming the rationale of the deal.

Also key to our performance is our ability to provide innovative technologies and services that add clear value for our customers. We continued to consistently implement strategic and

[1] Relevant 2013 financial figures are restated for comparison following the divestment of the Advanced Technologies Segment

operational measures in our innovation, markets and customer services. In R&D, we increased our investments in 2014 by 19.8 % to CHF 121 million, and continued to bring new and cutting-edge technologies to the market. For example, in 2014, from the Surface Solutions Segment: three new coating layers from the BALIQ™ family that serve to protect against wear and the proprietary eco-friendly ePD™ process for metallization of plastic parts. From the Manmade Fibers Segment: next generation yarn production equipment – WINGS POY 1800 and WINGS PA HOY – that increases productivity and is more resource and energy efficient. From the Drive Systems Segment: the 4SED transmission system for electric and hybrid cars – a compact and lightweight gearbox innovation that allows seamless, smooth shifting and over 90 % powertrain efficiency. And from the Vacuum Segment: the new generation of TURBOVAC i/iX pumps for the analytics, R&D and the process industry, which is Best-in-Class, performing 60 % above comparable products.

In 2014, we also continued to extend our global presence with additional facilities and service networks – in Asia, focusing on the growth markets of China and India, and investing in Europe to improve operations. Among other things, we rolled out regrinding services in four additional coating centers in China, South Korea, Romania and Canada, and opened a new coating center in Austria for the Surface Solutions Segment. The Manmade Fibers Segment ramped up a plant in China and laid the foundation stone for a new technology center in Chemnitz, Germany, while the Drive Systems Segment constructed its third plant in India. The Vacuum Segment expanded production capacity in Tianjin, China, and inaugurated a new logistics center in Cologne, Germany. As we extend our network to be in closer proximity to our customers, we grew our service business to CHF 917 million, corresponding to an increase of 34.3 % compared to 2013.

Under Oerlikon's Group-wide operational excellence program, we further improved our process efficiency, Health, Safety and Environment (HSE), as well as our cost management, covering areas such as procurement, R&D, IT and real estate. For HSE, we exceeded our target by recording a 41 % reduction in lost time accidents in 2014, which is an important achievement. This is an ongoing process that affirms our commitment to providing a safe and secure workplace for our employees. We managed to record double-digit CHF million savings through our coordinated procurement initiatives and implementation. At our facilities, increasing automation of processes, upgrading assembly lines based on lean manufacturing principles and optimizing shop floors are some of the operational effectiveness efforts, that have resulted in improved productivity and production cost savings.

All in all, Oerlikon has emerged stronger from the year under review, and we are ready to introduce further steps for medium- to long-term growth. In 2015, we expect the overall global economic climate and some key end markets to remain challenging, requiring discipline from Oerlikon in executing strategic decisions to sustain our performance. The priority in 2015 is to build on our solid foundation; specifically, to strengthen our portfolio further and make it even more resilient, to continue developing innovative technologies and services for our customers, and to improve our operational excellence. We will continue to execute our growth strategy and deploy our financial resources with the utmost discipline. I am confident that we have the expertise and technologies to successfully serve our customers, providing them with solutions that benefit them by improving their product performance, productivity and efficiency in energy usage, while contributing to a more sustainable environment. This will lead us to achieving our objective of sustaining profitable growth in 2015 and in the coming years.

To provide guidance, we will be shifting our focus to our EBITDA results from 2015 onwards. This will give a better indication of our underlying operational business activities and neutralizing noncash accounting entries, primarily related to the amortization of the acquired intangible assets. For the 2015 fiscal year, we expect to deliver the following key financial metrics at constant exchange rates as compared to 2014:

- Order intake to increase by around 10 %
- Sales to increase by around 5 %
- EBITDA margin to be sustained at prior-year level

We also expect for 2015 a translation effect of around 11–12 % on reported figures for order intake and sales, while maintaining the margin profile and, more importantly, Oerlikon's competitive position in its key markets.

Personally, this has been an exciting first year as CEO of the Oerlikon Group. With the newly extended Executive Committee (EC), we were also able to further improve the alignment of the Group. I am convinced that with our market-leading technologies, competitive competencies, innovative culture, as well as the strong expertise and motivation of our employees, we will enable the Group to further consolidate its technology leadership and sustain profitable growth. On this note, I would like to thank our customers for their support, my EC colleagues and our employees for their dedication and efforts, and you, our shareholders, for the trust and confidence you have placed in our company.

February 24, 2015

Best regards

Dr. Brice Koch
Chief Executive Officer

Oerlikon Group

Oerlikon is a leading technology group. The Group's core business is to deliver innovative production systems, components, support and services for applications in the mobility, energy, food, infrastructure, functional wear and electronics markets.

Strategically transforming the Group portfolio
In 2014, the Group continued its strategic agenda and executed its tenth and eleventh portfolio transformation steps. With clear objectives to generate higher and more stable earnings, cash flow and added value, Oerlikon has been shaping its portfolio since 2010 through organic growth, acquisitions and divestments.

The Group has been evaluating existing business areas systematically, identifying new business fields and taking advantage of the opportunities presented by global megatrends and growth markets. A key driver is to maintain its Best-in-Class position in markets where it already is a leader and capture the No. 1 or No. 2 position in the other markets.

The eleven moves included smaller divestments of nonoperating assets and minority participation, and also larger transactions such as the sale of the solar business and the exit from the natural fiber activities. The most recent transaction was the announced divestment of the Advanced Technologies Segment in December 2014.

The strategic transformation also incorporated Oerlikon's investment in growth businesses to strengthen its technological and market position, within and along its value chain. Acquiring Hartec extended the Surface Solutions Segment's technology offering into environmentally friendly, decorative and functional coatings for plastics, which has been successfully launched under the name ePD™ (embedded PVD for Design). With the acquisition of the "rox" tool regrinding service business, the Surface Solutions Segment expanded its service offering for the tooling market and has swiftly rolled out these services to meet increasing demand from the automotive and tooling industry. At the end of 2014, these services are being offered at a total of 15 coating centers in ten countries.

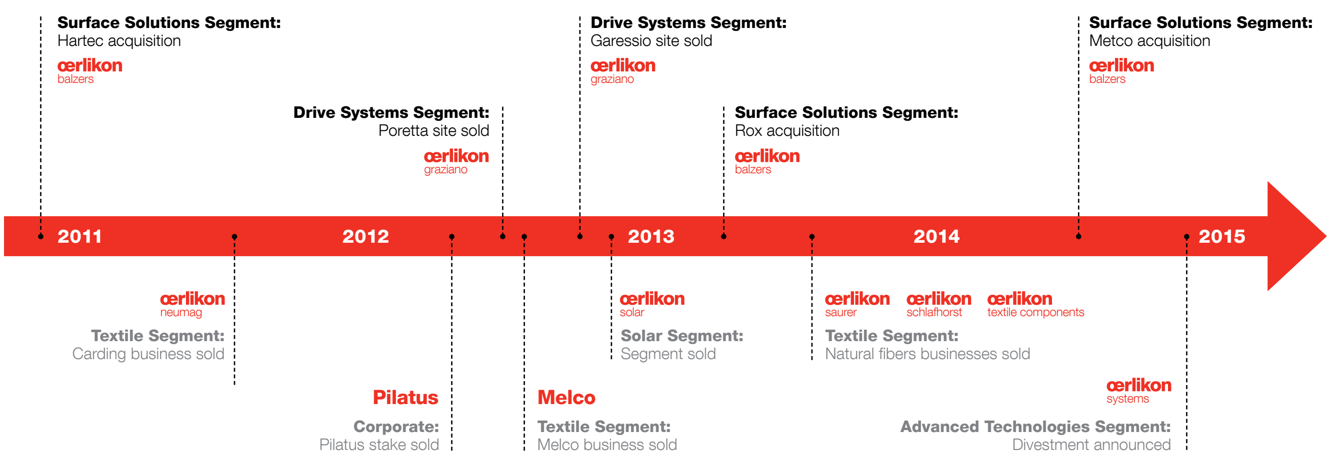
The purchase of Metco in 2014 reinforced the Surface Solutions Segment's global technology leadership notably. The Segment gained complementary adjacent deposition technologies and access to additional attractive addressable growth markets going forward.

Changes to the portfolio over the past five years have steadily reinforced Oerlikon's leading market positions and its underlying performance. EBITDA margin improved from 8 % in 2010 to 16.3 % in 2014, while the proportion of revenues related to service and spare parts significantly improved from 21.8 % in 2010 to 28.5 % in 2014.

Oerlikon will continue to create a more balanced and resilient portfolio to enhance value for its customers and shareholders. It will pursue this by following these principles:

- Strategically balancing out the portfolio further with regard to end markets and regions
- Strengthening the resilience of the business
- Continuing to reinforce its Best-in-Class Segments
- Achieving a Best-in-Class position in its other Segments
- Penetrating related markets and technologies
- Continuing to expand and strengthen core competencies
- Making disciplined use of financial resources

Eleven successful strategic portfolio transactions since 2010



Group structure
The Group's business is structured in four Segments: Surface Solutions, Manmade Fibers, Drive Systems and Vacuum. Each Segment is a technology leader in its respective market. The Segments operate under their own well-established brand names and have their own market-specific strategies.

Oerlikon operates globally in all regions with a well-established foothold in growth markets. With more than 200 sites spread across 36 countries, Oerlikon has a long-standing presence in Asia, particularly in the emerging markets of China and India, a strong foundation in Europe and serves the most important growth markets in the Americas.

Sustainability and key Group developments
For Oerlikon, sustainability means strengthening the Group's ability to seize business opportunities, manage future challenges as well as secure the long-term viability and profitability of the Group.

Oerlikon's key objective is to sustain profitable growth and create further value for all stakeholders. Sustainability is implemented in the areas of customer service, HR policy, health and safety, R&D and innovation, operational excellence, supply chain management, environmental protection, risk management and compliance with legal, regulatory, ethical and internal requirements.

The Group's Code of Conduct defines the ethical and legal framework for business activities and forms the basis of the sustainable orientation of the Group.

Customer service
One of Oerlikon's core competencies is its in-depth understanding of its customers' production processes and systems, and its ability to anticipate customers' needs.

The production environments of many of Oerlikon's customers involve complex systems of machinery, which need to work seamlessly. Such systems involve high capital investments. Often, Oerlikon is brought in by the customer at the conceptual stage to ensure that processes and components are aligned closely with the customer's requirements, and that Oerlikon's technologies can be easily integrated into customers' manufacturing processes.

Many of Oerlikon's technological solutions were also developed in close partnership with research institutions. A key and increasingly important part of Oerlikon's business is providing customized solutions including joint research projects, comprehensive service and support, warranty or first-hand access to ongoing development and new product generations.

To strengthen customer relationships and offer world-class services in close proximity to customers, Oerlikon continuously expands its global presence and customer service network. In 2014, the Group added over 50 sites to its dense network. Oerlikon is represented by its own companies in almost all of the major markets of the world and operates in line with the principle of "In the market for the market". In 2014, Oerlikon grew its service business to CHF 917 million, corresponding to an increase of 34.3 % compared to 2013.

Group structure

oerlikon

Surface Solutions Segment	Manmade Fibers Segment	Drive Systems Segment	Vacuum Segment
oerlikon balzers	oerlikon barmag	oerlikon graziano	oerlikon leybold vacuum
oerlikon metco	oerlikon neumag	oerlikon fairfield	

Employees

Oerlikon fosters a corporate culture that strengthens its employees' sense of responsibility and encourages their growth and development, built on the Group's core values of Integrity, Team Spirit, Excellence and Innovation. Oerlikon aims to be a preferred employer for its employees. Apart from competitive pay and a modern HR policy, Oerlikon has various HR programs:

- Management development: Oerlikon has an internal management academy with a comprehensive training program for various management levels and functions.
- Talent management: Group-wide talent management defines the appropriate measures and instruments for the professional and personal development of employees. To recruit new talent, the Group offers specific programs for graduates from universities and institutes of technology.
- Apprenticeship: Over 700 young people are currently completing their apprenticeship at Oerlikon and the majority of them are expected to remain with the company.
- Diversity: In markets such as China and India, Oerlikon primarily employs local managers. The composition of senior management, known as the "Global Leaders", represents Oerlikon's diverse culture, with over 90 members from 13 countries.

Health and safety

Occupational health and safety are important elements of Oerlikon's sustainability strategy and form an integral part of the Group's business processes. HSE (Health, Safety and Environment) guidelines and monitoring are centrally coordinated, but the programs and processes are decentralized and implemented by the Segments and sites locally.

The Visual Safety Leadership initiative plays a key role in this context, with a series of concrete measures aimed at cutting accident figures further and protecting the health of employees. The objective is the vision of "Zero harm to people". The key performance indicator for measuring progress is the lost time accidents (LTAs) figure. Based on the initial year of 2012, in which the average value within the Group was still at 1.76, a 27 % reduction to 1.28 was achieved in 2013. For 2014, a further decline of 30 % was set as the target value and this objective was significantly exceeded with an LTA value of 0.75 at the end of 2014. This is a considerable achievement but it started from a low base and is an ongoing process.

This improvement was achieved through a series of measures. In 2014:

- Around 2 000 managers took part in one- to two-day health and safety training workshops.
- A Health and Safety Handbook was created to promote safe and systematic working, alongside consistent communication of the occupational health and safety guidelines.
- A Group-wide electronic "learn & share" platform was created to enhance employees' HSE knowledge and facilitate sharing of best practices.
- HSE days were organized by the Surface Solutions Segment, the Manmade Fibers Segment and the Drive Systems Segment for employees and their families.
- Periodic safety inspections were carried out at various Oerlikon sites.

R&D and Innovation

R&D and innovation is the foundation upon which Oerlikon is built, and a key strength of the Group. The Company and Segments maintain their competitive advantage and leadership position through continually developing cutting-edge and market-leading technologies.

Today, Oerlikon has value-enhancing proprietary technologies for surface solutions, the manufacturing of manmade fibers and polycondensation systems, drives and shifting solutions for vehicles and machinery, and vacuum pumps and components.

Many of the challenges of key megatrends can be solved through engineering innovations. Increasing the efficiency of mobility, improving the performance and functionality of goods and systems, efficient use of energy, and contributing to environmental sustainability will continue to feature in the innovative technologies of Oerlikon. Beyond technology innovation, Oerlikon also looks into innovation of processes and services to create further value for its customers. Essentially, Oerlikon's high-performance products, engineering expertise and quality services serve to enable cost savings and efficiency gains for customers, supporting them in their business success.

In 2014, Oerlikon continued to invest around 4 % of Group sales in R&D, corresponding to CHF 121 million, an increase of 19.8 % as compared to 2013. Over 1 300 engineers and scientists work for the Group worldwide. In line with R&D activities, Oerlikon files for patents and registers its proprietary brands regularly to protect its intellectual property. In 2014, 108 patents were registered for new inventions, corresponding to a total of 5 921 filings worldwide.

Environment

In addition to the environmentally friendly technologies that it offers its customers, Oerlikon also promotes sustainable thinking and the introduction of resource-saving processes within the Group. In 2014:

- The Surface Solutions Segment switched to an environmentally friendly cleaning procedure in electrochemical drilling processes. The new procedure resulted in reducing the volume of contaminated water by 75 % and total water consumption by around 1 000 m^3 per year.
- The Manmade Fibers Segment obtained ISO 50001 certification for energy management for its production sites at Remscheid and Neumünster in Germany.
- The new Drive Systems Segment production site in India was designed and constructed as an energy-efficient and environmentally sustainable site. The building is expected to use 30 % less energy compared to other production sites of the same size in India and has a closed water circuit where rainwater is collected and wastewater is recycled.

Operational excellence

The Oerlikon operational excellence (OOE) program is a Group-wide program designed to optimize operational effectiveness by harmonizing Group-wide methods and processes and achieve Best-in-Class in all businesses and functions. A further important aspect of OOE is the successful integration of acquired businesses.

Under OOE, operational effectiveness and corporate performance are measured by means of various key performance indicators (KPIs) and benchmarked against other leading companies based on top line and profitability performance. Oerlikon has defined peer groups at both Group and Segment level for this purpose (see table). This process supports the operational management of the Group, and is also part of managers' performance incentives. Alongside the operating business, the OOE program also focuses on other areas, such as occupational health and safety, procurement, R&D, IT and real estate.

In 2014, the OOE program was implemented in three Segments, at ten Group locations in four different countries, with specific KPIs for measuring progress. The program is further supported by the internal OOE Academy, which provides training in the methodology and KPIs of operational excellence.

Supply chain management

Optimizing the supply chain enables Oerlikon to benefit from higher operating efficiency, better use of resources and cost savings. Establishing close partnerships with strategically selected suppliers, pooling purchasing, creating knowledge networks, utilizing advanced procurement tools and streamlining processes are all part of Oerlikon's procurement harmonization program. It is centrally coordinated and implemented throughout the Group, across businesses, functions and regions, with clear strategic and financial objectives. Oerlikon also attaches importance to ensure that its suppliers meet high quality and sustainability standards. In 2014:

- The global category management team was reorganized to make it more efficient, with each category manager responsible for a specific category within a Segment and across Segments, improving procurement coordination and processes for efficiency gains.
- Around 150 buyers from all Segments and regions were trained as part of the Supply Chain Academy program.
- Standardized processes and systems were defined and introduced, such as the STEP Project Management Tool for the implementation and reporting of costs.

Risk management

Oerlikon takes a comprehensive approach to risk management that identifies, assesses and controls all corporate risks relevant throughout the Group, including market, credit and operational risks. The risk management system is integrated throughout the company from an operational and management perspective. Further information about risk management can be found on pages 58 and 59.

Compliance

The Oerlikon Group ensures that business practices worldwide are in line with the Code of Conduct, internal regulations, as well as legal and regulatory requirements. Compliance is monitored at Group level, setting standards, recommending preventive measures and providing information, training and consultation. As a company listed on the SIX Swiss Exchange, Oerlikon complies with the legal and regulatory requirements specified by SIX and the Swiss government. Further details about compliance can be found on page 59.

Peer groups for benchmarking

Group (Swiss peers)	Group (International peers)	Surface Solutions Segment	Manmade Fibers Segment[1]	Drive Systems Segment	Vacuum Segment
ABB	GEA	Bodycote	Andritz	American Axle	Atlas Copco
Georg Fischer	General Electric	Kennametal	Dürr	Bharat Gears	Gorman Rupp[2]
Sulzer	Siemens	Praxair	Heidelberger Druckmaschinen	BorgWarner	Inficon
	Sumitomo	Sandvik		Brembo	Ingersoll Rand
	ThyssenKrupp		Schweiter Technologies	Carraro	Pfeiffer Vacuum
				Dana	

[1] Redefined after sale of natural fibers businesses. Replaced natural fibers companies (Jingwei, Lakshmi and Rieter Textile) with companies from the mechanical engineering sector (Andritz, Dürr and Heidelberger Druckmaschinen).
[2] Gorman Rupp replaced Gardner Denver after its delisting.

Major markets by regions

Asia

Oerlikon has been active for many decades and is well positioned in the growth markets of Asia, with the region contributing 39.4 % of Group sales in 2014. The Group has the competencies and experience to satisfy the exacting needs of Asian customers and to meet the demands of the growing Asian population and emerging middle class. Thanks to its strong presence and long-standing relationships with Asian customers, Oerlikon understands the cultural characteristics and requirements of the local markets. This enables the Group to operate successfully and grow the business sustainably in Asia. Oerlikon operates in eleven countries in the Asia Pacific region, with a stronger focus in China and India.

In 2014, China was responsible for 28.1 % of Oerlikon Group sales. Over 1 800 employees are employed locally at 27 sites. This strong position is mainly attributable to Oerlikon's consistent focus on anticipating and satisfying Chinese customers' specific requirements, and to trusted relationships built over the years. In 2014, the Manmade Fibers Segment celebrated its 50th year of business success in China. The Vacuum Segment has been operating in the country since 1985. The Surface Solutions Segment opened its first coating center in 2004, and to date already has a network of 15 centers distributed all over the country. The country chief representative team in Beijing and Shanghai, together with the shared service center in Suzhou, has been playing a key role in Oerlikon's expansion in China. At the Oerlikon Suzhou Industrial Park, support is provided to all Segments in central services such as IT, finance, HR, administration and staff development. The country chief representative team offers regional business support to all Segments in China to accelerate their business growth. China takes a "One joint Oerlikon in China" approach, focusing on an "In China for China" business model to drive long-term profitable growth.

In India, Oerlikon is represented at 18 sites with around 2 600 employees and achieved 3.0 % of Group sales in 2014. The subcontinent is forecasted to grow about six times faster than OECD countries. The activities of Oerlikon in India, as in China, are focused mainly on the growing domestic market. The Surface Solutions Segment has been operating in India for 20 years. To date, it has a network of ten service and production centers and is further expanding in step with the growth of the automotive industry. India is also a strategically important market for the Manmade Fibers Segment, which has been in the country since 1984. The Drive Systems Segment has been represented on the subcontinent since 1999 and operates two large production facilities, primarily for drive systems used in agricultural tractors, construction machinery, commercial vehicles and industrial applications. A third plant is under construction and will be fully operational in 2015. Due to the increasing demand for pumps and vacuum solutions, the Vacuum Segment opened a South Asia head office in Bangalore in 2014, as well as sales and service centers in Baroda and Mumbai to tap the opportunities of the local market and support customers more efficiently.

Europe

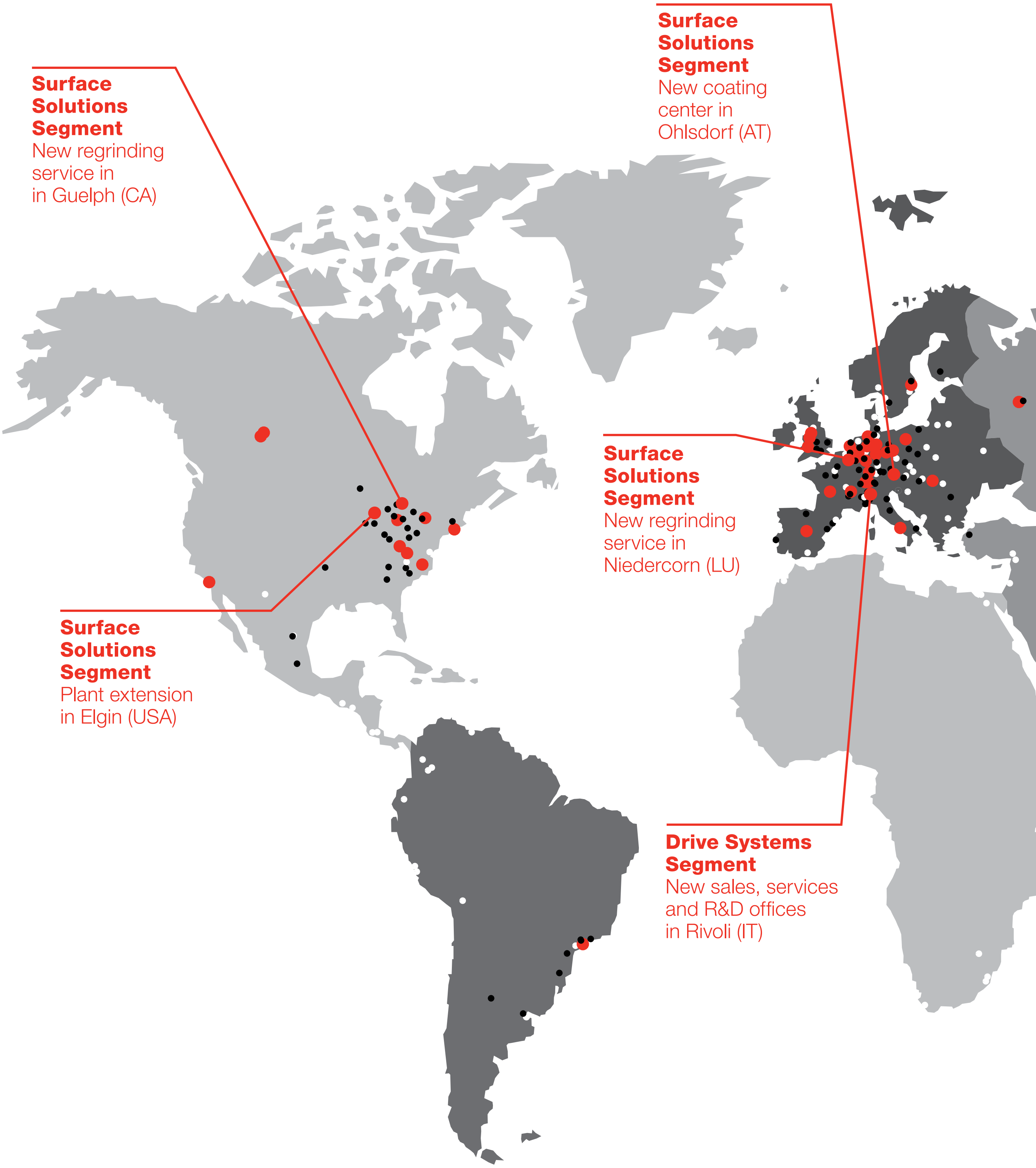
Europe continues to be an important base for Oerlikon's worldwide operations, and the region accounted for 36.1 % of Group sales in 2014. The Group employs more than 8 000 employees at 94 sites, which corresponds to over half of the global workforce. The region continues to host the Group's key research and development centers. For example, one of the world's most advanced manmade fibers technical centers is located at the Segment's headquarters in Remscheid, Germany. Other important innovation sites are at Balzers in Liechtenstein and Wohlen in Switzerland, where market-leading technologies for surface solutions are developed under the Oerlikon Balzers and Oerlikon Metco brands, respectively. At five sites in Italy, the Drive Systems Segment develops and produces its innovative drive solutions for high-performance sports cars, electric and hybrid vehicles, as well as high-precision gear solutions for the major leading manufacturers of agricultural, construction and commercial vehicles. The Vacuum Segment conducts an important part of its R&D activities in Cologne, Germany.

In recent years, Oerlikon has further invested in its European sites so that they remain globally competitive in the long run. Production processes for the Manmade Fibers Segment, the Drive Systems Segment and the Vacuum Segment have been optimized, and offices in Eastern Europe have been established to exploit potential business opportunities.

The Americas

North America accounted for approximately 19.7 % of Group sales in 2014. The Group employs a total of over 2 100 employees at 39 sites in the Americas. The Surface Solutions Segment operates a dense network of 33 service and production centers in North and South America, of which 21 are located in the USA, where the Segment is a major supplier to the US automotive industry, as well as to major customers in the aerospace, energy and food industries. The Manmade Fibers Segment is located in North Carolina as a service provider to the manmade fiber producing industry, in particular to the manufacturers of bulk continuous filaments (BCF). In Indiana, the Drive Systems Segment develops and produces planetary drives and special transmissions for agricultural and construction equipment, as well as custom drives for oil and gas and mining machinery. The Vacuum Segment counts various research institutes in the USA among its customers. In South America, the Group's business is focused primarily in Brazil, the largest and fastest-growing economy, where all four Segments have their own branches.

Our global presence



Oerlikon has a strong global footprint with over 200 sites in 36 countries. Thanks to its global presence, the Segments can provide their respective customers with innovative technologies, products, support and services efficiently and effectively. Oerlikon selectively expands its global presence to targeted locations, bringing its products and services in closer proximity to its customers, so as to improve customer interaction, response times and satisfaction.

73 sites in Asia

44	Surface Solutions Segment
7	Manmade Fibers Segment
6	Drive Systems Segment
16	Vacuum Segment

94 sites in Europe

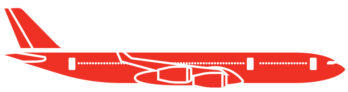
69	Surface Solutions Segment
3	Manmade Fibers Segment
8	Drive Systems Segment
12	Vacuum Segment
2	Corporate

39 sites in the Americas

35	Surface Solutions Segment
1	Manmade Fibers Segment
1	Drive Systems Segment
2	Vacuum Segment

- ● New sites in 2014 (including Metco)
- • Other Oerlikon sites
- ○ Partner representatives

Core markets



Mobility

Population growth and urbanization have resulted in an increased demand for mobility and transportation capacities. Additionally, the rising middle class, particularly in emerging markets such as China and India, is seeking better mobility. Therefore, this market will remain a long-term growth market. The industry is also seeing an increase in the demand for safety, comfort and better information systems, as well as innovative and eco-friendly technologies with more effective fuel consumption and high engine performance. All four of Oerlikon's Segments offer solutions for mobility:

Surface Solutions Segment
- Surface solutions for aircraft components such as turbine blades, tail and landing gear systems.
- Surface solutions for decorative elements, key components and molds for automobiles, such as diesel injection systems.

Manmade Fibers Segment
- Production solutions for technical textiles used in vehicles, such as airbags, seat belts and interior trim.
- Production solutions for technical textiles used in airplanes, such as carpets and upholstery.
- Winders for the carbon fiber production industry.

Drive Systems Segment
- Drive systems for electric and hybrid vehicles.
- Drive systems for high-performance sports cars, city buses, locomotives and airport tugs.

Vacuum Segment
- Vacuum technology for the production of vehicle accessories and batteries.
- Vacuum solutions for the manufacture of microchips, touch screen panels and LEDs for automotive electronics.

Energy

Global demand for energy is growing steadily, driven mostly by urbanization, the industrialization of emerging markets and an increasing population. More efficient uses of energy and alternative sources of energy are becoming focus topics. A key driver for solutions is innovation – developing technologies that optimize energy consumption, improve energy efficiency, or generate new and cleaner sources of energy. Three Oerlikon Segments are active in the energy market:

Surface Solutions Segment
- Surface solutions for turbine blades and other critical components.

Drive Systems Segment
- Gearboxes and drives used in the exploration, extraction and transportation of energy resources.
- Drive solutions for oil and gas platforms and drilling rigs.

Vacuum Segment
- Vacuum systems for producing solar cells, semiconductor chips, batteries and condensers.

Food

Supplying the growing world population with food is a key challenge. According to the United Nations' estimates, the global demand for food will grow disproportionately to the increase in population, and is expected to increase by 70 % by 2050. With the growing middle class, particularly in emerging markets, there is also an increasing demand for higher-quality foods as well as industrially processed food products. All four Segments of Oerlikon are involved at different stages of the value chain in the food market:

Surface Solutions Segment
- Coatings for the packaging industry, such as molds for the production of PET bottles.

Manmade Fibers Segment
- Production technologies for the packaging industry, particularly for liquids.
- Plants for the manufacture of geotextiles and nonwovens used in agriculture.

Drive Systems Segment
- High-precision gears, shifting solutions, planetary drives and transmissions for vehicles and machines used in agriculture such as tractors, combine harvesters and self-propelled sprayers.

Vacuum Segment
- Vacuum systems for the processing and packaging of foods.
- Vacuum systems for the production of PET bottles and coated packaging materials.

Infrastructure

The infrastructure construction and renovation market is growing steadily. This is mainly driven by overall population growth and urbanization, particularly in emerging markets. Three Oerlikon Segments offer solutions in the infrastructure sector with a focus on efficient and energy-saving buildings:

Manmade Fibers Segment
- Production solutions for technical textiles made of high-strength industrial yarns or nonwovens used in roof insulation, geotextiles for stabilizing roads, dams or walls, and fiber-reinforced concrete.
- Solutions for the manufacture of carpets and household textiles.

Drive Systems Segment
- Planetary drives, axles and shifting solutions for construction machinery, such as aerial work platforms, wheel loaders, motor graders, road compaction and paving, material handling and hauling.

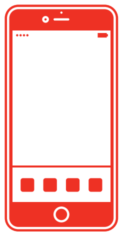
Vacuum Segment
- Vacuum systems for architectural glass coating, climate control and pipeline drying as well as for industrial processes such as steel degassing.
- Vacuum solutions for medical research centers and hospitals.

Functional wear

Currently, about 50 million tons of manmade fibers are produced each year. This amount increases every year by around 5 %. Global population growth and rising prosperity in emerging economies are the main factors responsible for this growth. About 50 % of all manmade fibers produced today are used in the clothing and functional wear markets. They are also increasingly being mixed with natural fibers because they allow fibers and fabrics to be functionalized for activewear garments worn for sports, outdoor or professional activities. Two of Oerlikon's Segments are active in this market:

Manmade Fibers Segment
- Engineering and construction of polycondensation systems for the preparation of the melt, which is part of the raw material for manmade fibers.
- Filament spinning and texturing machines for the production and finishing of artificial textile fibers.
- Machines to produce nonwovens.

Vacuum Segment
- Vacuum Systems for the production of functional membranes for shoes.



Electronics

A rising world population and increasing purchasing power in emerging markets are driving the higher demand for electronic devices, thus stimulating the growth of the semiconductor market. Based on current forecasts, over two billion people will own at least one smartphone by 2015. Similarly, electronic products such as smart TVs or set-top boxes for digital TV are pushing up the demand for chips. Two of Oerlikon's Segments serve customers in the electronics market:

Surface Solutions Segment
- Surface coating of components for mobile phones.

Vacuum Segment
- Vacuum systems for the production of semiconductors for the consumer electronics industry and for producing electronic components used in organic light emitting diodes (OLEDs).
- Vacuum systems for the production of displays for smartphones, tablets and TVs.

Group business review

In 2014, Oerlikon sustained its strong performance in a challenging economic environment globally and in specific markets in which it operates. It also further developed the Group's portfolio with the acquisition of Metco and the announced divestment of the Advanced Technologies Segment. That divestment is reported under "Discontinued Operations" in the 2014 full-year financial statements, and the 2013 accounts have been restated accordingly.

Sales increased to CHF 3 215 million (2013: CHF 2 770 million), while order intake went up by 9.0 % to CHF 3 028 million (2013: CHF 2 779 million). Order backlog, impacted by anticipated market normalization and order delays, was reduced by 10.6 %, coming in at CHF 715 million (2013: CHF 800 million). For the fourth consecutive year, the Group has achieved an EBITDA margin exceeding 15 % (2014: 16.3 %) and a double-digit EBIT margin (2014: 11.2 %), even after absorbing the one-time integration and acquisition accounting effects from the Metco transaction. Oerlikon's net financial result remained stable at minus CHF 30 million for full-year 2014 (2013: minus CHF 31 million), despite slightly higher interest expenses from the placement of the two senior unsecured bonds in 2014. Tax expenses slightly increased to CHF 83 million (2013: CHF 75 million), leading to a tax rate of 25.2 %. Result from continuing operations stood at CHF 247 million, and net income of the Oerlikon Group was CHF 202 million (2013: CHF 201 million), representing earnings per share of CHF 0.59 compared to CHF 0.60 a year ago. Cash flow from operating activities before changes in net current assets was strong at CHF 427 million and the Group's return on capital employed (ROCE) stood at 10.4 % as a result of an increased asset base due to the acquisition of Metco, with seven months of Metco profitability being recognized in Net Operating Profit After Tax. With its solid performance in 2014, Oerlikon reinforced its position and competitive standing in its peer group.

Operationally, the Group made further progress in 2014 in terms of strategically balancing its portfolio, rolled out new, innovative products and technologies, expanded its global footprint and improved its operational efficiency.

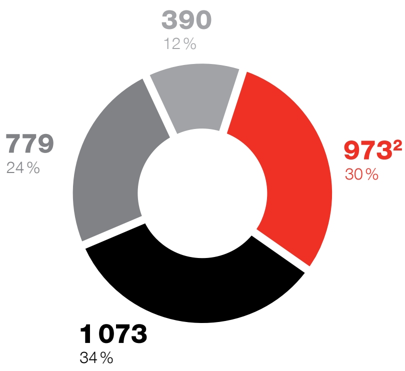
The successful closing of the Metco acquisition in the second quarter of 2014 and the divestment of the Advanced Technologies Segment marked the tenth and eleventh strategic portfolio-transformation moves, respectively, for the Oerlikon Group. With Metco, the company created a global technology leader in surface solutions. The transaction and first-time consolidation of Metco created significant cash and noncash impacts, some of them being one-time effects, in the 2014 consolidated income statement, which affected the profitability of the Surface Solutions Segment and the Oerlikon Group. Oerlikon provided transparency on the impacts and remained within the framework disclosed at the closing of the transaction. The Metco integration is progressing well and the results confirmed the assumptions underlying the rationale for the transaction. The divestment of its Advanced Technologies Segment, announced in December 2014, allows the Group to allocate resources and management attention to businesses of critical size.

Performance in the Segments

The Surface Solutions Segment continued to record strong performance and positive business development. Following the acquisition of Metco, the complementarity of the two businesses has provided Oerlikon with an attractive platform to further grow its business in this market. The Surface Solutions Segment reported significant growth of 90.8 % to achieve sales of CHF 973 million (2013: CHF 510 million). Order intake amounted to CHF 965 million compared to CHF 510 million a year ago. The growth in sales and order intake was attributable to the consolidation of Metco, but also to good organic growth from Oerlikon Balzers and Oerlikon Metco. EBITDA for the Surface Solutions Segment amounted to CHF 183 million, reflecting an EBITDA margin of 18.8 %. EBIT stood at CHF 98 million with an EBIT margin of 10.0 %. Both EBITDA and EBIT were impacted by integration and acquisition accounting effects from the Metco transaction mentioned above. Continued demand from the automotive and tooling industries in Asia, Europe and the United States contributed to a positive development in the thin-film service business. The successful expansion along the value chain with the rollout of the regrinding services to four additional centers added to the positive business trend. Solid demand from the aviation industry and growth in the power generation and oil and gas sectors drove development in the equipment and materials business.

The Manmade Fibers Segment reported another strong year with high profitability and sales close to its historically high level despite market normalization effects. The Segment delivered sales of CHF 1 073 million, close to the 2013 level of CHF 1 130 million. In line with the anticipated market normalization, order intake declined in the expected magnitude by 16.0 % to CHF 901 million (2013: CHF 1 073 million). EBITDA amounted to CHF 217 million, reflecting an EBITDA margin of 20.3 % (2013: 18.4 %). EBIT reached CHF 197 million in 2014, up 4.8 % compared to CHF 188 million in 2013. The EBIT margin further increased from 16.6 % to 18.4 %. The increase is mainly attributable to a favorable product mix, with strong demand for production lines of carpet yarn in 2014, as well as to the variabilization of costs and efficiency gains. With these results, the Manmade Fibers Segment is clearly operating at a Best-in-Class level among its peers. Initiatives have been introduced to partially offset the anticipated market normalization, such as further increasing the sales of services, expanding along the value chain and into adjacent markets, and continuing to innovate new products and solutions.

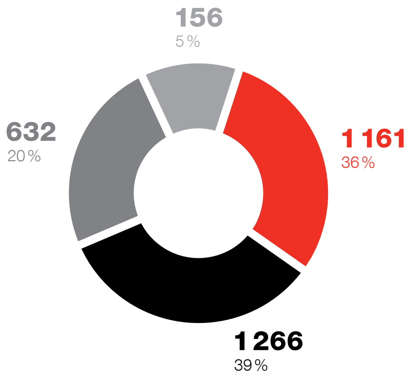
In 2014, the Drive Systems Segment was able to achieve further improvements although still facing an ongoing challenging market environment and being affected by weakness in the global mining and agricultural markets. That weakness in Europe and the US was compensated by positive momentum in the construction and infrastructure markets, ongoing demand in the high-performance automotive business and execution of orders from the energy industry. Overall, the Segment was able to improve its business performance. Sales increased by 6.1 % to CHF 779 million compared to CHF 734 million a year ago. Order intake remained close to prior-year level, reporting CHF 781 million in 2014 (2013: CHF 792 million). The Segment



Sales 2014 by Segment[1]
in CHF million

- Surface Solutions Segment
- Manmade Fibers Segment
- Drive Systems Segment
- Vacuum Segment

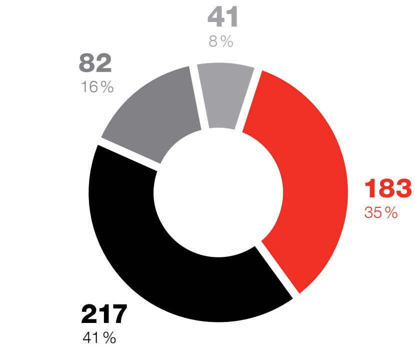
[1] Continuing operations.
[2] Oerlikon Metco included for seven months.



Sales 2014 by region[1]
in CHF million

- Europe (EMEA)
- Asia Pacific
- North America
- Other regions

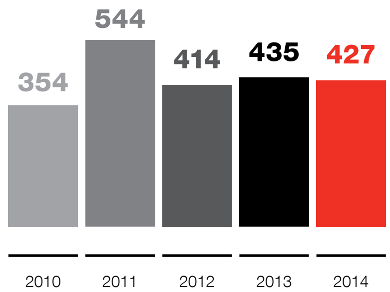
[1] Continuing operations.



EBITDA 2014 by Segment[1]
in CHF million

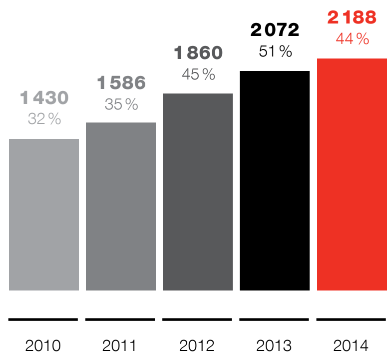
- Surface Solutions Segment
- Manmade Fibers Segment
- Drive Systems Segment
- Vacuum Segment

[1] Continuing operations.



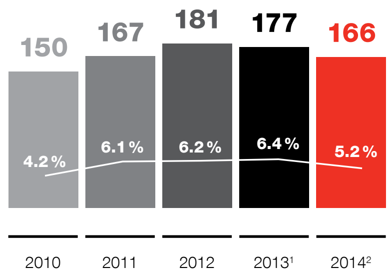
Operating cash flow[1]
in CHF million

[1] Before changes in net current assets.



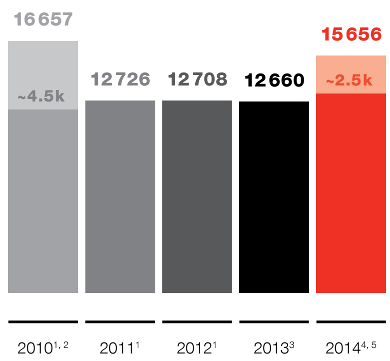
Equity[1]
in CHF million (as % of assets)

[1] Attributable to shareholders of the parent.



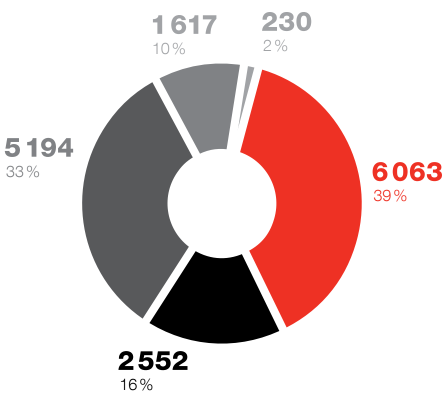
Capital expenditure
in CHF million

— In % of sales.
[1] Restated.
[2] Continuing operations.



Employees

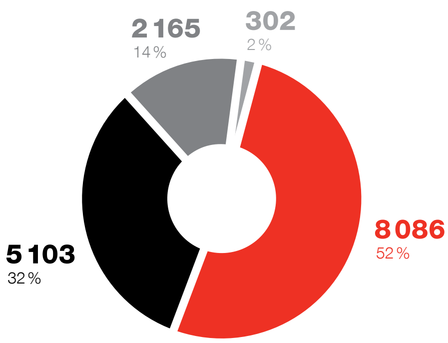
[1] Reported.
[2] Reduction due to restatements following divestments.
[3] Restated.
[4] Increase in 2014 due mainly to Metco acquisition.
[5] Continuing operations.



Employees 2014 by Segment[1]

- Surface Solutions Segment
- Manmade Fibers Segment
- Drive Systems Segment
- Vacuum Segment
- Others

[1] Continuing operations.



Employees 2014 by region[1]

- Europe (EMEA)
- Asia Pacific
- North America
- Other regions

[1] Continuing operations.

continued its operational and structural efficiency programs, resulting in improvements in profitability. EBITDA grew by 22.4 % to reach CHF 82 million versus the CHF 67 million recorded in 2013, representing a double-digit EBITDA margin of 10.5 %. EBIT increased by 57.7 % to CHF 41 million compared to CHF 26 million a year ago. The EBIT margin was at 5.3 %.

The Vacuum Segment made further progress and improved operational excellence as it continued to be confronted with a challenging market environment and was impacted by postponements in large-scale projects. Such order delays in the energy sector as well as in industrial and glass coating applications impacted the top line. Positive trends in the R&D and analytics markets and the process industry were not able to fully compensate. Order intake decreased by 5.7 % to CHF 381 million compared to CHF 404 million a year ago. In terms of sales, the Segment was able to remain almost at prior-year level, reporting CHF 390 million (2013: CHF 396 million). In 2014, investments in organizational and operational effectiveness, optimization of footprint and logistics impacted profitability. EBITDA amounted to CHF 41 million, which resulted in an EBITDA margin of 10.3 % (2013: EBITDA of CHF 54 million; margin of 13.5 %). EBIT totaled CHF 27 million, representing an EBIT margin of 6.8 % (2013: EBIT of CHF 41 million; margin of 10.3 %).

A globally balanced business
A key reason for Oerlikon's sustainable success is the balance of its portfolio in terms of Segments, global presence and services. With the acquisition of Metco, the Group substantially strengthened its surface solutions business and further balanced business exposure within the Group. In 2014, since Metco had only been consolidation for seven months, the Surface Solutions Segment was the second largest Segment, representing 30 % of Group sales. The Manmade Fibers Segment, accounting for 34 % of Group sales, was Oerlikon's largest Segment in 2014. The Drive Systems Segment and the Vacuum Segment reported 24 % and 12 % of Group sales, respectively.

An international company with a strong global footprint, Oerlikon operates over 200 sites in 36 countries. Asia grew by 3.7 % to CHF 1 266 million, and continued to contribute significantly to Group sales (39.4 %). Sales in Europe grew by 23.6 % to CHF 1 161 million, accounting for 36.1 % of Group sales, while North America grew sales to CHF 632 million, an increase of 31.4 %, representing 19.7 % of Group sales. The share of other regions in Group sales was 4.8 % or CHF 156 million.

In 2014, Oerlikon grew its customer services business by 34.3 % compared to 2013 and further strengthened the Group's resilience. The service business accounted for 28.5 % of Group total sales. This balanced positioning of Oerlikon in terms of Segments, regions and service provides a strong foundation for the Group to address global challenges and uncertainties, and to secure sustainable performance.

Strong balance sheet with equity ratio of 44 %
As of December 31, 2014, Oerlikon's balance sheet amounted to CHF 4 966 million, compared to CHF 4 094 million as at the same reporting date in 2013. The Oerlikon Group had equity (attributable to shareholders of the parent) of CHF 2 188 million, representing an equity ratio of 44 %. The accretion in equity resulted from the execution of warrants in the first half of 2014 and the related issuance of some five million new shares. Net cash amounted to CHF 114 million (December 31, 2013: net cash of CHF 981 million).

In 2014, Oerlikon took advantage of the favorable debt market conditions and placed senior unsecured bonds of CHF 300 million due 2019 and CHF 150 million due 2024. In addition, the Group prolonged its syndicated credit facility until 2016. With these measures, Oerlikon successfully extended its maturity profile and increased the Group's financial flexibility. This financing activity demonstrated Oerlikon's full access to the capital markets and the accelerated confidence of the capital markets in the sustainability of the Group's underlying performance. This strong financial foundation allows Oerlikon to further develop its portfolio in line with its strategic agenda of achieving long-term profitable growth.

Continued strong operating cash flow
Cash flow from operating activities before changes in net current assets remained strong at CHF 427 million (2013: CHF 435 million). Net working capital increased to CHF 394 million, corresponding to 12 % of Group sales (2013: CHF 108 million). The increase was due primarily to the addition of Metco.

Disciplined investment and use of cash continued to be Oerlikon's top priorities. Capital expenditure (CAPEX) amounted to CHF 166 million, a decrease of 6.2 % compared to CHF 177 million restated for 2013. The CAPEX-to-depreciation ratio was around 1. Focus areas were the Asian growth markets in China and India, notably for the Drive Systems and Surface Solutions Segments, and in Europe, with investments to improve operations and the regional positioning of all Segments. The Surface Solutions Segment rolled out its regrinding services to four additional centers, opened a new coating center in Austria and expanded production capacity at several existing sites. The Manmade Fibers Segment invested in improving operational efficiency and ramped up a plant in China. The Drive Systems Segment constructed its third plant in India, while the Vacuum Segment expanded production capacity in Tianjin, China, and inaugurated a new logistics center in Cologne, Germany.

Cash flow from investing activities amounted to minus CHF 1 058 million, mainly attributable to the closing of the Metco transaction and to capital expenditure (2013: CHF 360 million, mainly due to proceeds from divestments). Cash flow from financing activities amounted to CHF 334 million (2013: minus CHF 100 million), primarily due to the proceeds from the issue of financial debt, net of transaction costs (placement of two unsecured senior bonds) in the amount of CHF 489 million, and proceeds from capital increase (execution of warrants) in the amount of CHF 30 million. The dividend payment of CHF 94 million and interest paid of CHF 36 million represent the main outflow positions.

Due to the effects of the Metco acquisition and strong operating cash flow, Oerlikon reported a cash and cash-equivalent position at the end of the year of CHF 826 million compared to CHF 1 280 million in 2013.

Investments in research and development (R&D) remained a priority for Oerlikon in order to maintain and expand its leading technology positions. In 2014, R&D expenditures increased by 19.8 % to CHF 121 million from CHF 101 million (restated) a year ago. Oerlikon continued to invest around 4 % of its sales in products and services of the future.

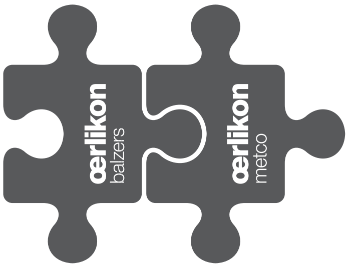
In view of its sustainable, strong operational performance and solid financial position in 2014, the Board of Directors will propose an 11 % increase in dividends, corresponding to a payout of CHF 0.30 per share, at the Annual General Meeting (AGM) of Shareholders, taking place on April 8, 2015. This represents the third consecutive increase and is in line with the Group's dividend payout policy. Based on the company's track record, the Board of Directors has approved a change in the Group's dividend policy, which now states that a dividend of up to 50 % of underlying net income can be paid, subject to the availability of funds.

2014 key Group figures at a glance

Operationally, the Group was able to deliver on the outlook provided at the beginning of the year:

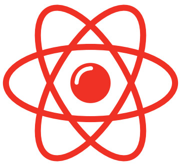
- Order intake increased by 9.0 % to CHF 3 028 million (2013: CHF 2 779 million).
- Order backlog was reduced by 10.6 %, coming in at CHF 715 million (2013: CHF 800 million).
- Sales went up by 16.1 % to CHF 3 215 million (2013: CHF 2 770 million).
- EBITDA amounted to CHF 525 million (2013: CHF 483 million); equivalent to an EBITDA margin of 16.3 %.
- The EBIT margin was 11.2 %, compared to 13.0 % in 2013, with EBIT at CHF 360 million (2013: CHF 359 million).
- The Group's result from continuing operations decreased by 2.4 %, from CHF 253 million to CHF 247 million.
- Headcount increased significantly to 15 656 employees worldwide, due mainly to the Metco acquisition (2013 restated: 12 660)
- ROCE stood at 10.4 % as a result of an increased asset base due to the acquisition of Metco, with seven months of Metco profitability being recognized in Net Operating Profit After Tax.
- The Board of Directors will propose an increased dividend payout of CHF 0.30 per share (2013: CHF 0.27) at the 2015 Annual General Meeting of Shareholders.

Surface Solutions Segment



A global technology leader for surface solutions is formed

Following the acquisition of Metco in 2014, Oerlikon merged Metco with Oerlikon Balzers to form the new Surface Solutions Segment and created a global technology leader for surface solutions. Oerlikon Balzers and Oerlikon Metco complement each other perfectly in terms of their technologies, competencies, industry and geographics. Customers are now able to take advantage of a unique range of products and services for surface treatment, thin-film and thicker-layer coating technologies, specialized machining services and components, as well as a global infrastructure spanning over 145 sites in 35 countries. The acquisition led to an additional 2 500 employees joining the Oerlikon Group. With a workforce of over 6000 and annual sales of CHF 973 million, the Surface Solutions Segment was the second-largest Segment within the Oerlikon Group in 2014, with Metco consolidated for seven months. In 2015, it will become the largest Segment of the Group.



In 2014, the launch of three new layers of the revolutionary BALIQ™ family for wear protection and the rollout of the environmentally friendly ePD™ process for the metallization of plastic parts underline the innovative strength of Balzers and represent further technological milestones for the Segment.

With the opening of a new coating center in Austria, extensions at several existing sites and the rollout of regrinding services at four additional coating centers in 2014, the Segment is pushing ahead with its regional expansion, bringing it closer to its customers.

Winning a large 10-year long-term agreement for the supply of LEAP (Leading Edge Aviation Propulsion) engine components for the aviation industry underscores the leading position of Metco in this important growth market.

Key figures

in CHF million	**2014**	2013	Δ%
Order intake	965	510	89.2 %
Order backlog	79	–	–
Sales (third parties)	**973**	**510**	**90.8 %**
EBITDA	**183**	**149**	**22.8 %**
– as % of sales	18.8 %	29.2 %	–
EBIT	**98**	**105**	**–6.7 %**
– as % of sales	10.0 %	20.5 %	–
Research and development expenses	56	34	64.7 %

Best-in-Class
Sandvik Machining Solutions: 20.0 % operating profit margin (2014).

Profile

The Surface Solutions Segment, with the brands Oerlikon Balzers and Oerlikon Metco, is a global technology leader for innovative surface solutions. The coatings of Oerlikon Balzers are extraordinarily thin, extremely hard and reduce friction and wear. These high-end coatings improve the surface properties of precision parts, as well as cutting and forming tools and thus extend their service life. One of the core businesses of Oerlikon Balzers is its coating services provided at its own centers. Oerlikon Metco offers a wide range of surface technologies, equipment, materials, services, specialized machining services and components. The innovative range of coating solutions from Oerlikon Metco increases the efficiency and reliability of its customers' products. To offer customers the best possible services and solutions, the Segment operates a dense network of more than 145 sites, of which over 140 are service and production centers, in 35 countries, supported by over 6000 employees. In 2014, a site in Austria was added to the network, while the products, services and capacities at various locations were expanded to meet increasing customer demand and cater for additional technologies that have been added to existing services.

Markets

With the acquisition of Metco, the Surface Solutions Segment now has an addressable market of some CHF 9 billion. In the markets in which the Segment operates – namely aviation, power generation, oil and gas, automotive, metal and plastics processing, as well as other specialized markets – growth is likely to range between 4% and 6%. Thanks to its unique technology portfolio and service offering, the Surface Solutions Segment expects to outperform this growth rate. The Segment operates sites in all of the key markets in Europe, the Americas, Asia and Australia.

Business performance

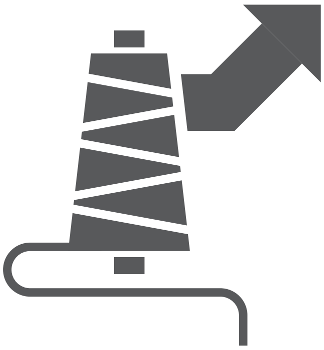
The Surface Solutions Segment achieved a successful financial year in 2014. Sales increased significantly by 90.8% to CHF 973 million (2013: CHF 510 million). The order intake totaled CHF 965 million (2013: CHF 510 million). This increase is attributable primarily to the acquisition of Metco, which was consolidated in the 2014 annual financial statements for seven months. Organic growth was also recorded in the operating business. EBITDA amounted to CHF 183 million, corresponding to an EBITDA margin of 18.8% (2013: 29.2%). EBIT totaled CHF 98 million (2013: CHF 105 million), which equates to an EBIT margin of 10.0% (2013: 20.5%). Both EBITDA and EBIT were impacted by the one-time integration and the acquisition-related accounting effects connected with the Metco transaction.

Key developments

The integration of Metco into the Segment, which began after the closing of the Metco transaction on June 2, 2014, has been progressing well on all fronts. The growth potential identified and cost synergies confirmed the underlying rationale for the transaction. Around 400 key employees are involved in eleven major integration workstreams. The rebranding has been completed at the 50 Metco sites around the world, and the systems for legal, finance, IT, health and safety and HR reporting are in operation. In addition, joint R&D technology programs have been set up. The opportunities offered by the new Surface Solutions Segment have been evaluated together with key customers, and the Segment has received positive feedback and interest. To establish a common culture and team spirit, a virtual gathering took place for the over 6000 employees worldwide.

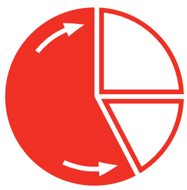
In 2014, Oerlikon Balzers added three new layers to the revolutionary BALIQ coating product family, which was introduced in 2013. Customers can thus use this coating family for a broader range of applications. With the extraordinarily smooth BALIQ coatings, which are characterized by their extreme hardness, resistance to wear and adhesive strength, customers are also able to improve their productivity, increase process reliability and reduce costs. Oerlikon Balzers presented a further innovation in 2014 with its ePD technology. The process enables coated plastic parts to be given a chrome look, is environmentally friendly and thus offers a clean alternative compared to traditional chrome-plating methods. The launch of the MetcoClad™ system for laser cladding met with positive responses. The first unit sold is used to add corrosion-resistant coatings to hydraulic drill rods used in salt water in the oil and gas industry.

Manmade Fibers Segment

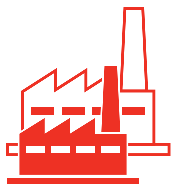


Launching further innovative technologies for the manmade fibers market

Introduced in Asia in 2014 by Oerlikon Barmag, WINGS POY 1800 set a new benchmark for the energy-efficient and sustainable production of polyester threads. The highly energy-saving winder achieves a 20 % increase in productivity by winding twelve yarn spools of 15 kilograms each simultaneously, instead of ten with the predecessor model over the same production area. The new WINGS PA HOY winder concept was also introduced in 2014, developed to meet the special requirements of cost-efficient nylon HOY production. Another innovation presented was a new staple fiber system solution – a compact machine that allows for greater flexibility in production, faster product color changes and less material wastage. In the growth market of technical textiles, a next-generation solution for high-modulus low-shrinkage (HMLS) polyester yarn for tire cord was launched in 2014, featuring improvements in enabling filaments' dimensional stability.



With its extensive technological expertise, the Segment has been expanding its leading position for manmade fibers systems and maintaining its Best-in-Class position in its market.



In 2014, the Segment continued to utilize its competence in manmade fibers production and completed a turnkey facility for the manufacture of granulates for PET bottles for a customer in Egypt, from planning through to commissioning.

The Segment has long-standing customer relationships and experience in developing business in growth markets. In 2014, the Segment celebrated its 50th anniversary of successful partnership with the Chinese textile industry.

Key figures

in CHF million	**2014**	2013	Δ%
Order intake	901	1 073	–16.0 %
Order backlog	365	541	–32.5 %
Sales (third parties)	**1 073**	**1 130**	**–5.0 %**
EBITDA	**217**	**207**	**4.8 %**
– as % of sales	20.3 %	18.4 %	–
EBIT	**197**	**188**	**4.8 %**
– as % of sales	18.4 %	16.6 %	–
Research and development expenses	33	31	6.5 %

Best-in-Class

Oerlikon Manmade Fibers Segment: 18.4 % EBIT margin (2014); followed by Andritz AG: 4.3 % EBIT margin (Q1–Q3 2014).

Profile

The Manmade Fibers Segment, with its brands Oerlikon Barmag and Oerlikon Neumag, is a world market leader for systems used in the manufacture of manmade fibers. Synthetic textile fibers are processed into functional clothing, carpets and furnishings, and increasingly also into technical textiles for airbags and safety belts, as well as into geotextiles for road construction and other industrial applications. The Segment offers end-to-end systems, covering every step in the entire process of manmade fiber production, from melt to yarn. Oerlikon Barmag specializes in large-scale filament spinning and texturing systems for the manufacture and processing of polyester, polyamide and nylon. Oerlikon Neumag's core competencies lie in high-tech production systems for the manufacturing of bulked continuous filament (BCF) carpet yarns, synthetic staple fibers and nonwoven fabrics. In addition, the Manmade Fibers Segment also offers comprehensive engineering and maintenance services, as well as the construction of complete polycondensation solutions. Over 2 500 employees work for the Manmade Fibers Segment at eleven sites worldwide.

Markets

Oerlikon Barmag's key markets are located in Asia, in particular in China, with India as well as the Middle East playing an increasingly important role. Oerlikon Neumag focuses primarily on the markets in the USA and Turkey. Out of the world's 25 largest manmade fiber producers, which cumulatively account for more than 60 % of the annual production of filaments and fibers, 22 are customers of the Manmade Fibers Segment. These include global companies such as Shenghong, Tongkun, Newfengming, Indorama and Wellknown Polyesters Ltd.

The addressable market for the Manmade Fibers Segment was valued at around CHF 2.2 billion in 2014. The Segment succeeded in increasing its market share for newly delivered systems and solutions in filament spinning. Chemical filament spinning/texturing is the most important market for the Segment. The anticipated market normalization took effect during the year, notably in Asia, where investments in recent years have resulted in a decrease in demand and delay in further investments in 2014. The market for plastics processing and carpet yarn systems remained stable at a high level, and projects were won in the market for staple fibers and nonwoven fabrics.

Business performance

The Manmade Fibers Segment reported another strong year, with high profitability and sales close to its historical high level despite market normalization effects. Sales was at CHF 1 073 million in 2014, corresponding to a decline of 5.0 % compared to the previous year (2013: CHF 1 130 million). Order intake declined by 16.0 % to CHF 901 million (2013: CHF 1 073 million). EBITDA amounted to CHF 217 million (2013: CHF 207 million), which corresponded to an EBITDA margin of 20.3 % (2013: 18.4 %), while the EBIT of CHF 197 million was 4.8 % above the prior-year level (2013: CHF 188 million; 16.6 %). With these results, the Manmade Fibers Segment has succeeded in retaining its Best-in-Class position compared to peers.

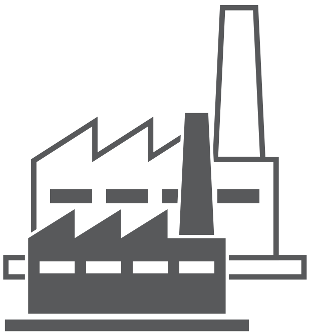
Key developments

In 2014, the foundation stone was laid in Chemnitz, Germany for a new pilot plant for extrusion systems and a variety of specialist winders. At the three German locations – Remscheid, Neumünster and Chemnitz – as well as in Suzhou, China, engineers and technicians are developing and researching new solutions for energy-efficient processes in the spinning and texturing of filaments, as well as for the cost-efficient production of staple fibers and nonwoven fabrics.

The Manmade Fibers Segment continued to utilize its competence in manmade fiber production to penetrate further into the PET beverage bottling business in 2014. A turnkey facility for the manufacture of granulates for PET bottles was completed for a customer in Egypt. Light, shatterproof and recyclable PET bottles are the first choice when it comes to packaging liquids safely and the technology to produce PET granulates is almost identical to that used in the manufacture of manmade fibers. With the innovative technologies provided by the Segment, customers benefit from significant savings in energy consumption, and hence lower operating costs. For this project, Oerlikon was tasked as the general contractor with overseeing and managing the construction of the plant, from planning through to commissioning, all provided from a single source.

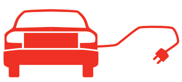
As part of the Oerlikon operational excellence program, the Segment implemented process improvements at all production locations. In Remscheid, the newly designed one-piece-flow concept was used both for the new WINGS POY 1800 assembly line and for the production of the change bars, resulting in a 15 % increase in production capacity. In Chemnitz, capacity was increased by over 30 % thanks to retrofitting work on the warehouse, with new high-rack storage and automated storage space management helping to improve production procedures. Neumünster has optimized its shop floor management and reduced processing times for the assembly of BCF systems by around 30 %.

Drive Systems Segment

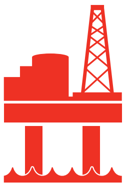


Expanded production capacity in the Indian growth market

At the end of 2014, only one year after the groundbreaking ceremony, the Drive Systems Segment's third production site in India was already partially operational. The plant is scheduled to be running at full production capacity in phase one in the third quarter of 2015. This new factory in the state of Gujarat will primarily provide the rapidly growing domestic market with a range of products from transmission synchronizers, for which India is already recognized as a competence center, to shifting solutions for transmissions used in commercial vehicles, off-road applications and passenger cars, to complete axle and transaxle assemblies for utility and recreational vehicles such as golf carts. Being in close proximity to customers through the local production facilities enables the Segment to further strengthen its customer relationships and improve operational efficiency.



In 2014, innovative driveline concepts for electric and hybrid vehicles were extended to off-highway vehicles and include technologies such as the 2SED and 4SED e-drive solutions, and the hybrid transmission OGeco with its patented drive technology.



2014 saw sales growth in the energy sector, thanks to new products for offshore drilling platforms, wind tower installation vessels and lift boats, as well as to the expansion into new geographical markets and applications for energy exploration, drilling and extraction.

Significant progress was made in 2014 toward achieving world-class operational excellence: productivity and occupational safety were improved and the production reject rate was reduced.

Key figures

in CHF million	**2014**	2013	Δ%
Order intake	781	792	–1.4 %
Order backlog	199	180	10.6 %
Sales (third parties)	**779**	**734**	**6.1 %**
EBITDA	**82**	**67**	**22.4 %**
– as % of sales	10.5 %	9.1 %	–
EBIT	**41**	**26**	**57.7 %**
– as % of sales	5.3 %	3.5 %	–
Research and development expenses	14	13	7.7 %

Best-in-Class
BorgWarner: 11.6 % operating income margin (2014).

Profile

The Drive Systems Segment, with its brands Oerlikon Graziano and Oerlikon Fairfield, is a leading provider of gear, drive and shifting solutions. With over 90 years of experience, one of the Segment's core competencies is its in-house engineering and manufacturing expertise in developing innovative solutions, which can be anything from a custom-engineered synchronizer ring to a seamlessly integrated powertrain from the engine to the wheel. The Segment's high-tech products can be found in a wide range of applications for operating machinery and equipment used in agriculture, construction, energy, mining, transportation and high-performance sports cars. Examples include tractors, trucks, on-/off-highway vehicles such as city buses and airport towing tractors, power plants, oil and gas platforms and underground mining machines. The Segment's latest innovations for electric and hybrid vehicles are targeted at reducing emissions and environmental pollution, while still providing the desired vehicle performance and engine efficiency.

Markets

As one of the largest manufacturers of precision gear components and assemblies, the Segment provides technologies for the agricultural, construction, energy and transportation markets. Around 70 % of all agricultural machinery manufactured worldwide contains shifting solutions (e.g. synchronizer assembly and clutch units), making the agricultural industry the most important market for the Segment, followed by the construction industry. Customers include well-known brands that manufacture construction and agricultural machinery. In the high-performance automotive sector, complete systems from the Drive Systems Segment are used in premium sports car brands, as well as in environmentally friendly electric and hybrid vehicles. The Segment has an addressable market of CHF 15 billion, with the main geographic markets being Europe, the Middle East, Africa and Russia (EMEAR), the Americas, India and China.

Business performance

The Drive Systems Segment posted sales of CHF 779 million in 2014, corresponding to an increase of 6.1 % year-on-year (2013: CHF 734 million), while order intake remained around prior-year level (–1.4 %) at CHF 781 million (2013: CHF 792 million). Thanks to ongoing measures to increase operational efficiency, the Segment's profitability continued to improve compared to the previous year, with EBITDA up 22.4 % to CHF 82 million (2013: CHF 67 million), and an EBITDA margin of 10.5 % (2013: 9.1 %). EBIT amounted to CHF 41 million (2013: CHF 26 million), which corresponds to an EBIT margin of 5.3 % (2013: 3.5 %). In 2014, the Drive Systems Segment signed long-term agreements for high-precision gears and transmissions with leading manufacturers of agricultural and construction machinery. During the same period, customers also ordered innovative new products such as all-wheel drive gearboxes, high-performance gears and shifting solutions for tractors and commercial vehicles, axles for low-floor buses and planetary drives for oil and gas platforms. Several of these orders have enabled the Segment to gain access to new geographic markets.

Key developments

In 2014, the Drive Systems Segment expanded its range of innovative drive concepts for electric and hybrid vehicles. With the 4SED (4-Speed Electric Drive), the Segment launched an innovative, compact and lightweight transmission that delivers smooth seamless shifting and enables over 90 % powertrain efficiency over the full speed range. With the 4SED technology, automobile manufacturers are able to build more efficient and better-performing electric vehicles with a higher range, enabling them to successfully differentiate themselves from competitors. A further innovation is the new hybrid transmission OGeco with integrated electric motor – a technology fully developed in-house by Oerlikon Graziano and its subsidiary, VOCIS. The powerful 120 kW electric motor can be connected to the input or output shaft, either serving as an energy recovery system or adding torque over a variable speed range. The hybrid technology reduces fuel consumption and emissions by up to 30 %, especially at frequently used low speeds, where the vehicle noise levels are also significantly reduced. At the same time, the system provides a boost in performance whenever needed. Further innovations in 2014 include a new patent-pending hybrid electric drivetrain technology for off-highway equipment, with an innovative energy recovery system.

Under the global Oerlikon operational excellence program, the Segment launched its operational excellence deployment plan in mid-2013, starting in India at the two key sites in Belgaum and Greater Noida. The initiatives continued to be implemented through the year under review. Targeted training was provided for the plant managers and other managerial staff, as well as for around 200 employees. A review carried out in mid-2014 revealed that significant progress had been made, including higher levels of engagement, increased productivity, greater safety awareness and lower scrap rates. The Segment will roll out their operational excellence initiatives in 2015 at further locations.

Vacuum Segment

Vacuum-based steel degassing cuts costs and emissions

To obtain the high-quality steel needed for applications in the automotive and aviation industries, steel is subjected to a range of finishing and refining processes. One such process is vacuum-based degassing, where unwanted elements such as carbon, hydrogen, sulfur and phosphorus are reduced. This increase in quality can be achieved with a cost-effective and low-emission approach by means of mechanical vacuum pumps. Compared to conventional systems, where a vacuum is generated using steam jets, mechanical vacuum pump technology can result in energy savings of up to 90 %. In 2014, several systems were sold, including one to Siemens for an end customer in Mexico. With a pumping speed of almost 600 000 m^3/h, it is the biggest vacuum system that Oerlikon Leybold Vacuum has built in its over 160-year history.

Launched in 2014, the new generation of TURBOVAC i/iX pumps for analytics, R&D and the process industry achieved Best-in-Class performance level, 60 % above that of comparable products.

Thanks to the internationalization of manufacturing capacities, the restructuring of the service organization and network and other measures implemented in 2014, operating efficiency improved as planned and in line with the goal of achieving 44 % efficiency gains by 2017.

A large order was won in 2014 for the construction of the world's biggest cryopumps in China. These sophisticated high-vacuum pumps will be applied to simulate on earth the atmospheric conditions in space and used in the complex field of research and testing of space components and equipment.

Key figures

in CHF million	**2014**	2013	Δ%
Order intake	381	404	–5.7 %
Order backlog	72	79	–8.9 %
Sales (third parties)	**390**	**396**	**–1.5 %**
EBITDA	**41**	**54**	**–24.1 %**
– as % of sales	10.3 %	13.5 %	–
EBIT	**27**	**41**	**–34.1 %**
– as % of sales	6.8 %	10.3 %	–
Research and development expenses	26	21	23.8 %

Best-in-Class
Atlas Copco: 18.2 % operating profit margin (2014).

Profile

Under the Oerlikon Leybold Vacuum brand, the Vacuum Segment offers a broad range of fore- and high-vacuum pumps and related accessories. In addition to single vacuum pumps, the core competencies of the Segment range from delivering standardized vacuum systems through to the engineering of tailor-made vacuum solutions for industrial applications with complex performance parameters. The product portfolio is rounded off by vacuum technology accessories and measuring instruments, as well as the vacuum technology expertise, which is also passed on at the Leybold Academy. With three production locations of its own, over 30 branches, an international after-sales management team and more than 80 dealers and representatives spread globally, the Segment offers its customers one of the densest distribution and service networks in the industry.

Markets

Vacuum pumps and vacuum systems from Oerlikon Leybold Vacuum are in use all over the world, creating the necessary clean production conditions for the manufacture of semiconductors, displays, coated architectural glass and solar cells for a wide range of customers. Vacuum systems are also used for refining steel and for the processing and packaging of food. Notable customers in the area of R&D include CERN in Geneva, ETH Zurich and the Karlsruhe Institute of Technology (KIT), which is home to the world's largest vacuum chamber. The overall market for vacuum technology amounts to a total of CHF 6 billion worldwide, within which the Vacuum Segment addresses a market of around CHF 2.7 billion today. Based on sales recorded in 2014, the Segment has a market share of around 11 %. Average annual market growth is forecasted at 3 % globally. The Segment is extending its expertise in the food industry and also looking at developing new applications for adjacent growth markets to increase its sales and profitability.

Business performance

The Vacuum Segment posted sales of CHF 390 million in 2014, which corresponds to a slight decline of 1.5 % compared to the previous year (2013: CHF 396 million). Order intake totaled CHF 381 million, versus CHF 404 million for 2013. This decline was attributable primarily to the postponements in large-scale projects in the energy sector as well as industrial and glass coating applications. EBITDA amounted to CHF 41 million (2013: CHF 54 million), corresponding to an EBITDA margin of 10.3 % (2013: 13.5 %), while the EBIT of CHF 27 million resulted in an EBIT margin of 6.8 % (2013: CHF 41 million; 10.3 %). The Segment's profitability was mainly impacted by investments in organizational and operational effectiveness as well as in the optimization of footprint and logistics.

Key developments

The most important market launch in 2014 involved the new pump generation TURBOVAC i/iX, which offers extremely high pumping capacity. The pumping speed of the TURBOVAC i/iX models for light gases is 60 % faster than those of comparable products. The new pumps were developed specifically for applications in analytics, R&D and the process industry. Oerlikon Leybold Vacuum's modular pump concept for vacuum technology in steel degassing systems has proven to be successful with the sale of several systems in 2014. These customizable solutions can be adapted to the required production volume.

For a customer in China, the Segment has built the world's largest high-vacuum pumps of the COOLVAC series. These cryopumps are built to evacuate the air, including all molecules, from very large vacuum chambers, within a short time and to an extremely low pressure. The vacuum chambers will be used to facilitate research and testing in the area of aero- and astronautics, whereby rocket elements, satellites, space shuttles and parts of space stations will be studied in these huge simulation chambers.

A further highlight for the Segment was winning the Red Dot Award in 2014 for its intelligently and innovatively designed leak detector, the PHOENIX L500i. This detector offers a symbiosis of design and functionality thanks to ease of use and the user-friendly visualization via a high-resolution color retina display. Notably, the integrated data storage and the production of test reports help to ensure that the documentation is efficient and reproducible and of a high quality.

As part of the Oerlikon operational excellence program, the Segment restructured its service organization and improved its distribution and service network to establish smaller, more customer-oriented units, thereby creating a basis for stronger after-sales businesses. Cost management was also strengthened by diverse means, including systematic procurement in "best-cost countries", optimization of production processes and value analysis. The opening of the new logistics center in Cologne in January 2014 entailed the comprehensive restructuring of operating processes, in view of the building's role as the logistics hub for production supplies and the flow of goods from the Segment to customers and subsidiaries worldwide.

Corporate governance report

Corporate governance

Oerlikon is committed to the principles of good corporate governance as they are defined, in particular, in the Swiss Code of Best Practice for Corporate Governance of economiesuisse. Through this commitment, Oerlikon aims to sustainably 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 SIX Swiss Exchange's "Directive on Information relating to Corporate Governance" (DCG) requires issuers to make available to investors certain key information, in an appropriate form, pertaining to corporate governance.

The framework of the DCG has been adopted; however, the section "Compensations, shareholdings and loans" has been moved to a separate chapter ("Remuneration report"). All statements in this section ("Corporate governance") are as of the balance sheet date, except where – in the case of material changes between the balance sheet date and the time this Annual Report went to print – otherwise indicated.

Further information regarding corporate governance can be found on the company website at www.oerlikon.com/en/investor-relations/investor-relations-new-governance/.

Group structure and shareholders

Operational Group structure

The Oerlikon Group is divided into the following five Segments: Manmade Fibers, Drive Systems, Vacuum, Surface Solutions, Advanced Technologies. The operational responsibility lies with the Segments, each of which is overseen by its own Segment CEO. Business performance is reported according to this operational Group structure. For further information regarding the operational Group structure, see page 20 et seqq. ("Oerlikon Group business review") and page 68 et seqq. (Financial report: "Key figures"/"Group").

Listed Group company

OC Oerlikon Corporation AG, Pfäffikon is listed on the SIX Swiss Exchange (symbol: OERL; securities number: 81682; ISIN: CH0000816824). On December 31, 2014, the company's market capitalization totaled CHF 4 247 million. For further information on OC Oerlikon Corporation AG, Pfäffikon see page 125 et seqq.

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 page 134 et seqq. in their legal ownership structure, and on page 120 et seqq. they are listed by country together with each company's share capital, percentage of shares owned and number of employees.

Significant shareholders

	Shareholdings[1]	
	number of shares	in percent[2]
Renova Group[3] (composed of Liwet Holding AG, Zurich, Switzerland, Renova Oil & Gas Ltd., Nassau, Bahamas, Renova Innovation Technologies Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama[4])	144 764 860[4]	42.61
Chase Nominees Ltd., London	10 999 268[5]	3.24

[1] Source: disclosure notifications pursuant to Art. 20 of the Swiss Stock Exchange Law and share register.
[2] Basis: shares issued (339 758 576).
[3] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow.
[4] Source: disclosure notification pursuant to Art. 20 of the Swiss Stock Exchange Law by Renova Group (published by SIX Exchange Regulation on January 9, 2015).
[5] Source: share register as at December 31, 2014.

The disclosure notifications pursuant to Art. 20 of the Swiss Stock Exchange Law that 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 339 758 576, composed of 339 758 576 registered shares, each with a par value of CHF 1.00. The company also has conditional capital amounting to CHF 40 million for convertible and warrant bonds, etc., and CHF 7.2 million for employee stock option plans. The conditional capital for option rights granted to the Financial Creditors amounting to CHF 340 353 is no longer relevant, because those option rights have expired with effect as of June 30, 2014 and can therefore no longer be exercised by the respective owners (see 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 1.00 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, divisions thereof, or of participations, or of 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 conditions 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 1.00 each, by the exercise of option or conversion rights granted to the employees of the company or one of its Group companies under a stock option plan yet to be approved by the Board of Directors. The issuance of shares at less than the stock exchange price is permissible; further 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 through the issuance of a maximum of 340 353 to be fully paid-in registered shares of a par value of CHF 1.00 each, i.e., in the par value of a maximum total amount of CHF 340 353, by the exercise of option rights that 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 subscription right of the shareholders is therefore completely excluded with regard to the entire conditional capital. The option rights granted to the Financial Creditors have expired with effect as of June 30, 2014, and can therefore no longer be exercised by the respective owners. Originally the exercise ratio was 1.0 and the exercise price CHF 6.00 (must fully be paid in cash). After three dilution adjustments in connection with dividends resolved on April 12, 2012, on April 30, 2013, and April 15, 2014, respectively, the exercise ratio was until the expiration of the option right 1.06945 and the exercise price CHF 5.61. The subscription right of the shareholders is completely excluded with regard to the entire conditional capital.

Changes in capital

During 2014, as a result of the exercise of 5 125 318 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 334 633 258 to CHF 339 758 576 by the issuance of 5 125 318 fully paid-in registered shares of a par value of CHF 1.00. During 2013, as a result of the exercise of 8 668 760 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 325 964 498 to CHF 334 633 258 by the issuance of 8 668 760 fully paid-in registered shares of a par value of CHF 1.00. During 2012, as a result of the exercise of 2 840 488 option rights, which were granted to the Financial Creditors of the company under the same Facility Agreement (with the respective amendments), the share capital of OC Oerlikon Corporation AG, Pfäffikon has been increased from CHF 323 124 010 to CHF 325 964 498 by the issuance of 2 840 488 fully paid-in registered shares of a par value of CHF 1.00.

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 131 of the Annual Report.

Shares and participation certificates

The equity securities of OC Oerlikon Corporation AG, Pfäffikon consist exclusively of 339 758 576 fully paid-in registered shares with a par value of CHF 1.00, 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, 2014, there were no convertible bonds or warrant bonds outstanding.

The option rights granted to the Financial Creditors expired with effect as of June 30, 2014 and can therefore no longer be exercised by the respective owners. For further information regarding option rights granted to the Financial Creditors, see the chapter on "Conditional capital for warrants" above.

Stability and competence

The Oerlikon Board of Directors

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. 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. 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
Tim Summers is Director of Renova Management AG.

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, and 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 its 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

Mikhail Lifshitz
1963, Russian citizen,
Member of the Board of Directors,
Member of the Audit Committee

Professional background and education
Mikhail Lifshitz was elected to the Board of Directors at the 2013 Annual General Meeting. Since 2009, he has been Director of High-tech Assets Business Development of Renova Group, and since 2010 CEO of ROTEC, a company of Renova Group. From 2001 to 2009, he served as President of "Global Edge" Group of Companies, which he has owned since 1991. Mikhail Lifshitz holds a graduate degree in Electronic Engineering from the Bauman Moscow State Technical University.

Other activities and vested interests
Mikhail Lifshitz is Chairman of Ural Turbine Works (a company of Renova Group) and a board member of DATADVANCE (an EADS company).

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. From June 2011 until June 2012, he was 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 Süss MicroTec AG and Schaffner Holding AG.

Carl Stadelhofer
1953, Swiss citizen,
Member of the Board of Directors,
Member of the Audit Committee,
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 Renova Group, based in Switzerland. Since 1990, he has been a Senior Partner and since 2011 a Senior Counsel of Klein Attorneys (formerly RKS Rinderknecht Klein & Stadelhofer) in Zurich, Switzerland, specializing 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 Bern, Switzerland, with a degree in Law.

Other activities and vested interests
Carl Stadelhofer is Chairman of Renova Holding Ltd. and other Renova Group companies. He is also Vice Chairman of Renova Management AG. He is Chairman of Stadelhofer Enterprises Ltd. and other Staldelhofer Group companies, including Calle Services Management Ltd. He is also Chairman of LogObject AG and a board member of Conrad Electronic AG, Terraco Holdings Ltd. and Wincap Ltd. He is Chairman of FONDATION ACTERIA, FONDATION MERAC and FONDATION SMARTPEACE, Vice Chairman of Fondation Jean-Pascal Imsand and actuary of International Brachet Foundation.

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 the 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 postgraduate courses in Business Administration and 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, as well as a board member of Schmolz + Bickenbach AG.

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), Kurt J. Hausheer, Mikhail Lifshitz, Gerhard Pegam, Carl Stadelhofer and Hans Ziegler. They were all reelected by the Annual General Meeting of Shareholders on April 15, 2014, 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. They also do not have any significant business connections with companies of the Oerlikon Group.

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 36 et seqq.

Number of permitted mandates

Pursuant to Art. 32 of the Articles of Association, no member of the Board of Directors may hold more than four additional mandates in the supreme governing body of listed companies and ten additional mandates in the supreme governing body of legal entities which are required to be registered in the commercial register or a comparable foreign register. Not subject to these limitations are (1) mandates in inactive companies and in companies that are controlled by OC Oerlikon Corporation AG, Pfäffikon or which control OC Oerlikon Corporation AG, Pfäffikon and (2) mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations, whereby no Member of the Board of Directors shall hold more than ten such mandates. Mandates in different legal entities that are under joint control are deemed one mandate.

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 re-election; 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. Only persons who have not completed their 70th year of age on the election date are eligible. The General Meeting of Shareholders 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.

Composition of the Board of Directors

Name	Nationality	Domicile	Position	Age	Joined	Term expires	Executive / Non-executive
Tim Summers	GB	CH	Chairman	47	2011	2015	Non-executive
Kurt J. Hausheer	CH	CH	Member	67	2008	2015	Non-executive
Mikhail Lifshitz	RU	RU	Member	51	2013	2015	Non-executive
Gerhard Pegam	AT	DE	Member	53	2010	2015	Non-executive
Carl Stadelhofer	CH	CH	Member	61	2008	2015	Non-executive
Hans Ziegler	CH	CH	Member	62	2008	2015	Non-executive

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 shall consist of at least three but not more than seven Board members, the majority of whom should 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 management of OC Oerlikon Corporation AG, Pfäffikon, the Oerlikon Group, an Oerlikon Group company or an audit firm of any of them, nor close to any of the latter, and had no significant business relations whether directly or indirectly with the Oerlikon Group. Should the Board of Directors exceptionally assign certain executive tasks for a limited period of time to one of its Board members, such assignment shall as a rule not for itself qualify such Board member as a dependent member of the BoD.

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 the Board of Directors with 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 the general public.

The Chairman shall convene, prepare and chair Board meetings, and may convene meetings of the Board Committees. He shall coordinate the work of the Board of Directors and the Board Committees and shall ensure that Board members receive in a timely manner all information necessary to perform their duties. 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 among 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. All cases in which the currently existing committees do in fact have authority to decide matters in lieu of the Board of Directors will be specified hereinafter. 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	Chairman
Kurt J. Hausheer	CH	Chairman		
Mikhail Lifshitz	RU	Member		
Gerhard Pegam	AT			Member
Carl Stadelhofer	CH	Member	Member	
Hans Ziegler	CH		Member	Member

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 while in office, or have significant business relations with OC Oerlikon Corporation AG, Pfäffikon or the 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.

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 while in office, or have significant business relations with OC Oerlikon Corporation AG, Pfäffikon or the 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 matters related to human resources, including compensation policies, performance assessment, appointments and succession planning, and other general topics related to human resources.

The HRC shall in particular support the Board of Directors in establishing and reviewing the Corporation's compensation strategy and in preparing the proposals to the General Meeting of Shareholders regarding compensation of the Members of the Board of Directors and of the Executive Committee, and may submit proposals to the Board of Directors in other compensation-related issues. Furthermore, the HRC approves the Annual Pay Plan for the Group (including general salary increases) and the Group-wide compensation policies for non-managerial staff.

Strategy Committee (SC)

As a rule, the SC shall be composed of at least three members of the Board of Directors. All but one must be independent from the Oerlikon Group and not performing any executive management duties within the Oerlikon Group while in office, not have significant business relations with OC Oerlikon Corporation AG, Pfäffikon or the Oerlikon Group, and not have been a member of the Executive Committee in the preceding three years.

The SC monitors that Oerlikon's strategy is properly implemented and complied by the Executive Committee 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 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. The members of the Executive Committee attend the Board meetings by invitation. Each Board member and the CEO may request the Chairman to convene a Board meeting by stating the reasons for such a request.

In 2014, five physical Board meetings were held, lasting on average around six and a half hours. Three Board Meetings were attended by all Board members, whereas in two Board Meetings one Board Member was not able to attend. In addition, seven telephone conferences were held (average duration: 22 minutes). Those Board members who are independent from the Renova Group held twelve meetings in the context of related party transactions. They lasted on average around one hour.

The members of the HRC are elected by the General Meeting of Shareholders, whereas the Chairman of the HRC is appointed by the Board of Directors at the proposal of the Chairman of the Board. The members of the other Committees, i.e. the AC and the SC, 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 Board Member. Those Board members who are not a member of a Committee have the right to attend Committee meetings with consultative vote. As a rule, the CEO, the CFO and the Head of Group Internal Audit should attend the meetings of the AC, and the CEO the meetings of the HRC and 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. At every Board meeting, each Committee Chairman provides the Board with an update on the current activities of his Committee and important Committee issues.

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 2014, there were five physical meetings of the AC, lasting on average around three hours and 20 minutes. In addition, one telephone conference (duration: 25 minutes) was held. The members of the AC participated in the meetings along with members of the Executive Committee and representatives of the Corporate Functions concerned (in particular Group Accounting & Reporting and Group Internal Audit). The external auditors (KPMG AG) took part in three AC meetings. In 2014, the HRC held four physical meetings, lasting on average around three hours and 40 minutes. In addition, one telephone conference (duration: 40 minutes) was held; the SC held six physical meetings, lasting on average around four hours and 25 minutes.

Definition of areas of responsibility

Pursuant to Art. 716b Swiss Code of Obligation 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 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 direction of the business of OC Oerlikon Corporation AG, Pfäffikon and issuing of the relevant directives;
- to lay down the organization of OC Oerlikon Corporation AG, Pfäffikon;
- to formulate accounting procedures, financial controls and financial planning;
- to nominate and remove persons entrusted with the management and representation of OC Oerlikon Corporation AG, Pfäffikon and to regulate the power to sign for OC Oerlikon Corporation AG, Pfäffikon;
- the ultimate supervision of those persons entrusted with management of the OC Oerlikon Corporation AG, Pfäffikon with particular regard to adherence to law, to the Articles of Association and to the regulations and directives of the OC Oerlikon Corporation AG, Pfäffikon;
- to issue the Annual Report and the Compensation Report and to prepare for the General Meeting of Shareholders and to carry out its resolutions;
- to inform the court in case of indebtedness; and
- to determine the strategic direction and to approve the strategy for the Oerlikon Group and its Segments.

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 that 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. However, the CEO will take the final decision on all issues relating to the operational management.

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 at www.oerlikon.com/en/investor-relations/corporate-governance/investor-relations-new-statutes/.

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 (if any) must be immediately notified to the Chairman of the Board of Directors and to the Chairman of the relevant Committee. 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, 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 & reporting: The Group Accounting & 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 Directors with an institutionalized Group reporting on a monthly basis. This is consolidated to show the performance of each Business Unit and the Group and explains the reasons for any deviations of the key performance indicators. The Board of Directors may demand access to the relevant details at any time. Furthermore, Group Accounting & Reporting ensures compliance with International Financial Reporting Standards (IFRS).

Controlling: With regard to mid-term controlling, the key instruments are specific analyses prepared by the Segments, as well as annually updated 3-Year Business Plans on the Group and Segment level. In terms of short-term controlling, the Board of Directors receives the annual financial plan (budget) as well as periodic financial forecasts for the current fiscal year. In addition to the business updates provided by the CEO or CFO at the Board of Directors and Audit Committee meetings, the Board of Directors and the Executive Committee receive a monthly actual/target analysis of the key financials to assist them in the assessment of the Segments' performance and potential corrective measures. Furthermore, the Executive Committee holds regular business reviews and meetings on the Group and Segment level, examining current performance and outlook, market competitive dynamics, Segment product portfolios and scenarios explored to improve Segment value creation.

Risk management: A key component of the Risk Management System is the generation and quarterly update of risk profiles 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 to the Executive Committee, the Audit Committee and the Board of Directors is performed semi-annually based on consolidated risk reports. 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 58 et seqq. ("Risk management and compliance"), page 104 et seqq. (Note 19 to the consolidated financial statements) and page 129 (Note 18 to the financial statements of OC Oerlikon Corporation AG, Pfäffikon).

Compliance: There is a Group-wide compliance function in order to ensure compliance with legal, regulatory and internal regulations as well as the Group's ethical standards, in particular by preventive measures, training, information and consulting. The foundation of the new compliance program has been laid and enhanced over the years 2009 until 2012 with focus on key areas aligning compliance with business' strategic priorities in 2013. The focus for 2014 was on behavioral aspects of leadership awareness while dealing with integrity issues and on revising the business partner integrity screening process, which has been refined and improved. The suite of comprehensive compliance eLearning modules has been enhanced with a Trade Control module addressing all import- and export-relevant questions for our business. For further information regarding compliance, see page 58 et seqq. ("Risk management and compliance").

Internal audit: Group 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 Chairman of the AC and administratively to the CFO. The AC approves the budget, the resources and the internal audit plan for the following year every fall. Group Internal Audit closely coordinates their plans and activities with the external auditor. 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 strikes the appropriate balance between operational, financial, compliance and follow-up reviews. The results of internal audits are communicated to the management team responsible, the Executive Committee, the AC, the Chairman of the Board and the external auditors through formal audit reports. During 2014 Group Internal Audit conducted more than 50 internal audits.

External audit: The external auditor examines the books and accounts of OC Oerlikon Corporation AG, Pfäffikon and those of the Oerlikon Group, coordinating his audit plan with that of Group 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 prepares a summary thereof for the Annual General Meeting of Shareholders. Since 2003, the external audit has been carried out by KPMG AG. For further information regarding auditors, see page 47.

The continuing independence of the external auditors is ensured by written representations provided by the auditors and also by the 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

Dr. Brice Koch
1964, Swiss and French citizen,
Executive Committee Member
since January 16, 2014,
Chief Executive Officer (CEO)*

Professional background and education
Dr. Brice Koch was appointed Chief Executive Officer effective January 16, 2014. From 2010 to 2013 he was a member of the Executive Committee of the ABB Group. From 2012 to 2013, he acted as Head of Power Systems Division and between 2010 and 2012, Dr. Brice Koch served as Head of Marketing and Customer Solutions. From 2007 to 2009, he acted as Country Manager in China (Chairman and President of ABB China) and Region President ABB North Asia. Between 2002 and 2006, Dr. Brice Koch held the position of Global Head of Transformers Business Unit, ABB, Switzerland/member of Power Products Division management team. From 1994 to 2001, he filled several management positions within ABB, Switzerland. Dr. Brice Koch graduated from the Swiss Federal Institute of Technology (ETH), Zurich, Switzerland, with a degree in Mechanical Engineering (specializing in Economy and Management) and a PhD in Material Science.

Other activities and vested interests
Dr. Brice Koch is a member of the Board of Trustees of the ETH Foundation.

Jürg Fedier
1955, Swiss citizen,
Executive Committee Member
since January 1, 2009,
Chief Financial Officer (CFO)*

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, and 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 vested interests
Jürg Fedier has been nominated to the Board of Directors of Dätwyler Holding Inc.

Dr. Roland Herb
1963, German citizen,
Executive Committee Member
since June 3, 2014,
Segment CEO Surface Solutions*

Professional background and education
Dr. Roland Herb was appointed CEO of the Surface Solutions Segment effective June 3, 2014. Between 2010 and 2014, he served as Head of Tools of Oerlikon Balzers. From 2006 to 2010 Dr. Roland Herb acted as Head of the strategic Business Units Tools, Forming Tools and Components of Oerlikon Balzers. Beyond that he assumed overall responsibility for global expansion and system sales. Between 1997 and 2006 Dr. Herb held further positions such as Project Manager R&D, Product Manager and Head of Equipment Business in Oerlikon. Various positions at different companies preceded his professional commitment with Oerlikon. Dr. Roland Herb holds both an MSc and PhD in physics from the University Tübingen, Germany.

Other activities and vested interests
None

Georg Stausberg
1963, German citizen,
Executive Committee Member
since January 1, 2015,
Segment CEO Manmade Fibers*

Professional background and education
Georg Stausberg has been Segment CEO Manmade Fibers since 2015. Between 2012 and 2014 he served as CTO and COO of the segment. From 2008 to 2012 Georg Stausberg acted as CEO of the Business Unit Oerlikon Neumag. Between 2000 and 2008 he was leading the After Sales Division and the Gear Pump Divison of Barmag. From 1989 to 2000 Georg Stausberg was acting as R&D Engineer at Barmag. Georg Stausberg graduated from the RWTH Aachen University with a degree in Mechanical Engineering (Dipl.-Ing.).

Other activities and vested interests
None

Dr. Bernd Matthes
1960, German and US citizen,
Executive Committee Member
since April 1, 2014,
Segment CEO Drive Systems*

Professional background and education
Dr. Bernd Matthes was appointed Segment CEO Drive Systems effective April 1, 2014. Between 2009 and 2014, he served as President (and founder) of Automotive Strategy Consultants LLC. In 2009 Dr. Bernd Matthes acted as Vice President, President and General Manager DualTronic Transmissions at BorgWarner, Inc. From 2005 to 2009, he was Vice President, President and General Manager Transmission Systems at BorgWarner, Inc. Between 2002 and 2005, Dr. Bernd Matthes served as Vice President Operations Europe and General Manager DualTronic at BorgWarner Transmission Systems. From 1993 to 2002, he filled several management positions within BorgWarner, Germany. Dr. Bernd Matthes holds both a MSc and a PhD in Mechanical Engineering from TU Darmstadt, Germany.

Other activities and vested interests
Dr. Bernd Matthes is a member of the Global Advisory Board, Center for Global Leadership and Understanding, Lawrence Technological University, Southfield, USA.

Dr. Martin Füllenbach
1968, German citizen,
Executive Committee Member
since February 11, 2014,
Segment CEO Vacuum*

Professional background and education
Dr. Martin Füllenbach has been Segment CEO Vacuum since 2012. Between 2007 and 2012, Dr. Martin Füllenbach served as Executive Vice President of Voith Turbo. From 2004 to 2007, he acted as Vice President Strategy & Business Development of Voith Turbo. From 2002 to 2003, Dr. Martin Füllenbach was Vice President Program Planning Military Combat Aircraft at EADS. Between 1998 and 2002, he filled several management positions with EADS and DaimlerChrysler Aerospace. Dr. Martin Füllenbach holds a Master's degree in Economics from the University of the Federal Armed Forces in Munich, Germany, and a PhD in Economics from Friedrich-Alexander University Erlangen-Nürnberg, Germany.

Other activities and vested interests
None

* A description of the role and authority of the Members of the Executive Committee can be found in the company's Organizational and Governance Rules, published on the Oerlikon website at www.oerlikon.com/en/investor-relations/corporate-governance/investor-relations-new-statutes/.

Stefan Kross
1955, German citizen, Executive Committee Member since February 11, 2014, Segment CEO Manmade Fibers*

Professional background and education
Stefan Kross has been Segment CEO Manmade Fibers since 2012. Between 2008 and 2011, he served as CEO of Oerlikon Barmag. From 2003 to 2008, Stefan Kross acted as Chief Technology Officer of Saurer Textile Solutions. Between 2001 and 2003, he was CEO Business Unit Winding/member of the Board of Schlafhorst AG. Between 1983 and 2000, he filled several management positions with different companies. Stefan Kross graduated from the RWTH Aachen University, with a degree in Mechanical Engineering (Dipl. Ing.).

Other activities and vested interests
Stefan Kross is a member of the board of VDMA Textile Germany.

Andreas Dill
1954, Swiss citizen, Executive Committee Member since February 11, 2014, Segment CEO Advanced Technologies*

Professional background and education
Andreas Dill has been Segment CEO Advanced Technologies since 2010. Between 2007 and 2010, Andreas Dill served as Senior Vice President, Head of Systems of Oerlikon Balzers. From 2006 to 2007, he acted as Vice President, Deputy Head of Systems of Oerlikon Balzers. Between 2003 and 2006, Andreas Dill held the position Vice President, General Manager Wafer Processing Europe, of Oerlikon Balzers. From 2000 to 2003, he was Vice President, Head of SBU Advanced Silicon Semiconductors of Oerlikon Balzers. From 1985 to 2000, Andreas Dill filled several management positions with the Oerlikon Group and Zevatech AG. Andreas Dill graduated from the Swiss Federal Institute of Technology (ETH), Zurich, Switzerland, with a Master's degree in Electrical Engineering and did postgraduate research at McGill University, Montreal, Canada.

Other activities and vested interests
Andreas Dill is a board member of Cicor Technologies AG.

* A description of the role and authority of the Members of the Executive Committee can be found in the company's Organizational and Governance Rules, published on the Oerlikon website at www.oerlikon.com/en/investor-relations/corporate-governance/investor-relations-new-statutes/.

Executive Committee

Management philosophy
The Oerlikon Group works with a decentralized management structure. This means that Group Headquarters determines strategic guidelines and sets targets, monitoring these with effective management processes and controlling; Segments and Business Units are then responsible for operations and for implementing the agreed strategy within given guidelines.

Members of the Executive Committee
On December 31, 2014, the Executive Committee consisted of Dr. Brice Koch, CEO (since January 16, 2014), Jürg Fedier, CEO ad interim until January 15, 2014, and CFO, Andreas Dill, Segment CEO Advanced Technologies (Executive Committee Member since February 11, 2014), Dr. Martin Füllenbach, Segment CEO Vacuum (Executive Committee Member since February 11, 2014), Dr. Roland Herb, Segment CEO Surface Solutions (Executive Committee Member since June 3, 2014; replaced Dr. Hans Brändle, who was Member of the Executive Committee from February 11, 2014, to June 2, 2014), Stefan Kross, Segment CEO Manmade Fibers (Executive Committee Member since February 11, 2014), and Dr. Bernd Matthes, Segment CEO Drive Systems (Executive Committee Member since April 1, 2014). On January 1, 2015, Georg Stausberg replaced Stefan Kross as Segment CEO Manmade Fibers and at the same time became a new Member of the Executive Committee.

With the exception of Andreas Dill, Dr. Roland Herb and Stefan Kross, the Members of Oerlikon's Executive Committee did not previously carry out tasks for OC Oerlikon Corporation AG, Pfäffikon or any other Group company. For further information, see page 44 et seqq.

Other activities and vested interests
Regarding the activities of the Members of the Executive Committee in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law, as well as permanent management and consultancy functions for important Swiss and foreign interests groups and official functions and political posts, see page 44 et seqq.

Composition of the Executive Committee

Name	Nationality	Age	Position	Joined	In position since	Stepped down
Dr. Brice Koch	CH/FR	50	CEO	2014	16.01.2014	
Jürg Fedier	CH	59	CFO[1]	2009	01.01.2009	
Andreas Dill	CH	60	Segment CEO Advanced Technologies	2014	11.02.2014	
Dr. Martin Füllenbach	DE	46	Segment CEO Vacuum	2014	11.02.2014	
Dr. Roland Herb	DE	51	Segment CEO Surface Solutions	2014	03.06.2014	
Stefan Kross	DE	59	Segment CEO Manmade Fibers	2014	11.02.2014	31.12.2014
Dr. Bernd Matthes	DE/USA	54	Segment CEO Drive Systems	2014	01.04.2014	
Dr. Hans Brändle	CH	53	Segment CEO Surface Solutions	2014	11.02.2014	02.06.2014
Georg Stausberg	DE	51	Segment CEO Manmade Fibers	2015	01.01.2015	

[1] And CEO ad interim from March 14, 2013 until January 15, 2014.

Number of permitted mandates
Pursuant to Art. 32 of the Articles of Association, no member of the executive management may hold more than four additional mandates in the supreme governing body of listed companies and ten additional mandates in the supreme governing body of legal entities that are required to be registered in the commercial register or a comparable foreign register. Not subject to these limitations are (1) mandates in inactive companies and in companies that are controlled by OC Oerlikon Corporation AG, Pfäffikon or that control OC Oerlikon Corporation AG, Pfäffikon and (2) mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations, whereby no Member of the executive management shall hold more than ten such mandates. Mandates in different legal entities that are under joint control are deemed one mandate. According to the internal chart of competencies, board memberships in third party companies require for the CEO the approval of the Chairman of the Board, and for the other Executive Committee Members the approval of the CEO.

Management contracts
There are no management contracts with third parties.

Shareholders' participation

Voting rights restrictions and representation
The right to vote and the other member rights may only be exercised by shareholders or beneficiaries who are registered in the share register. Any shareholder may appoint the independent proxy, another registered shareholder with written authorization or his legal representative to act as proxy to represent his shares at the General Meeting of Shareholders. The Chairman decides whether to recognize the power of attorney. Regarding the written or electronic issuing of the proxy and of instructions to the independent proxy, the Articles of Association do not contain any provisions that deviate from the legal provisions. Those entitled to vote in the General Meeting of Shareholders are the shareholders whose names are entered in the share register as voting registered shareholders at such cut-off date as shall be determined by the Board of Directors. Otherwise, there are no restrictions on voting rights.

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 Annual General Meeting of Shareholders
Supplemental to the statutory legal provisions, the company's Articles of Association provide for the convocation of an Annual General Meeting of Shareholders by a one-off announcement in the Swiss Official Gazette of Commerce.

Inclusion of items on the agenda
The 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 42nd General Meeting of Shareholders will be held on April 8, 2015, in the KKL Luzern (Culture and Convention Center), Lucerne. Entitled to vote in the General Meeting of Shareholders are those 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 Annual General Meeting
The minutes of the 41st General Meeting of Shareholders held on April 15, 2014, can be viewed on the Internet at http://www.oerlikon.com/en/investor-relations/investor-relations-new-generalmeeting/ and shareholders may also read the minutes at Group Headquarters upon prior notice. The minutes of the 2015 Annual General Meeting of Shareholders 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 Art. 32 and 52 of the Federal Act on Stock Exchanges and Securities Trading (opting out).

Clauses on changes of control
There are no change of control clauses in agreements and schemes benefiting Members of the Board of Directors and/or of the Executive Committee, as well as other members of the Oerlikon management.

Auditors

Duration of the mandate and term of office of the lead auditor
KPMG AG has been the auditor of the company since 2003, and was elected by the Annual General Meeting of Shareholders of May 23, 2003, for the first time. The auditor is elected by the Annual General Meeting of Shareholders for a one-year term of office. At the 41st Annual General Meeting of Shareholders of April 15, 2014, KPMG was confirmed in that role for an additional year. The lead auditor responsible for the mandate, Mr. Thomas Affolter, has served in this function since the financial year that ended on December 31, 2012. In accordance with Art. 730a para. 2 of the Swiss Code of Obligations, the lead auditor's term of office is a maximum of seven years.

Auditing fees
In the calendar year 2014, KPMG invoiced the company for CHF 2 911 849 in global auditing fees.

Additional fees
In the calendar year 2014, KPMG invoiced the company for CHF 258 924 in additional services. The additional fees were mainly invoiced for worldwide general and project-specifically tax consultancy.

Informational instruments pertaining to an external audit
In accordance with Art. 728b para. 1 of the Swiss Code of Obligations, the external auditors provide the Board of Directors, on an annual basis, with a comprehensive report with conclusions on the financial reporting and the internal controlling system as well as the conduct 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 AC.

Once the auditing work has been completed, the AC 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 to this, the AC 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 AC meets regularly with the lead auditor and other representatives of the auditing firm. The latter also participate in meetings of the AC dealing with the relevant agenda points. In the reporting year, KPMG AG participated in three meetings of the AC.

On behalf of the Board of Directors, the AC 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 AC 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 AC and subject to the approval of the Board of Directors.

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

Material changes since the balance sheet date
As of January 1, 2015, Georg Stausberg is the new Segment CEO Manmade Fibers and at the same time new member of the Executive Committee. As a consequence of the sale of the Advanced Technologies Segment, as of February 2, 2015, Andreas Dill is no longer a Member of the Executive Committee.

Information policy

General
Oerlikon provides its shareholders and the capital markets with transparent, comprehensive and timely information on relevant facts and developments, and in a manner that is in line with the principle of equal treatment of all stakeholders, including the public and all actual and potential 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 its key financial figures and a related commentary for the first and third quarters of its financial year. In this way, Oerlikon increases its communication and transparency. Additionally, Oerlikon issues press releases on key Company news during the year to ensure that shareholders and market participants are informed of significant changes and developments in the Company. The Company's website, www.oerlikon.com, offers a permanently accessible platform for all current 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) to the public, including all market participants.

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

Press releases
Press releases published in 2014, along with previous releases dating back to January 2004, can be accessed on Oerlikon's website at www.oerlikon.com/pressreleases. Those interested in receiving the Company's press releases regularly by e-mail can subscribe to the service at www.oerlikon.com/en/media/press-releases/registration-for-corporate-news/.

Financial calendar
For the financial calendar with Oerlikon's 2015 key financial disclosure events, please refer to page 67 under the "Financial report" section of this Annual Report. The financial calendar including further details on dates of roadshows, conferences and events can be found at www.oerlikon.com/en/investor-relations/investor-relations-new-financialcalendar.

Contact
Please refer to page 67 under the "Financial report" section of this Annual Report for contact information of the Oerlikon Group, Investor Relations and Corporate Communications.

Remuneration report

Shareholder letter

Dear Shareholders

It is with pleasure that as Chairman of the Human Resources Committee (HRC) I present to you the 2014 remuneration report of OC Oerlikon Corporation AG, Pfäffikon.

The work of the HRC in 2014 was mainly characterized by the implementation of the Compensation Ordinance. OC Oerlikon was among those companies that amended its articles of association at the first Annual General Meeting (AGM) following the release of the Compensation Ordinance. It also was among the first companies to hold a binding vote on the maximum amount of total compensation of the Board of Directors and the maximum amount of fixed compensation of the Executive Committee.

Given the new requirements of the Compensation Ordinance, the remuneration report 2014 differs from previous ones:

- Disclosure in the remuneration report replaces the previous disclosure in the notes to the statutory financial statements. As in previous years, the remuneration report of OC Oerlikon contains all required disclosures on the compensation of the Board of Directors and the Executive Committee.
- Specific sections are for the first time reviewed and signed-off by the auditors.
- The compensation table for the Executive Committee has been expanded to show three perspectives, namely the effective compensation amounts that have been paid in 2014 and the forward-looking target value amounts that have been granted in 2014 and their market value at the year-end. Although slightly more complex to read, these perspectives enable shareholders to better interpret the amounts they are voting on – that is the target value amounts granted – and to monitor the relation between the company's performance and the Management's remuneration.

With respect to the binding votes on remuneration at the Annual General Meeting of Shareholders (AGM) 2015, the Board of Directors proposes to approve a maximum aggregate amount of:

- total compensation of the Board of Directors for their term of office from the AGM 2015 to the AGM 2016 of CHF 2.0 million.
- fixed compensation of the Executive Committee for the period starting on July 1, 2015 and ending on June 30, 2016 of CHF 5.9 million.
- variable compensation of the Executive Committee for the past financial year, i.e. for the period starting on January 1, 2014 and ending on December 31, 2014 of CHF 12.5 million.

The amounts to be approved exclude legally required employer's contributions paid to the company. On a per member basis fixed pay components of the Board of Directors are proposed to remain unchanged while the fixed aggregate compensation of the Executive Committee is proposed to decrease by 5 % on a like-for-like basis. The variable compensation program has remained constant compared to the prior year, hence amounts will vary depending on achievement against performance conditions.

Sincerely

Tim Summers
Chairman of the Human Resources Committee

With this remuneration report, Oerlikon meets the requirements of Articles 13–16 of the Compensation Ordinance and Para. 5 of the Annex to the Corporate Governance Directive (DCG) of the SIX Swiss Exchange, governing the disclosure of remuneration systems and compensation paid to members of the Board of Directors and the Executive Committee. Moreover, in regard to remuneration reporting, Oerlikon voluntarily complies with economiesuisse's Swiss Code of Best Practice for Corporate Governance.

Amendments to our Articles of Association to comply with the Compensation Ordinance were approved at the Annual General Meeting of Shareholders (AGM) 2014. The revised Articles of Association include rules on the principles applicable to performance-related pay and to the allocation of equity securities (Art. 30), additional amounts for payments to Executive Committee members appointed after the vote on pay at the AGM (Art. 29) and the vote on pay at the AGM (Art. 28). Details on these rules are available on our website, at the "Oerlikon – Investor Relations" webpage: http://www.oerlikon.com/en/investor-relations/corporate-governance/investor-relations-new-statutes/.

Compensation for the Board of Directors and the Executive Committee is made up of various components, which are described in detail in this report. This section discloses a summary of the following aspects for 2014:

- General principles of the compensation policy
- Setting and approving compensation
- Compensation system and compensation paid or granted to the Board of Directors in 2014
- Compensation systems and compensation paid or granted to the Executive Committee in 2014

Compensation policy

Attractive, motivating, fair and simple compensation for all staff is the foundation of Oerlikon's performance-based corporate culture. The compensation systems provide competitive base salaries and attractive incentive schemes. They give equal consideration to individual and company performance, reward excellence and promote an entrepreneurial attitude.

To determine competitive and equitable compensation, Oerlikon uses external and internal benchmarks. The company establishes its external equity by continuously surveying the markets in which it operates, and its internal equity is established by following a Performance Management process. Performance Management is a crucial element in assessing the achievement of expectations and targets in relation to individual and business results.

Determining compensation

The Human Resources Committee (HRC) supports the Board of Directors in all matters relating to the compensation and Performance Management systems in place at Oerlikon, in particular:

- the compensation policies for members of the Board of Directors, the Executive Committee and Group-wide managerial and non-managerial staff;
- the preparation of the proposals to the AGM regarding the aggregate compensation amounts for the Board of Directors and the Executive Committee
- the annual Pay Plan for the Group (including general salary increases);
- the objectives for the CEO and assessment of his performance;
- the performance assessment of Executive Committee members by the CEO.

The compensation policies for the Board of Directors and the Executive Committee require an ongoing review of whether or not the compensation offered is:

- competitive, transparent and fair, by analyzing comparable companies and salary trends in the market;
- commensurate with the company's results and individual performance;
- consistent with Oerlikon's values and long-term strategy.

This review is conducted by the HRC on an annual basis, reported to the Board of Directors following each meeting and forms the basis for the Board of Directors to approve in:

- December, the target compensation of the members of the Board of Directors and the Executive Committee for the following year;
- February, the fixed compensation of the members of the Board of Directors and the Executive Committee as well as the performance and variable compensation of members of the Executive Committee for the past year;
- February and October, Long-Term Incentive (LTI) grants, i.e. participants in equity programs and share awards allocated to them.

Based on the Compensation Ordinance, the aggregate amounts for compensation of the Board of Directors and the Executive Committee are subject to approval by the AGM. Within these confines, the internal approval and decision processes are as follows:

Approval process

Decision on	Prepared by	Set by	Approved by
Compensation of members of the Board of Directors (incl. Chairman)	Chairman	Human Resources Committee	Board of Directors
Compensation of the CEO, incl. fixed and variable compensation	Chairman	Human Resources Committee	Board of Directors
Compensation of members of the Executive Committee, incl. fixed and variable compensation	CEO	Human Resources Committee	Board of Directors

The Chairman of the Board of Directors is present at the meeting when decisions are approved by the Board of Directors, including his own remuneration. In his role as Chairman of the HRC, he is also involved in the determination of Board remuneration, including his own. Members of the Board of Directors, other than those of the HRC, do not participate in determining the remuneration of Directors.

The CEO is involved in determining the remuneration of members of the Executive Committee and is present when the Board of Directors approves it, except when concerning his own remuneration.

Board of Directors

Compensation system

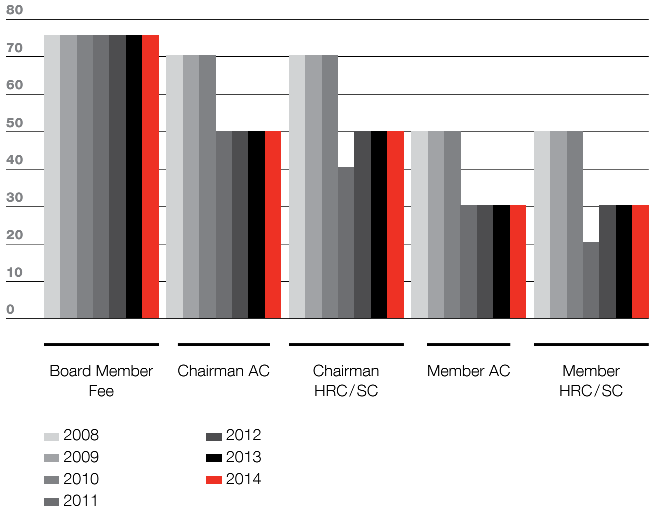
The compensation system applicable to the members of the Board of Directors consists of a fixed cash component and a fixed face value of restricted stock units (RSU). The cash component depends on the responsibility, complexity and requirements of the tasks assumed. Each task is remunerated differently and the compensation components are cumulated, depending on the number of tasks assumed by each member, as per the chart below. The level of compensation for each of the components is set by the HRC, taking into account the expenditure of work required from Board and Committee members, and approved by the Board of Directors. Board remuneration is reviewed against external benchmarks on an annual basis. In 2014, a survey of 7 SMI, 9 SMIM and 16 small caps companies in the basic materials, industry and technology sectors was conducted by PwC and confirmed the compensation levels to be appropriate. PwC also provides other compensation services to the Oerlikon Group and its subsidiaries. The members of the Board of Directors are remunerated for their service from the date of their election and for the duration of their term of office.

Cash compensation

in CHF 000	Compensation	Expense allowance
Member of the Board of Directors	75	5
Chairman of the Board of Directors	75	10
Chairman of a Committee	50	
Member of a Committee	30	

The compensation is reviewed by the HRC on an annual basis and, if necessary, adjusted by the Board of Directors based on a proposal by the HRC prior to submitting the aggregate amount to a vote at the AGM.

Cash Compensation 2008–14
in CHF 000



No changes to the cash compensation for members of the Board of Directors have been made since 2012.

The face 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 face value by the volume-weighted average share price (VWAP) over the first 10 trading days of the financial year. RSU are blocked from the grant date on the day of the AGM until the following AGM, 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 Oerlikon shares may be reduced at the sole discretion of the Board of Directors. The RSU program is financed with treasury shares.

No changes to the equity compensation for members of the Board of Directors have been made since 2008.

Valuation

The value of equity awards for the Board and Executive Committee programs is determined as follows:

Face Value	Annual target amount in CHF
Target Number	Face value divided by Volume Weighted Average Share Price (VWAP) in awards
Target Value	Target number multiplied by the share price at grant date in CHF
Market Value	Target number multiplied by performance (if applicable) and the share price at year-end in CHF
Effective Value	Target number multiplied by performance (if applicable) and the share price at vesting date in CHF

	Face value (in CHF 000)		VWAP (in CHF)		Number of RSU		Share price at grant date (in CHF)		Target value at grant date (in CHF 000)	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Chairman	280	280	14.1	12.6	19 844	22 169	14.2	10.8	282	239
Board member	125	125	14.1	12.6	8 859	9 897	14.2	10.8	126	107

Compensation 2014

No member of the Board of Directors served in an executive role in 2014. Total compensation paid to the six non-executive members of the Board of Directors in 2014 was CHF 1.8 million. The nominal increase compared to 2013 stems from a higher target value of RSU of an otherwise unchanged face value (see table above). Since all components are fixed, no ratio between fixed and variable compensation is presented.

Compensation of non-executive members of the Board of Directors (audited)

in CHF 000	Board of Directors	Strategy Committee	Audit Committee	HR Committee	Cash	RSU (Target value at grant date)[1]	Other[2]	Total compensation 2014	Total Compensation 2014 (Market value per year-end)[3]	Total compensation 2013[4]
Tim Summers	C	C		C	175	282	41	498	464	457
Kurt J. Hausheer	M		C		125	126	19	270	255	252
Mikhail Lifshitz	M		M		105	126	21	252	237	186
Hans Ziegler	M	M		M	135	126	23	284	268	266
Carl Stadelhofer	M		M	M	135	126	23	284	268	255
Gerhard Pegam	M	M			105	126	21	252	237	216
Total					780	912	148	1 840	1 729	1 632
Estimated Mandatory Employer Contributions[5]								97	92	86

C(hairman), M(ember)

[1] The share price at grant date of RSU was CHF 14.2.
[2] Other compensation consists of social security contributions and an expense allowance which are paid by OC Oerlikon Corporation AG, Pfäffikon.
[3] The market value per year-end is based on a share price of CHF 12.5. The RSU market value amount represents the as yet unrealized value of RSU awards at financial year end.
[4] The total compensation for 2013 was reported as CHF 1.7 million. The difference to 2014 stems from two Board members who served until the AGM 2013 and the difference in target value at grant date.
[5] The Compensation Ordinance requires the disclosure of estimated employer contributions to social security. The actual employer contributions due on RSUs will depend on the share price at vesting date.

Members of the Board of Directors did not receive any fees or other remuneration for additional services to OC Oerlikon or its subsidiaries in the 2014 business year. Neither OC Oerlikon nor its subsidiaries granted any guarantees, loans, advances or credit facilities to members of the Board of Directors or related parties in 2014 or 2013.

No compensation was paid to any former members of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon, or a Group company, or related parties in 2014 or 2013.

Management

On February 11, 2014, the Executive Committee was enlarged from 2 to 7 members. Dr. Brice Koch joined on January 16, 2014, Dr. Bernd Matthes joined on April 1, 2014 and Dr. Roland Herb replaced Dr. Hans Brändle on June 3, 2014.

Compensation system

The compensation system for the Executive Committee consists of fixed and variable components. The fixed component entails a base salary commensurate with the role and local market level and, depending on local practice, includes allowances and fringe benefits. The variable component entails a performance-related annual cash bonus (Short-Term Incentive) and a three-year performance-related equity program (Long-Term Incentive). The mix between these components is defined by the profile, strategic impact and pay level of the role, as described hereinafter.

In 2014, the proportion of variable compensation of members of the Executive Committee was between 50 % and 108 % of base salary for the target STI and between 35 % and 175 % of base salary for the target LTI.

No members of the Executive Committee were present when decisions on their respective compensation were made.

Base salary

The base salary is determined primarily by the executive's tasks, responsibilities, skills and managerial experience, as well as market conditions, and is paid in cash. It was benchmarked with data from Towers Watson and Mercer against comparable positions in companies of comparable size in terms of revenue, employees and geographical scope that are operating in the general industry in some of the major markets in which we operate – including Switzerland, Germany, Italy and the USA. Towers Watson and Mercer also provide other compensation services to the Oerlikon Group and its subsidiaries.

Short-Term Incentive (STI) program

The Oerlikon Short-Term Incentive (STI) program is a simple and clear annual cash bonus aimed at motivating managers and specialists to focus their efforts on specific financial and individual objectives. It helps them to align their efforts, promotes initiative and contributes to the performance of individuals and the company.

The STI program for the Executive Committee consists of financial and individual objectives as well as strategic milestones. Financial objectives include Sales Growth, EBIT Margin and return on net assets (RONA) and account for 75 %, strategic milestones for 15 % and individual objectives for 10 % of the target bonus.

Financial objectives are set for each business on Group and Segment level and are aimed at increasing the growth, profitability and return on capital of the respective business.

Strategic milestones are defined for the Group and Segments to focus on the timely and incremental achievement of medium and longer-term business objectives.

Individual objectives include among other things the improvement of health, safety and environment throughout the Group for each member of the Executive Committee.

The Board of Directors approves the financial objectives and strategic milestones of members of the Executive Committee at their meeting in December for the following year. Individual objectives are approved at the meeting in February.

Financial targets are based on the annual budget and the payout on the actual financial results. A financial result at target corresponds to a payout of 100 % of target bonus, at the lower threshold 50 %, and below the lower threshold 0 %. No upper threshold exists for financial objectives, while strategic milestones and individual objectives are generally capped at 100 % of target bonus. In certain cases, a specific milestone or individual objective can be rewarded with more.

The HRC reviews the STI performance at each of their meetings during the year and endorses the required accruals which are at the basis of the disclosure below at the December meeting.

Finally, the HRC determines the overall STI payout, including the Executive Committee, based on factual business circumstances and reasonable business judgment in order to achieve a fair result originated from true performance, and will make a recommendation to the Board of Directors for a final decision in February. At this meeting, the HRC also recommends to the Board of Directors, the aggregate amount for variable pay components that are submitted to a vote to the AGM for approval.

For the Executive Committee, the average payout for the STI 2014 is 108 %. The average payout of the STI 2013 reached 107 %.

Long-Term Incentive (LTI) program

The Oerlikon Group aims to manage its business portfolio efficiently in order to create added value for its shareholders. To meet these ambitious goals, it is essential that the Oerlikon Group is able to attract, motivate and retain key employees. The Board of Directors therefore decided to issue a 2014 grant of the long-term Performance Share Program (LTI plan 2014) to reward the increase in total shareholder return (TSR) relative to that of peer companies. The Board of Directors decides every year on issuing a new grant under this program which has been in place since 2012.

The LTI plan 2014 is based on performance conditions measured over a period of three years from January 2014. The performance conditions are based on Oerlikon's TSR within a comparator group over a three-year period. The peer group is reviewed every year by the HRC. Due to the divestment of the Textile businesses in 2013, the peers of Manmade Fibers were adjusted accordingly for the LTI plan 2014 with companies from the mechanical engineering sector. [1]

List of companies:

Group (Swiss peers)	Group (International peers)	Surface Solutions Segment	Manmade Fibers Segment[1]	Drive Systems Segment	Vacuum Segment
ABB	GEA	Bodycote	Andritz	American Axle	Atlas Copco
Georg Fischer	General Electric	Kennametal	Dürr	Bharat Gears	Gorman Rupp[2]
Sulzer	Siemens	Praxair	Heidelberger Druckmaschinen	BorgWarner	Inficon
	Sumitomo	Sandvik		Brembo	Ingersoll Rand
	ThyssenKrupp		Schweiter Technologies	Carraro	Pfeiffer Vacuum
				Dana	

[1] Redefined after sale of natural fibers businesses. Replaced natural fibers companies (Jingwei, Lakshmi and Rieter Textile) with companies from the mechanical engineering sector (Andritz, Dürr and Heidelberger Druckmaschinen).
[2] Gorman Rupp replaced Gardner Denver after its delisting.

TSR is a standard metric used for measuring stock performance. It is defined as the net change in share price plus any dividend distributions over a period of time. In this case, the performance period is three years.

TSR is measured with a starting value of the VWAP over the first 30 trading days of the first year and an ending value of the VWAP over the last 30 trading days of the third year. The rank of Oerlikon's TSR at the end of the performance period determines the effective number of Performance Share Awards (PSA). Participants can elect at the beginning of the plan whether the effective number of PSA is fully converted into shares or whether 70 % are received in shares and 30 % are sold upon vesting to receive the corresponding value in cash.

At Rank 3 or above of the peer group of 28 companies, a maximum payout of 200 % of target performance share awards (PSA) is converted into shares. At Rank 10 of the peer group, the payout is 100 %, at Rank 15 it is 80 % and at Rank 20 or below, it is 0 %.

In 2014, members of the Executive Committee received a portion of their compensation in the form of awards of OC Oerlikon Corporation AG, Pfäffikon, stock. Grants were made to all members of the Executive Committee to the LTI plan 2014 and to some members also to the LTI plan 2012 and 2013. The LTI program is financed with treasury shares.

Earlier Long-Term Incentive (LTI) program (legacy plan)

In 2011, members of the Executive Committee and senior management could receive a portion of their compensation in the form of awards of OC Oerlikon Corporation AG, Pfäffikon, stocks, which are subject to 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) that are converted into shares.

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

In 2014, a grant was made to one member of the Executive Committee to the LTI plan 2011 as part of the policy for new hires to the Executive Committee. Grants issued under the previous LTI program were governed by the respective policy and vested in 2014. The LTI program was financed with treasury shares and has been discontinued since the last vesting date.

Shareholding requirement

Since 2012, members of the Executive Committee are required to build a significant personal shareholding in the business to further align the interests of the management and shareholders. The minimum threshold is a percentage of annual base salary.

Role	% of base salary
CEO	200 %
Other members of the Executive Committee	100 %

Current members of the Executive Committee are required to reach their minimum investment limit within a period of five years. The shareholding of the individuals is reviewed regularly. New members of the Executive Committee have five years during which to reach their minimum investment limit. Members of the Executive Committee are encouraged to retain and use their LTI shares, when vested, to meet this requirement of the remuneration policy.

Employment agreements

The employment contracts of Executive Committee members are of unlimited duration and end automatically when the member reaches retirement age. The contracts provide for a notice period of 12 months. The employment contract of one Executive Committee member contains a non-competition clause for the duration of 12 months following termination of employment which is compensated with an annual fixed compensation.

Compensation 2014

Effective compensation

The following section discloses the actually received pay components in 2014, including salary and bonus payments, contributions to pension plans, fringe benefits as well as the actual value of equity plans at vesting date. This perspective reflects the income received by members of the Executive Committee in 2014 which amounted to CHF 13.3 million. The highest compensation effectively received by an individual member of the Executive Committee in 2014 was CHF 4.2 million.

Effective Compensation of members of the Executive Committee

	Fixed Compensation			Variable Compensation			
in CHF 000	Base Salary	Pension	Other[1]	Bonus[2]	LTI 2011–14 (effective value at vesting date)[3]	Total effective Compensation 2014	Total effective Compensation 2013 pro forma[4]
Total compensation to members of the Executive Committee[5]	3 739	894	86	4 622	3 969	13 310	16 127
Thereof highest paid to one individual: 2014: Dr. Brice Koch (CEO) 2013: Dr. Michael Buscher (former CEO)	1 150	177	0	2 217	675	4 219	6 923

[1] Other compensation includes fringe benefits such as company car, car allowance or contributions to medical insurance.
[2] The bonus is determined on Group, Segment and indidivual level and depends on business and individual performance.
[3] The LTI plan 2011 vested in 2014 when members of the Executive Committee received shares from the grant they had been given when they held other positions. Effective performance upon vesting ranged from 60–200 % depending on the business. The weighted average performance was 177 % and the share price at vesting was CHF 14.0.
[4] In view of the extension of the Executive Committe from 2 to 7 members a pro forma perspective serves as a basis for comparison. Included are all positions of the current Executive Committee.
[5] The Executive Committee was enlarged from 2 to 7 members on February 11, 2014. Dr. Brice Koch joined on January 16, 2014, Dr. Bernd Matthes joined on April 1, 2014 and Dr. Roland Herb replaced Dr. Hans Brändle on June 3, 2014. The values disclosed represent the pro-rated amounts for the respective terms as member of the Executive Committee.

Granted compensation

The following section discloses the granted pay components in 2014, including salary and bonus payments, contributions to pension plans, fringe benefits as well as the target value of equity programs at grant date. This perspective reflects the compensation potential provided to members of the Executive Committee in 2014 which amounted to CHF 17.3 million. The highest compensation granted to an individual member of the Executive Committee in 2014 was CHF 8.7 million.

Members of the Executive Committee did not receive any fees or other remuneration for additional services to OC Oerlikon or its subsidiaries in the 2014 business year. Neither OC Oerlikon nor its subsidiaries granted any guarantees, loans, advances or credit facilities to members of the Executive Committee or related parties in 2014 or 2013.

During 2014, no compensation was paid to former members of the Executive Committee or related parties, either by OC Oerlikon Corporation AG, Pfäffikon, or by any other company of the Oerlikon Group.

Granted Compensation of members of the Executive Committee (audited)

	Fixed Compensation			Variable Compensation								
					LTI							
in CHF 000	Base Salary	Pension	Other[1]	Bonus[2]	Vest 2014 (target value at grant date)[3]	Vest 2015 (target value at grant date)[4]	Vest 2016 (target value at grant date)[5]	Vest 2017 (target value at grant date)[6]	Total granted Compen-sation 2014	Total granted Compen-sation 2014 (market value per year-end)[7]	Total granted Compen-sation 2013[8]	Total granted Compen-sation 2013 pro forma[9]
Total compensation to members of the Executive Committee[10]	3 739	894	86	4 622	416	1 673	2 095	3 795	17 320	12 297	9 905	13 776
Thereof highest paid to one individual: 2014: Dr. Brice Koch (CEO) 2013: Dr. Michael Buscher (former CEO)	1 150	177	0	2 217	416	1 226	1 563	1 919	8 668	5 817	6 923	6 923
Estimated Mandatory Employer Contributions[11]									917	631	525	784

1 Other compensation includes fringe benefits such as company car, car allowance or contributions to medical insurance.

2 The bonus is determined on Group, Segment and individual level and depends on business and individual performance.

3 The LTI plan 2011 was based on a performance condition of value creation per Segment or Group. The share price at grant date was CHF 6.7 on May 1, 2011 and CHF 14.4 on Jan 16, 2014.

4 LTI Plans 2012–14, 2013–15 and 2014–17 are based on a performance condition of relative total shareholder return (TSR). The share price at grant date in 2012 was CHF 9.0 and in 2014 it was 14.4. The performance of the LTI plan 2012 has been determined per December 31, 2014 and amounts to 157 %. The effective value will be determined at the time of vesting on April 30, 2015.

5 The share price at grant date in 2013 was CHF 10.8 and in 2014 it was CHF 14.4. The performance of the LTI plan per December 31, 2014 is 0 %. The effective performance of the plan will be determined per December 31, 2015 and the effective value at the time of vesting on April 30, 2016.

6 The share price at grant date in 2014 was CHF 14.4. The performance of the LTI plan per December 31, 2014 is 0 %. The effective performance of the plan will be determined per December 31, 2016 and the effective value at the time of vesting on April 30, 2017.

7 The LTI component of market value per year-end is based on a share price on Dec 31, 2014 of CHF 12.5 and a performance of 157 % of the LTI plan 2012–15 and 0 % of the LTI plans 2013–16 and 2014–17. The LTI market value amount represents the as yet unrealized value of LTI awards at financial year-end.

8 Total compensation 2013 is restated on the basis of target values for LTI grants 2013 as opposed to fair value at grant date.

9 In view of the extension of the Executive Committe from 2 to 7 members a pro forma perspective serves as a basis for comparison. Included are all positions of the current Executive Committee.

10 The Executive Committee was enlarged from 2 to 7 members on February 11, 2014. Dr. Brice Koch joined on January 16, 2014, Dr. Bernd Matthes joined on April 1, 2014 and Dr. Roland Herb replaced Dr. Hans Brändle on June 3, 2014. The values disclosed represent the pro-rated amounts for the respective terms as member of the Executive Committee. Some members of the Executive Committee receive their remuneration in other currencies than CHF. Hence, the actual payout may differ according to the exchange rate at the time of payout.

11 The Compensation Ordinance requires the disclosure of estimated employer contributions to social security. The actual employer contributions due on PSA depend on achievement against applicable performance conditions and the share price at vesting date.

Report of the statutory auditor to the General Meeting of OC Oerlikon Corporation AG, Pfäffikon, Freienbach

We have audited the accompanying remuneration report dated February 20, 2015, of OC Oerlikon Corporation AG, Pfäffikon for the year ended December 31, 2014. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive compensation in Stock Exchange Listed Companies (Ordinance) contained in the section "Compensation 2014" of the board of directors on page 52 and section "Granted compensation" of the executive committee on page 56 of the compensation report.

Responsibility of the Board of Directors
The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive compensation in Stock Exchange Listed Companies. The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's Responsibility
Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion
In our opinion, the remuneration report for the year ended December 31, 2014 of OC Oerlikon Corporation AG, Pfäffikon complies with Swiss law and articles 14–16 of the Ordinance.

KPMG AG

Thomas Affolter
Licensed Audit Expert
Auditor in Charge

Regula Tobler
Licensed Audit Expert

Zurich, February 20, 2015

Risk management and compliance

Oerlikon's Risk Management System

Oerlikon takes a company-wide, holistic approach to the identification, assessment and management of business risks. All organizational units and 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.

Objectives and principles

The Board of Directors has defined five primary objectives for the Risk Management System. First, it must help secure the company's continued existence and profitability by creating a transparent risk profile and continuously improving and monitoring it. Second, it must contribute to improving planning and supporting a better achievement of targets. Third, it must secure revenue and reduce potential risk-related expenses, which safeguards and enhances the company's value. Fourth, it must align total risk exposure with the company's risk-bearing capacity and ensure that the risk-return ratio of business activities is transparent. Finally, risk management must also help protect the company's reputation.

Organization

Roles and responsibilities within the Risk Management System are defined as follows:

- In accordance with Swiss stock corporation law, the Board of Directors has overall responsibility for supervising and monitoring 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 supervisory 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 structuring and implementing risk management (delegated management responsibility for risk management). He approves the risk management directive and is responsible for revising it, and also monitors the Group's risk profile and the implementation of risk mitigation actions.
- In accordance with the principle of risk ownership, the Segments and Group Departments (assessment units) bear responsibility for risks and damage/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 Group Risk Management. The assessment units conduct risk assessments, establish risk mitigation actions and report the results to Group Risk Management. They continuously monitor their risk profiles and report damage/losses to Group Risk Management.
- As process owner, Group Risk Management is tasked with operation and further development 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 mitigation actions, and oversees the implementation of risk mitigation actions. Other responsibilities include calculating the total risk exposure and the risk-adjusted key performance indicators (KPI), monitoring risk-bearing capacity, internal reporting, conducting internal audits and providing training with respect to the Risk Management System. Group Risk Management also coordinates risk-related activities of other units as and when necessary.
- Central units and decentralized departments carry out certain risk-related activities. For example: Group Treasury (liquidity, foreign exchange and interest rate risks); Group Tax (tax risks); Group Legal Services (legal risks, compliance risks, including trade control); IT Security (IT risks); Security (security risks); and Insurance Management (insurable risks); etc.

Culture

Oerlikon's risk culture is shaped and developed by the Code of Conduct, training, best-practice sharing, continuous implementation of the risk management process and the Executive Committee and senior management, which act as role models. The risk management directive also contains statements illustrating the desired risk culture.

Current situation

Oerlikon operates in markets characterized by various uncertainties. The Segments have different risk profiles contingent upon strategy, the business model and operational implementation. From the perspective of the Group holding company, the following risks might impact Oerlikon's businesses and its performance:

Market risks

- Economic slowdown and business cycles: as a result, order intake, sales and profitability could decrease.
- Competition: Competition and overcapacity in various markets could exert pressure on prices or trigger a decline in orders. As a result, order intake, sales and profitability could 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 a result of local currencies being translated into the Group's reporting currency (Swiss franc).

- Country risks: For example, new or higher taxes and fees, currency appreciation or depreciation, higher interest rates, reduced growth, loss of proprietary information (intellectual property), etc., could cause sales to decline and costs to rise. As a result, profitability could decrease.

Credit risks
Credit risks arise 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.
- Technology risks: If technologies do not prove successful in the market, order intake and sales targets may not be reached. Impairment charges may have to be reported.
- Legal: Oerlikon is exposed to numerous legal risks as a result of its international operations. These include, in particular, risks in the areas of competition and antitrust law, patent law, tax law and environmental protection law. 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 staff and managers: if key people leave the company and qualified skilled staff and managers are not available, sales and profitability targets may not be reached.

Compliance and ethics

There is a Group-wide compliance and ethics function in order to ensure compliance with legal, regulatory and internal regulations as well as the Group's ethical standards, in particular by preventive measures, training, information and consulting.

Oerlikon places great importance on adhering to the highest ethical standards. It has in place a state-of-the-art Business Partner Integrity Screening process (BPIS, formerly called Integrity Due Diligence), which was revised in 2014. The screening process and background research has been detailed, and the approval processes for Business Partners were strictly assigned to top management.

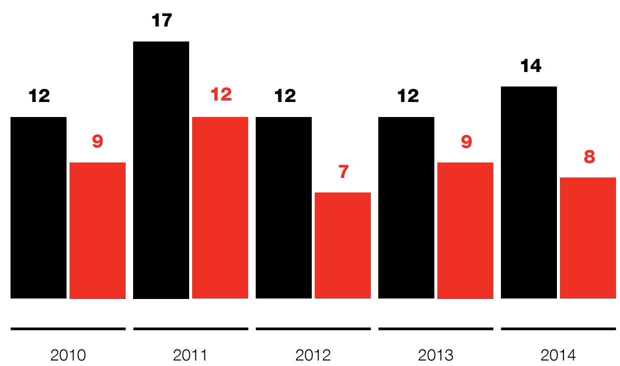
One area of focus in 2014 was the behavioral aspects of leadership when dealing with compliance issues. Around 200 managers received training on the topic "Leading with integrity", communicating authentically on compliance-related issues, managing concerns and the process of escalating internally to the Group compliance function.

The Compliance program has a three-pillar framework:

- **Prevention through:** policies, directives, training, Code of Conduct, risk assessments, maturity assessments, compliance councils, internal controls and metrics, examples and Q&As at all employee meetings.
- **Early detection:** the "whistleblowing" hotline, continuous compliance reviews, controls and internal audits, allegation management process.
- **Response:** disciplinary action on compliance breaches, process adaptation, resolution plans, remediation of internal control system, fine-tune policies.

As in 2013, a Regional Compliance Conference took place in 2014, embracing the business side, thereby building a stronger partnership between compliance and the businesses.

The eLearning program was enhanced by the new Export Control module, supporting our managers in all import and export related questions.



Compliance cases 2010–2014

Total number of cases
Number of substantiated cases

Financial report

Information for shareholders

2014 capital market development
While the stock indices continued to climb, reaching new record highs in 2014, industries such as the capital goods sector were facing a rather challenging period. Several political conflicts worldwide, the end of the quantitative easing stimulus program by the US Federal Reserve and the general economic slowdown, especially in China, weighed on stocks particularly in relation to capital expenditure. The Swiss Market Index (SMI) climbed by 9.5 % to 8 983 points in 2014 (2013: 8 203 points), while the majority of Swiss industrial companies reported a declining share price.

Oerlikon share performance in 2014
After a strong performance in the past three years, the Oerlikon share price continued its rally in the first quarter of 2014 before it eased, in line with its peers, and stabilized at lower levels during the rest of the year. Among other things, the execution of warrants from the financial restructuring in 2010 and the generally uncertain market environment drove the share price in the second half of the year. Share value decreased by 6.4 % and closed out 2014 at CHF 12.50 (2013 closing price: CHF 13.35). The Oerlikon share performance was comparable with that of other Swiss industrial peers but slightly underperformed the general market development as measured by the indices SMI (+9.5 %), SMIM (+9.9 %) and STOXX Europe 600 (+4.3 %). In intraday trading, the share price reached its annual high on February 25 at CHF 15.65 and its lowest level on October 13 at CHF 10.60. Average daily trading volume on the 249 trading days in 2014 remained at a high level of around 1.0 million shares (2013: 1.2 million shares).

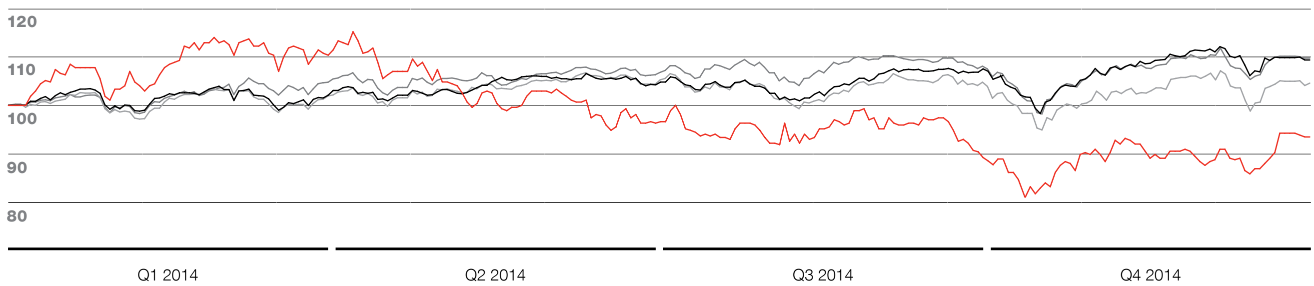
Analyst recommendations
Thirteen financial analysts covered Oerlikon in 2014 and published recommendations and performance estimates based on their analysis. RBC Capital Markets (Royal Bank of Canada) initiated coverage during the course of the year. Kepler Cheuvreux and Berenberg Bank suspended coverage in 2014 following a change of analyst, but intend to resume coverage in 2015. Oerlikon provides analysts and investors with market consensus figures in order to facilitate an independent and transparent assessment of performance. This consensus is based purely on analyst estimates and in no way reflects the opinion of Oerlikon.

Oerlikon’s strong operating performance as well as the Metco acquisition were well received by the financial community and led to an increase in the analysts’ average target price of 9 %, from CHF 13.99 to CHF 15.19 during 2014. As of December 31, 2014, seven out of eleven analysts recommended the purchase of Oerlikon shares (buy/accumulate). There were four neutral (hold/neutral) and no negative (underperform/underweight) recommendations.

Oerlikon is seeking to expand the number of financial institutions covering the company, particularly outside of Switzerland, in order to broaden the opinions available in the financial markets and the basis for the consensus figures.

Shareholder earnings
In 2014, Oerlikon paid a dividend to its shareholders for the third consecutive time, amounting to CHF 0.27 per share for the financial year 2013. Based on a sustainable, strong operational performance and solid financial position, the Board of Directors of Oerlikon will propose an increased dividend of CHF 0.30 per share from the capital contribution reserves for the financial year 2014 at the Annual General Meeting of Shareholders scheduled for April 8, 2015. This represents the third consecutive increase and follows a stable and progressive payout approach. This will be equivalent to a payout ratio of 42 % based on underlying earnings per share (EPS) of CHF 0.72 (2014 reported: EPS of CHF 0.59). Based on the year-end closing price of CHF 12.50, Oerlikon shares yielded a return of 2.4 % in 2014.

Four years after implementation of a dividend policy for the Oerlikon Group, the Board of Directors has approved to amend the company’s dividend policy to reflect the sustainability of Oerlikon's business model and its continued solid positioning, benchmarked against its Swiss and international industrial peers. The change in dividend policy allows for a dividend to be paid up to 50 % of the Group's underlying net income, subject to available funds.



Development of the Oerlikon share price
Indexed; 100 % = closing price as of December 31, 2013

OERL
SMI
SMIM
STOXX Europe 600

Key share-related figures[1]

		2014	2013	2012	2011	2010
Year-end	in CHF	12.50	13.35	10.35	5.03	4.90
Year high	in CHF	15.65	13.70	10.85	7.85	12.30
Year low	in CHF	10.60	9.91	5.06	4.06	3.69
Year average	in CHF	13.20	11.86	8.20	6.05	4.86
Average daily trading volume	in thousands	1 039	1 236	1 463	1 600	879
Average daily trading volume	in CHF thousands	13 615	14 566	11 982	9 596	4 373
Shares outstanding at year-end	number	339 758 576	334 633 258	325 964 498	323 124 010	323 085 471
Market capitalization at year-end	in CHF million	4 247	4 467	3 374	1 625	1 583
Earnings per share (undiluted)	in CHF	0.59	0.60	1.16	0.68	0.01
Earnings per share (diluted)	in CHF	0.59	0.59	1.15	0.68	0.01
Price-earnings ratio		21.19	22.25	8.77	7.40	490.00
Payout ratio		42 %[2]	36 %[3]	29 %	29 %	0 %
Dividend per share	in CHF	0.30[4]	0.27[5]	0.25[6]	0.20[7]	0.00
Dividend yield		2 %	2 %	2 %	4 %	–
Equity per share[8]	in CHF	6.50	6.27	5.75	4.91	6.92
Cash flow from operating activities per share	in CHF	0.76	1.11	1.56	1.36	2.47

[1] Average number of shares with voting and dividend rights.
[2] Based on underlying EPS of CHF 0.72.
[3] Based on underlying EPS of CHF 0.76.
[4] Dividend proposed for financial year 2014, to be paid in 2015.
[5] For financial year 2013, paid in 2014.
[6] For financial year 2012, paid in 2013.
[7] For financial year 2011, paid in 2012.
[8] Attributable to shareholders of the parent.

Listing on the stock exchange

The registered shares of OC Oerlikon Corporation AG, Pfäffikon, have been listed on the SIX Swiss Exchange since 1973, and are traded in the main segment.

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

Weighting of the Oerlikon share in indices

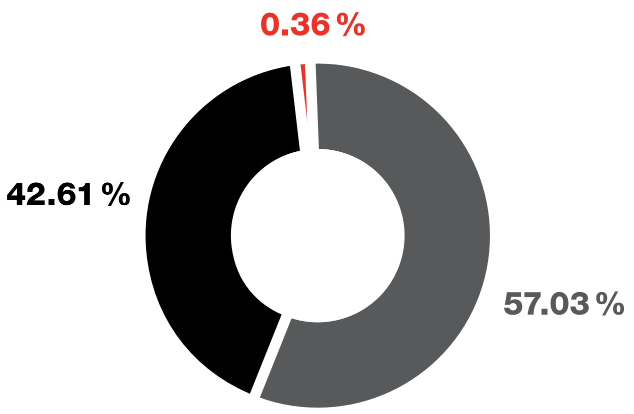
as of December 31, 2014, in %	2014	2013
SMIM	1.9112	2.0443
SMI Expanded	0.2012	0.2128
SPI	0.1907	0.1998
SPI Extra	1.2584	1.3328
SPI ex SLI	1.8778	1.9268
STOXX Europe 600	0.0283	0.0282
Swiss All Share	0.1885	0.1979
UBS 100 Index	0.1932	0.2102

Shareholder structure

The shareholder structure was essentially unchanged in 2014. Under the terms of the Swiss Federal Act on Stock Exchanges and Securities Trading, shareholders whose holdings reach or exceed/fall short of a certain percentage of the share capital are required to disclose their holdings. In February and May 2014, BlackRock Group disclosed that its position had fallen short of the 5 % and 3 % limit, respectively (holding as of May 15, 2014: 2.88 % including financial instruments). There were only minor changes in the holdings of the Renova Group, which remained Oerlikon's principal shareholder with 42.61 % of outstanding shares at the end of the year (2013: 44.66 %). The decrease in holdings was mainly attributable to the increased number of outstanding shares following the execution of warrants in 2014. At the end of December 2014, Oerlikon held 1 208 319 treasury shares (0.36 % of the share capital), which are intended to be used, among other things, as incentive instruments as part of the company's long-term compensation policy (2013: 944 902). The free float totaled 57.39 % (2013: 55.34 %) as of December 31, 2014. The number of registered shareholders increased from 14 900 in 2013 to about 15 600 in 2014.

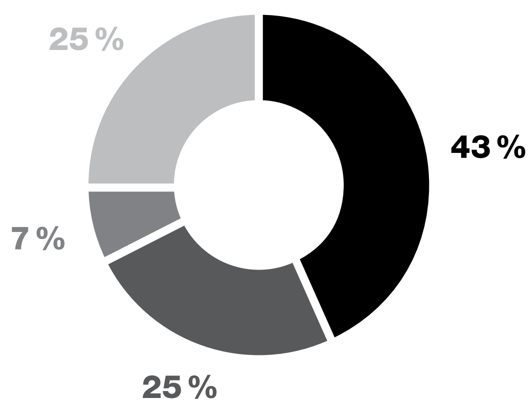
Oerlikon regularly commissions an analysis of its shareholder base in order to track the composition of registered shareholders as well as that of nonregistered investors. The latest study in January 2015 shows that 9 % (2013: 5 %) of the share capital is held by private investors, the vast majority of whom are based in Switzerland. The other 91 % is owned by professional investors, which include financial investors such as the Renova Group and institutional investors (investment funds), insurance companies and pension funds. The continued dialogue with the capital markets and the transformation of the Oerlikon portfolio resulted in stable investments mainly from institutional investors. They maintained their percentage of shares of 36 % compared to 37 % a year ago. The regional distribution of the institutional holdings was also balanced in 2014. The majority of institutional holdings remains in Switzerland, making up 43 % of all institutional shareholders. One year ago this percentage was 41 %. The percentage of institutional investors from North America slightly increased to 25 % (2013: 24 %). Institutional shareholders from the UK and Ireland represent 7 % (2013: 14 %). The portion of institutional investors from the rest of the world rose from 21 % to 25 %, predominantly driven by other European investors in France, Germany, Scandinavia and the Netherlands.

In the course of the 2010 refinancing, financial creditors were granted 16 944 182 options (warrants), with the right to purchase one OC Oerlikon Corporation AG, Pfäffikon, registered share. The options had terms extending to no later than June 30, 2014. In the 2014 reporting period, a total of 5 125 318 options were exercised. The number of outstanding shares increased from 334 633 258 as of December 31, 2013, to 339 758 576 shares as of December 31, 2014.



Shareholder structure
as of December 31, 2014

- OC Oerlikon
- Renova Group
- Others



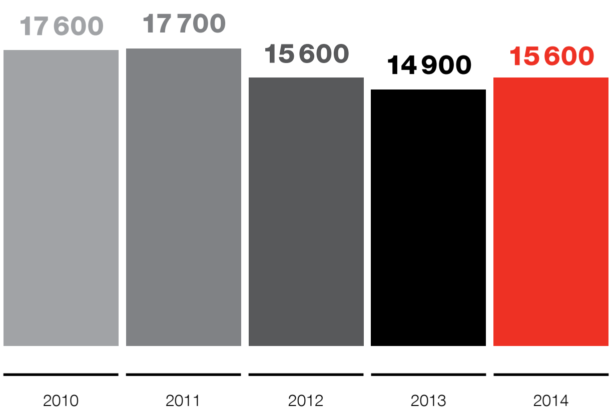
Regional distribution of institutional investors
as of December 31, 2014

- Switzerland
- North America
- United Kingdom and Ireland
- Others

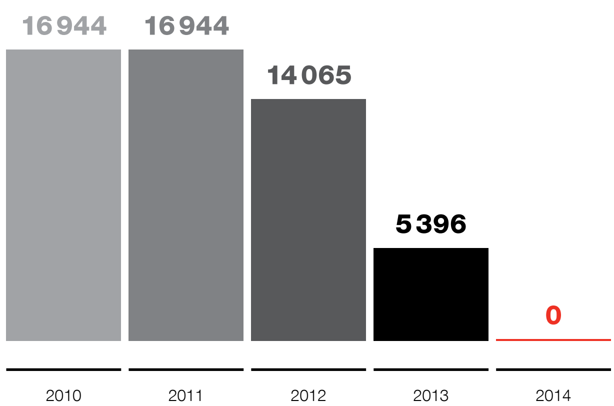
Shareholder structure

Shareholder	Dec. 2014 No. of shares	in %	Dec. 2013 No. of shares	in %	Dec. 2012 No. of shares	in %
Renova Group[1] (composed of Liwet Holding AG, Zurich, Switzerland, Renova Oil & Gas Ltd., Nassau, Bahamas, Renova Innovation Technologies Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama[2])	144 764 860[2]	42.61[3]	149 435 408	44.66[4]	156 210 954	47.92[5]
OC Oerlikon Corporation AG, Pfäffikon	1 208 319	0.36	944 902	0.28	902 248	0.28
Others	193 785 397	57.03	184 252 948	55.06	168 851 296	51.80

[1] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow.
[2] Source: disclosure notification by Renova Group pursuant to Art. 20 of the Swiss Stock Exchange Law (published by SIX Exchange Regulation on January 9, 2015).
[3] Basis: shares issued (339 758 576).
[4] Basis: shares issued (334 633 258).
[5] Basis: shares issued (325 964 498).



Number of registered shareholders
at year-end



Warrants (outstanding)
at year-end; in thousands

External financing

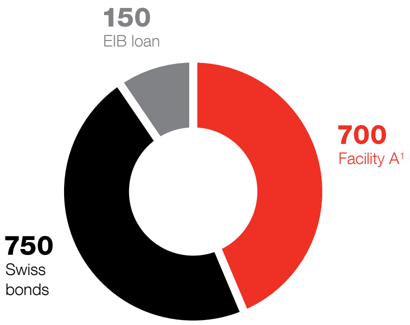
Prolongation of syndicated credit line

Oerlikon successfully prolonged its syndicated credit agreement issued in July 2012. The unsecured credit agreement in the amount of CHF 700 million (Facility A) comprises a revolving cash facility of CHF 450 million and an ancillary tranche of CHF 250 million, for a term of three years starting in July 2012 with two additional extension options of one year each. With the use of the first extension option, the maturity profile was expanded until July 2016. No liquidity was drawn from the cash facility at the balance sheet date. In December 2013, Oerlikon signed an unsecured EUR 120 million (approximately CHF 150 million) loan facility with the European Investment Bank (EIB) to finance research and development of selected Oerlikon Segments in Germany and Liechtenstein. No liquidity was drawn from the loan facility at the balance sheet date. Cash and cash equivalents amounted to CHF 825 million at the balance sheet date. The Group had total net cash of CHF 114 million, as of December 31, 2014.

Placement of two additional Swiss bonds

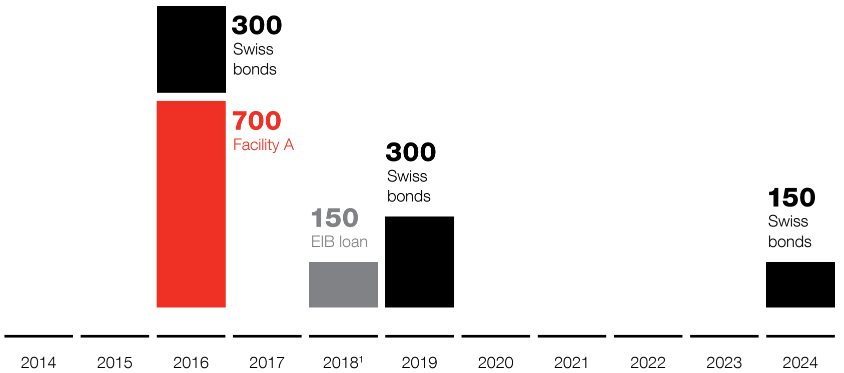
During the year under review, Oerlikon successfully placed senior unsecured bonds of CHF 300 million due 2019 and of CHF 150 million due 2024, to further extend its debt maturity profile. The coupons have been set at the rates of 1.25 % per annum for the bonds due 2019 and 2.625 % per annum for the bonds due 2024. The cash proceeds will be used to support the execution of the long-term growth strategy. This is the second time Oerlikon has taken advantage of favorable market conditions. The first Swiss bond in the amount of CHF 300 million and with a coupon rate of 4.25 % was placed in 2012 and will expire in 2016.

At the 2014 balance sheet date, the Group had outstanding non-current financial liabilities amounting to CHF 760 million, attributable primarily to the above-mentioned domestic bonds. The creditworthiness of the domestic bonds was BBB– (investment grade) as assessed by UBS AG and the Zürcher Kantonalbank, and low BBB, as assessed by Credit Suisse, all three assessments with a stable/positive outlook.



Financing instruments
as of December 31, 2014

- Facility A CHF 700 million
  [1] No liquidity was drawn from the revolving cash facility as of balance sheet date.
- Swiss bonds CHF 750 million
- EIB loan approximately CHF 150 million



Maturity of financing instruments

- Facility A CHF 700 million (prolongation options until 2017)
- Swiss bonds CHF 750 million
- EIB loan approximately CHF 150 million
  [1] Maturity depends on the amortization schedule and timing of utilization.

Outstanding bonds as of December 31, 2014

ISIN	Coupon	Maturity	Volume	Issue price	Price as of Dec. 31, 2014	Price as of Dec. 31, 2013
CH0186162639	4.25 %	July 13, 2016 Redemption at par	CHF 300 million	100 %	105.695 %	106.559 %
CH0244692528	1.25 %	June 17, 2019 Redemption at par	CHF 300 million	100 %	102.005 %	–
CH0244692536	2.625 %	June 17, 2024 Redemption at par	CHF 150 million	100 %	108.813 %	–

Financial calendar and contacts

Financial calendar

February 24, 2015
Q4/FY 2014 results and publication of Annual Report 2014

April 8, 2015
2015 Annual General Meeting, KKL Lucerne

April 28, 2015
Q1 2015 results

August 4, 2015
Q2/HY 2015 results and publication of Interim Report 2015

October 27, 2015
Q3/9M 2015 results

Dates of roadshows, conferences and other events can be found in the financial calendar on our website at **www.oerlikon.com/en/investor-relations/investor-relations-new-financialcalendar**

Contacts

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Key figures Oerlikon Group

Key figures Oerlikon Group

in CHF million	January 1 to December 31, 2014	January 1 to December 31, 2013
Order intake[1]	3 028	2 779
Order backlog[1]	715	800
Sales[1]	3 215	2 770
EBITDA[1]	525	483
– as % of sales	16.3 %	17.4 %
EBIT[1]	360	359
– as % of sales	11.2 %	13.0 %
Result from continuing operations[1]	247	253
Result from discontinuing operations, net of income taxes[1, 3]	–45	–52
Net income	202	201
– as % of equity attributable to shareholders of the parent	9 %	10 %
Cash flow from operating activities[4]	256	367
Capital expenditure for property, plant and equipment and intangible assets[1]	166	177
Total assets	4 966	4 094
Equity attributable to shareholders of the parent	2 188	2 072
– as % of total assets	44 %	51 %
Net cash[2, 5]	114	981
Net operating assets[2, 6]	2 685	1 586
Number of employees[1]	15 656	12 660
Personnel expense[1]	909	737
Research and development expenditure[1, 7]	121	101

[1] 2014 continuing operations, 2013 restated.

[2] 2014 continuing operations, 2013 as reported.

[3] Includes reclassification of translation differences amounting to CHF 0 million (previous year: CHF –114 million).

[4] Cash flow from operating activities before changes in net current assets amounts to CHF 427 million (previous year: CHF 435 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 14 million (previous year, restated: CHF 13 million).

Key share-related figures[1]

in CHF	January 1 to December 31, 2014	January 1 to December 31, 2013
Share price		
Year high	15.65	13.70
Year low	10.60	9.91
Year-end	12.50	13.35
Shares outstanding at year-end	339 758 576	334 633 258
Market capitalization at year-end in CHF million	4 247	4 467
EBIT per share[2]	1.07	1.09
Earnings per share	0.59	0.60
Cash flow from operating activities per share	0.76	1.11
Equity per share[3]	6.50	6.27
Dividend per share	0.30[4]	0.27[5]

[1] Average number of shares with voting and dividend rights (undiluted).

[2] 2014 continuing operations, 2013 restated.

[3] Attributable to shareholders of the parent.

[4] Dividend proposal for 2014, to be paid in 2015.

[5] For financial year 2013, paid in 2014.

Key figures by Segment

in CHF million	January 1 to December 31, 2014	January 1 to December 31, 2013, restated
Oerlikon Group[1]		
Order intake	3 028	2 779
Order backlog	715	800
Sales	3 215	2 770
EBITDA	525	483
EBIT	360	359
– as % of sales	11.2 %	13.0 %
Net operating assets[2]	2 685	1 586
Number of employees	15 656	12 660
Surface Solutions Segment[3]		
Order intake	965	510
Order backlog	79	–
Sales	976	511
– thereof sales to third parties	973	510
EBITDA	183	149
EBIT	98	105
– as % of sales	10.0 %	20.5 %
Net operating assets[2]	1 421	350
Number of employees	6 063	3 278
Manmade Fibers Segment[1]		
Order intake	901	1 073
Order backlog	365	541
Sales	1 073	1 130
– thereof sales to third parties	1 073	1 130
EBITDA	217	207
EBIT	197	188
– as % of sales	18.4 %	16.6 %
Net operating assets[2]	128	14
Number of employees	2 552	2 480
Drive Systems Segment		
Order intake	781	792
Order backlog	199	180
Sales	779	734
– thereof sales to third parties	779	734
EBITDA	82	67
EBIT	41	26
– as % of sales	5.3 %	3.5 %
Net operating assets[2]	945	925
Number of employees	5 194	5 157
Vacuum Segment		
Order intake	381	404
Order backlog	72	79
Sales	393	400
– thereof sales to third parties	390	396
EBITDA	41	54
EBIT	27	41
– as % of sales	6.8 %	10.3 %
Net operating assets[2]	199	195
Number of employees	1 617	1 512

[1] Continuing operations.

[2] 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).

[3] Includes the key figures of Metco for seven months in 2014.

Consolidated income statement

in CHF million	Notes	**January 1 to December 31, 2014**	January 1 to December 31, 2013, restated[1]
Sales of goods		2 298	2 087
Services rendered		917	683
Total sales		**3 215**	**2 770**
Cost of sales		–2 264	–1 968
Gross profit		**951**	**802**
Marketing and selling		–205	–152
Research and development		–129	–99
Administration		–249	–205
Other income	3	34	36
Other expense	3	–42	–23
Result before interest and taxes (EBIT)		**360**	**359**
Financial income	5	15	16
Financial expense	5	–45	–47
Result before taxes (EBT)		**330**	**328**
Income taxes	6	–83	–75
Result from continuing operations		**247**	**253**
Result from discontinued operations, net of income taxes	2	–45	–52
Net income		**202**	**201**
Attributable to:			
Shareholders of the parent		198	198
Non-controlling interests		4	3
Earnings per share in CHF	7	**0.59**	0.60
Diluted earnings per share in CHF	7	**0.59**	0.59
Earnings per registered share continuing operations in CHF		**0.72**	0.76
Diluted earnings per registered share continuing operations in CHF		**0.72**	0.75
Earnings per registered share discontinued operations in CHF	2	**–0.13**	–0.16
Diluted earnings per registered share discontinued operations in CHF	2	**–0.13**	–0.16

[1] Following the announcement of the divestment of the Advanced Technologies Segment, the respective figures are presented as discontinued operations and certain 2013 figures have been restated. Refer to page 81 and Note 2.

Consolidated statement of comprehensive income

in CHF million	**January 1 to December 31, 2014**	January 1 to December 31, 2013
Net income	202	201
Other comprehensive income		
Items that will never be reclassified to the income statement		
Remeasurements of defined benefit plans	–113	–11
Income taxes on items that will never be reclassified to the income statement	34	2
	–79	–9
Items that may be reclassified subsequent to the income statement		
Effective portion of changes in fair value of cash flow hedges, net	–11	–
Conversion differences, net	69	77
Income taxes on items that may be reclassified subsequent to the income statement	3	–
	61	77
Other comprehensive income for the period, net of taxes	**–18**	**68**
Total comprehensive income for the period	**184**	**269**
Attributable to:		
Shareholders of the parent	180	266
Non-controlling interests	4	3

Consolidated balance sheet at December 31

Assets

in CHF million	Notes	2014	2013
Cash and cash equivalents	8	825	1 280
Current financial investments and derivatives	9	59	11
Trade receivables	10	473	425
Other receivables	10	94	88
Current tax receivables		37	26
Inventories	11	511	404
Prepaid expenses and accrued income		23	17
Assets classified as held for sale	2	78	–
Current assets		**2 100**	**2 251**
Loans and other non-current financial receivables	10	25	25
Non-current financial investments	9	6	4
Property, plant and equipment	12	918	742
Goodwill and intangible assets	13	1 727	943
Post-employment benefit assets	14	–	5
Deferred tax assets	6	190	124
Non-current assets		**2 866**	**1 843**
Total assets		**4 966**	**4 094**

Liabilities and equity

in CHF million	Notes	2014	2013
Trade payables	15	296	314
Other current financial liabilities and derivatives	15	18	2
Other current payables	15	72	56
Accrued liabilities	16	227	195
Current customer advances		294	407
Current income taxes payable		53	47
Current post-employment benefit liabilities	14	25	22
Other current provisions	17	69	63
Liabilities classified as held for sale	2	24	–
Current liabilities		**1 078**	**1 106**
Non-current loans and borrowings	18	760	303
Non-current post-employment benefit liabilities	14	661	546
Deferred tax liabilities	6	185	48
Other non-current provisions	17	81	7
Non-current liabilities		**1 687**	**904**
Total liabilities		**2 765**	**2 010**
Share capital		340	335
Treasury shares		–15	–10
Retained earnings and reserves		1 863	1 747
Equity attributable to shareholders of the parent		**2 188**	**2 072**
Non-controlling interests		13	12
Total equity		**2 201**	**2 084**
Total liabilities and equity		**4 966**	**4 094**

Consolidated cash flow statement[1]

in CHF million	Notes	**January 1 to December 31, 2014**	January 1 to December 31, 2013
Net income		202	201
Income taxes		76	84
Interest expense (net)	5	33	32
Other financial income/expenses (net)		–3	4
Depreciation of property, plant and equipment	12	127	108
Amortization of intangible assets	13	41	18
Impairment losses on intangible assets	13	32	–
Addition to other provisions (net)	17	50	35
Decrease in post-employment benefit liabilities		–22	–13
Gain on sale of property, plant and equipment and intangible assets		–5	–5
Gain/loss on sale of discontinued operations, net of tax	2	–1	92
Income taxes paid		–106	–120
Other non-cash items		3	–1
Cash flow from operating activities before changes in net current assets		427	435
Decrease in receivables, prepaid expenses and accrued income		17	31
Decrease/increase in inventories		31	–69
Decrease/increase in payables, accrued liabilities and use of other provisions		–90	10
Decrease in customer advances		–131	–35
Non-cash impact on net current assets due to hedge accounting		2	–5
Cash flow from changes in net current assets		–171	–68
Cash flow from operating activities		**256**	**367**
Purchase of property, plant and equipment	12	–143	–168
Purchase of intangible assets	13	–25	–22
Acquisition of subsidiaries, net of cash acquired	2	–921	–
Payments relating to/Proceeds from sale of discontinued operations[2]		–12	502
Proceeds from sale of property, plant and equipment		21	34
Proceeds from non current receivables		11	4
Interest received		8	7
Dividends received		3	3
Cash flow from investing activities		**–1 058**	**360**
Dividends paid		–94	–86
Purchase of treasury shares		–14	–11
Proceeds from capital increase		30	52
Proceeds from issue of financial debt (net of transaction costs)		489	–
Repayment of financial debt		–42	–
Acquisition of non-controlling interest		–	–16
Interest paid		–36	–38
Other proceeds/payments related to financing activities		1	–1
Cash flow from financing activities		**334**	**–100**
Conversion adjustments to cash and cash equivalents		14	–7
Decrease (–)/increase (+) in cash and cash equivalents		**–454**	**620**
Cash and cash equivalents at the beginning of the year		1 280	660
Cash and cash equivalents at the end of the year[3]		826	1 280
Decrease (–)/increase (+) in cash and cash equivalents		**–454**	**620**

[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 2 for cash flow from discontinued operations.

[2] 2013: Net of cash disposed of and related transaction costs.

[3] Includes CHF 1 million which are included in “Assets classified as held for sale” in the balance sheet as of December 31, 2014.

Consolidated statement of changes in equity

in CHF million	Share capital[1]	Additional paid-in capital[2]	Treasury shares[3]	Conversion differences	Retained earnings	Hedge accounting	Income taxes	**Total equity attributable to shareholders**	Non-controlling interests	**Total share-holders' equity**
Balance at January 1, 2013	**326**	**1 424**	**–8**	**–487**	**543**	**7**	**55**	**1 860**	**24**	**1 884**
Net income	–	–	–	–	198	–	–	198	3	201
Remeasurements of defined benefit plans	–	–	–	–	–11	–	2	–9	–	–9
Conversion differences, net	–	–	–	77	–	–	–	77	–	77
Other comprehensive income for the year	**–**	**–**	**–**	**77**	**–11**	**–**	**2**	**68**	**–**	**68**
Total comprehensive income for the year	**–**	**–**	**–**	**77**	**187**	**–**	**2**	**266**	**3**	**269**
Capital increase	9	43	–	–	–	–	–	52	–	52
Dividend distributions	–	–83	–	–	–	–	–	–83	–3	–86
Share-based payments	–	–	–	–	–4	–	–	–4	–	–4
Purchase of treasury shares	–	–	–11	–	–	–	–	–11	–	–11
Transfer of treasury shares	–	–	9	–	–2	–	–	7	–	7
Contributions and distributions	**9**	**–40**	**–2**	**–**	**–6**	**–**	**–**	**–39**	**–3**	**–42**
Disposal of subsidiaries with non-controlling interests	–	–	–	–	–	–	–	–	–11	–11
Acquisition of non-controlling interests without a change in control	–	–	–	–	–15	–	–	–15	–1	–16
Changes in ownership interests	**–**	**–**	**–**	**–**	**–15**	**–**	**–**	**–15**	**–12**	**–27**
Total transactions with owners of the company	**9**	**–40**	**–2**	**–**	**–21**	**–**	**–**	**–54**	**–15**	**–69**
Balance at December 31, 2013	**335**	**1 384**	**–10**	**–410**	**709**	**7**	**57**	**2 072**	**12**	**2 084**
Net income	–	–	–	–	198	–	–	198	4	202
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	–11	3	–8	–	–8
Remeasurement of defined benefit plans	–	–	–	–	–113	–	34	–79	–	–79
Conversion differences, net	–	–	–	69	–	–	–	69	–	69
Other comprehensive income for the year	**–**	**–**	**–**	**69**	**–113**	**–11**	**37**	**–18**	**–**	**–18**
Total comprehensive income for the year	**–**	**–**	**–**	**69**	**85**	**–11**	**37**	**180**	**4**	**184**
Capital increase	5	25	–	–	–	–	–	30	–	30
Dividend distributions	–	–90	–	–	–	–	–	–90	–4	–94
Share-based payments	–	–	5	–	5	–	–	10	–	10
Purchase of treasury shares	–	–	–14	–	–	–	–	–14	–	–14
Transfer of treasury shares	–	–	4	–	–4	–	–	–	–	–
Contributions and distributions	**5**	**–65**	**–5**	**–**	**1**	**–**	**–**	**–64**	**–4**	**–68**
Acquisition of subsidiaries with non-controlling interests	–	–	–	–	–	–	–	–	1	1
Acquisition of non-controlling interests without a change in control	–	–	–	–	0	–	–	0	–	0
Changes in ownership interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Total transactions with owners of the company	**5**	**–65**	**–5**	**–**	**1**	**–**	**–**	**–64**	**–3**	**–67**
Balance at December 31, 2014	**340**	**1 319**	**–15**	**–341**	**795**	**–4**	**94**	**2 188**	**13**	**2 201**

[1] The share capital of OC Oerlikon Corporation AG, Pfäffikon, consists of 339 758 576 fully-paid registered shares (previous year: 334 633 258) of nominal value CHF 1 each. In 2014, 5 125 318 new shares (previous year: 8 668 760) were issued based on exercises of warrants. On December 31, 2014, conditional capital amounted to CHF 47 540 353 (previous year: CHF 52 665 671).

[2] As of December 31, 2014, additional paid-in capital includes CHF 1 092 million of legal reserves in OC Oerlikon Corporation AG, Pfäffikon.

[3] As of December 31, 2014, the Group held 1 208 319 own shares (previous year: 944 902).

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.

Apart from its activities in Switzerland, the Oerlikon Group operates primarily in EU member states, North America and Asia, and has a workforce of 15656 employees (full-time equivalents).

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 consolidated financial statements are presented in Swiss francs (CHF). The consolidated financial statements were approved by the Board of Directors on February 20, 2015, and will be submitted to the Annual General Meeting of Shareholders on April 8, 2015, for approval. All standards issued by the International Accounting Standards Board (IASB) and all interpretations of the IFRS Interpretations Committee (IFRIC) effective at the date of the consolidated financial statements have been taken into account. 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 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.

Judgments, 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, 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. 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, the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquired business shall be recognized, separately from goodwill. This process involves management making an assessment of the fair value of these items. Management judgment is particularly involved in the recognition and measurement of the following items:
- Intellectual property: This may include technologies, patents, licenses, trademarks and similar rights for currently marketed products.
- Customer relationships.
- Contingencies such as legal, tax and environmental matters.
- The recoverability of any accumulated tax losses previously incurred by the acquired company.

In all cases management makes an assessment based on the underlying economic substance of the items concerned, and not only on the contractual terms, in order to fairly present these items. For further details, see Note 2.

Impairment of value: At December 31, 2014, the Group owns CHF 918 million in property, plant and equipment, CHF 1 004 million in goodwill and CHF 723 million in other intangible assets. A detailed test for impairment of the carrying amount 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) that are 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 fair value less cost of disposal 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. Refer to Note 12 for impairment of property, plant and equipment and Note 13 for impairment of goodwill and intangible assets.

Provisions and contingent liabilities: At December 31, 2014, the Group had CHF 150 million in provisions and CHF 6 million in contingent liabilities. 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. Refer to Note 17 for provisions and Note 23 for contingent liabilities.

In connection with the sale of the Natural Fibers and Textile Components Business Units and the Advanced Technologies Segment, the Group has assumed certain customary obligations such as warranty obligations and indemnifications. To assess the impact of these obligations, management had to make assumptions with estimation uncertainties. For further details, see Note 2.

Pensions: At December 31, 2014, the carrying amount of the Group's defined benefit obligations is CHF 1 371 million. The estimates and assumptions used are based on future projections and actuarial calculations that have been determined together with the actuaries. Refer to Note 14 for details.

Taxes on income: At December 31, 2014, the Group had a current tax receivable of CHF 37 million, a current income tax liability of CHF 53 million, a deferred tax asset of CHF 190 million and a deferred tax liability of CHF 185 million. 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. Refer to Note 6 for details.

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, 2014:
- IAS 32 amended – Offsetting Financial Assets and Liabilities
- IFRS 10, IFRS 12 and IAS 27 amended – Investment Entities
- IAS 39 amended – Novation of Derivatives and Continuation of Hedge Accounting
- IFRIC 21 – Levies

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

Newly published accounting standards not early adopted

The 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
IAS 19 Amendments – Employee Contributions	*	July 1, 2014	Reporting year 2015
Annual Improvements to IFRSs 2010–2012 Cycle	**	July 1, 2014	Reporting year 2015
Annual Improvements to IFRSs 2011–2013 Cycle	*	July 1, 2014	Reporting year 2015
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	*	January 1, 2016	Reporting year 2016
Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)	*	January 1, 2016	Reporting year 2016
Bearer Plants (Amendments to IAS 16 and IAS 41)	*	January 1, 2016	Reporting year 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	*	January 1, 2016	Reporting year 2016
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	*	January 1, 2016	Reporting year 2016
Annual Improvements to IFRSs 2012–2014 Cycle	*	January 1, 2016	Reporting year 2016
IFRS 14 Regulatory Deferral Accounts	*	January 1, 2016	Reporting year 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	*	January 1, 2016	Reporting year 2016
Disclosure Initiative (Amendments to IAS 1)	***	January 1, 2016	Reporting year 2016
IFRS 15 – Revenue from contracts with customers	***	January 1, 2017	Reporting year 2017
IFRS 9 – Financial Instruments	***	January 1, 2018	Reporting year 2018

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

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

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

Principles of consolidation

Subsidiaries

December 31 is the uniform closing date for all subsidiaries included in the consolidated financial statements. Subsidiaries are all entities over which OC Oerlikon Corporation AG, Pfäffikon, has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the company and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements of the Oerlikon Group from the date on which control commences until the date on which control ceases.

Non-controlling interests are recorded separately under equity in the consolidated financial statements. Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions.

All significant consolidated subsidiaries held are shown in the listing at the end of the notes.

Disposal of subsidiaries

When the Group ceases to have control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognized in the income statement. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to the income statement. Any retained interest in the former subsidiary is remeasured to its fair value at the date when control is lost.

Associates

Associates are all entities over which the Group has significant influence, but not control or joint control, over the financial and operating policies (generally accompanying a shareholding of between 20 % and 50 % of the voting rights). Investments in associates are accounted for using the equity method. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss and the comprehensive income of the investee after the date of acquisition until the date on which significant influence ceases.

Joint arrangements

Investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Oerlikon Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method (see above under "Associates").

Business combinations and goodwill

The Oerlikon Group accounts for business combinations using the acquisition method when control is transferred to the Group (see above under "Subsidiaries"). 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 plus the amount of non-controlling interests in the acquiree less the net recognized assets. Transaction costs are expensed as incurred, except if related to the issue of debt or equity. Goodwill denominated in foreign currencies is translated into Swiss francs at the rates prevailing at the balance sheet date.

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 intercompany profits

Profits on intercompany 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), 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 (formerly Coating 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.
- Vacuum Segment develops application- and customer-specific systems for the creation of vacuums and the extraction of processing gases.

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.

Regular-way purchases or sales of financial assets are recognized at settlement date. 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.

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 lives and residual values are examined annually.

Fixed assets under financial leasing agreements are treated identically to fixed assets owned.

Major spare parts and servicing equipment qualify as property, plant and equipment when an entity expects to use them during more than one period.

Intangible assets and goodwill: Intangible assets are identifiable nonmonetary 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 generally 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. Goodwill is not amortized, but instead tested annually for possible value impairment.

Liabilities

Current and non-current financial liabilities: Current and non-current 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 three unsecured bonds.

Current and non-current 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. Non-current provisions are discounted at a pre-tax rate that reflects the current market assessments of the time value of money.

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 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 “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.

Acquirees contingent liabilities: Have been recognized primarily for environmental liabilities as well as certain litigation and potential tax risks from business combinations.

Post-employment benefits provisions: The Oerlikon Group operates various post-employment benefit schemes, including both defined benefit and defined contribution plans.

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity. The Group will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The liability (asset) recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, taking into account any asset ceiling. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements of the net defined benefit liability (asset) are charged or credited to other comprehensive income in the period in which they arise.

Current and past-service costs are recognized immediately in the income statement (operating result).

Net interest on the net defined benefit liability comprises interest income on plan assets, interest cost on the defined benefit obligation and interest on the effect of asset ceiling. The net interest is calculated using the same discount rate that is used in calculating the defined benefit obligation, applied to the net defined liability at the start of the period, taking into account any changes from contribution or benefit payments. Net interest on the net defined benefit liability is recognized in the income statement (financial result).

The contributions to defined contribution plans are recognized in the income statement (operating result) when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

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 the Oerlikon Group. Sales of goods are booked 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 Manmade Fibers Segment, 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 expenses: Other income consists of income from real estate, investments, licenses, patents and non-operating assets. Other expense consists of non-operating expenses and taxes not based on income.

Financial expenses: 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 that 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 judgment 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 (balance sheet 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, 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 arising 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 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.

Discontinued operations and assets and liabilities classified as held for sale

A component of the Group is reclassified into "discontinued operations" if its divestment is intended, and if it fulfills the criteria for being classified as "held for sale" and for being presented as discontinued operations. 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. Depreciation of non-current assets ceases when the respective qualification as assets held for sale is met.

All disclosures in the notes to the consolidated financial statements refer to continuing operations, except where otherwise indicated.

Risks

Financial risk management/financial instruments: Due to its international activities, the Group is exposed to various financial risks, such as market risk (including 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 preapproved 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.

Foreign exchange risks: Risks related to fluctuations in foreign currencies are in certain instances hedged at Group level (refer to Note 19 "Financial instruments").

Interest rate risks: Risks related to fluctuations in interest rates are monitored by Group Treasury and in certain instances hedged at Group level (refer to Note 19 "Financial instruments").

Credit risks: Risks of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations are monitored locally by the individual Group companies (refer to Note 19 "Financial instruments").

Liquidity risks: The 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 (refer to Note 19 "Financial instruments").

Contingent liabilities

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

Participation plans/share-based payments

Members of the Executive Committee and senior management may receive a portion of their compensation as a long-term bonus in the form of awards for OC Oerlikon Corporation AG, Pfäffikon under various 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 within operating results, with a corresponding increase in equity (equity settled plans).

Related-party transactions

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

Adjustment of previously reported figures

Certain comparative figures for 2013 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 Advanced Technologies Segment, the respective figures are shown as discontinued operations and certain 2013 figures have been restated in accordance with IFRS 5. The effects of the adjustments to the 2013 consolidated income statement are as follows:

Consolidated income statement

in CHF million	January 1 to December 31, 2013 as reported	Advanced Technologies	**January 1 to December 31, 2013, restated**
Sales of goods	2 184	–97	2 087
Services rendered	699	–16	683
Total sales	**2 883**	**–113**	**2 770**
Cost of sales	–2 044	76	–1 968
Gross profit	**839**	**–37**	**802**
Marketing and selling	–161	9	–152
Research and development	–117	18	–99
Administration	–208	3	–205
Other income	36	–	36
Other expense	–23	–	–23
Result before interests and taxes (EBIT)	**366**	**–7**	**359**
Financial income	16	–	16
Financial expense	–48	1	–47
Result before taxes (EBT)	**334**	**–6**	**328**
Income taxes	–75	–	–75
Result from continuing operations	**259**	**–6**	**253**
Result from discontinued operations	–58	6	–52
Net income	**201**	**–**	**201**

Notes to the consolidated financial statements

Group structure

Note 1

Subsidiaries
A list of Oerlikon's subsidiaries can be found on page 120–121.

During the financial year 2014, the following material changes in the scope of consolidation have occurred:

Acquisition of non-controlling interests
During 2014, the Group purchased non-controlling interests in Fairfield Atlas Ltd., increasing the ownership from 97.70% to 98.19%.

Acquisitions
On June 2, 2014, Oerlikon acquired all outstanding equity interests of the Metco Division from the Sulzer Group. The following material companies were acquired as part of this transaction: Oerlikon Metco Management AG, Oerlikon Metco AG, Oerlikon Metco Holding GmbH, Oerlikon Metco Europe GmbH, Oerlikon Metco WOKA GmbH, Oerlikon Metco (Canada) Inc., Oerlikon Metco (US) Inc., Oerlikon Metco Surface Technology (Shanghai) Co. Ltd., Oerlikon Metco Coatings GmbH, Oerlikon Friction Systems (Germany) GmbH, Oerlikon Friction Systems (US) Inc., Oerlikon Eldim (NL) B.V., Oerlikon Metaplas GmbH (refer to Note 2 "Acquisitions and divestments").

Non-controlling interests
The following Group companies have non-controlling interests as at December 31:

		Non-controlling interests in %	
Company	**Country**	**2014**	**2013**
Oerlikon Balzers Sandvik Coating Oy	Finland	49.00	49.00
Vocis Limited	Great Britain	49.00	49.00
Fairfield Atlas Ltd.	India	1.81	2.30
Oerlikon Balzers Coating Luxembourg S.à.r.l.	Luxembourg	40.00	40.00
Oerlikon Balzers Coating Korea Co. Ltd.	South Korea	10.10	10.10
Oerlikon Balzers Coating Philippines Inc.	Philippines	0.01	0.01
Oerlikon Balzers Sandvik Coating AB	Sweden	49.00	49.00
Oerlikon Balzers Coating (Thailand) Co. Ltd.	Thailand	0.01	0.01
Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi	Turkey	0.01	0.01
Zigong Golden China Speciality Carbides Co., Ltd.	China	40.00	–

The interests that non-controlling interests have in the Oerlikon Group's activities and cash flows are not material.

Interests in joint arrangements and associates
The Oerlikon Group does not hold any significant interests in joint arrangements and associates.

Significant prior-year changes in Group Structure

Divestments
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. The transaction was closed on July 3, 2013. The following material companies were sold as part of this transaction: Aktiengesellschaft Adolph Saurer, Oerlikon Heberlein Temco Wattwil AG, Oerlikon Czech s.r.o., Oerlikon Tekstil Middle East Makilanari Dis Ticarat A.S., Oerlikon Textile Components Singapore Pte. Ltd., Oerlikon Fibrevision Ltd., Jintan Texparts Components Co. Ltd., Saurer Jintan Textile Machinery Co. Ltd., Oerlikon Textile Components GmbH, Zinser Textile Systems Private Ltd., Peass Industrial Engineers Ltd. Refer to Note 2 for details.

Acquisitions and divestments

Note 2

Acquisition of Metco from Sulzer Group

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

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

The goodwill of CHF 357 million arising from the acquisition is mainly attributable to the value of expected synergies and economies of scale expected from combining the operations of Metco and Oerlikon Balzers. None of the goodwill recognized is expected to be deductible for income tax purposes.

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

Consideration at the date of acquisition

in CHF million	June 2, 2014
Cash	759
Settlement of pre-existing Metco intragroup financing	198
Total consideration	**957**

Recognized amounts of identifiable assets acquired and liabilities assumed

in CHF million	June 2, 2014
Cash and cash equivalents	36
Trade and other receivables	131
Inventories	154
Property, plant and equipment	157
Intangible assets	457
Other non-current assets	23
Trade and other payables	–100
Provisions	–70
Other non-current liabilities	–49
Income taxes payable	–19
Deferred tax liabilities, net	–120
Total identifiable net assets	**600**
Goodwill	357
Total	**957**

The above amounts represent the final allocation of the purchase price. Compared to the preliminary allocation of the purchase price, the goodwill increased by CHF 3 million, mainly due to additional litigation cases identified.

Acquisition-related costs amounting to CHF 13 million have been recognized under other expense in the consolidated income statement for the year ended December 31, 2014.

Since June 2, 2014, the acquired business has contributed CHF 423 million to total sales and CHF 9 million to the net income of the Oerlikon Group. Had the transaction taken place at January 1, 2014, the Group's total sales and net income for the year ended December 31, 2014, would have amounted to approximately CHF 3515 million and CHF 230 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, 2014.

Contingent liabilities of CHF 64 million have been recognized primarily due to environmental liabilities as well as certain litigation and potential tax risks. Any potential cash outflow is estimated to occur during the next 20 years. The selling shareholders of Metco have contractually agreed to indemnify Oerlikon for an amount up to CHF 20 million related to certain of these environmental liabilities. Compared to the preliminary purchase price allocation, the amount recognized for the contingent liabilities increased by CHF 2 million due to additional litigation cases identified. Otherwise there was no change to the contingent liabilities and the indemnification asset as of December 31, 2014, except for unwinding of discount, as there has been no change in the range of outcomes or assumptions used to develop the estimates.

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. Consequently, the Advanced Technologies Segment is presented as a disposal group held for sale and as discontinued operations. On December 31, 2014, the disposal group comprised assets of CHF 76 million less liabilities of CHF 24 million. 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. On December 31, 2014, the cumulative exchange differences concerned were negative (CHF –18 million). The disposal group was not a discontinued operation or classified as held for sale as of December 31, 2013, and the comparative consolidated income statement has been represented to show the discontinued operation separately from continuing operations. 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. The sale was closed on February 2, 2015 – for details refer to Note 26 "Subsequent events".

Acquisitions and divestments

Note 2 (cont.)

Divestment of the Natural Fibers and Textile Components Business Units
On December 3, 2012, the Oerlikon Group signed an agreement with the Jinsheng Group of China to divest the Natural Fibers and Textile Components Business Units from its Textile Segment. The sale was closed on July 3, 2013. The final determination of the sales price was subject to a customary financial adjustment mechanism. This process was closed in the second quarter of 2014, the respective income statement effect for OC Oerlikon was a loss of CHF 1 million net of tax. In the second half year of 2014 the reassessment of the tax liabilities related to the sale resulted in an income of CHF 2 million. 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.

Divestment of properties in Germany
Following the commitment of the Oerlikon Group in December 2014 to sell properties in Germany (included in the Manmade Fibers Segment), the respective assets amounting to CHF 2 million have been classified as held for sale.

Result from discontinued operations

	January 1 to December 31, 2014			January 1 to December 31, 2013, restated		
in CHF million	Natural Fibers and Textile Components	Advanced Technologies Segment	**Total**	Natural Fibers and Textile Components	Advanced Technologies Segment	**Total**
Sales	**–**	**81**	**81**	**469**	**113**	**582**
Total expenses	–	–129	**–129**	–424	–107	**–531**
Result before taxes (EBT) from operating activities	**–**	**–48**	**–48**	**45**	**6**	**51**
Income taxes	–	2	**2**	–11	–	**–11**
Result from operating activities	**–**	**–46**	**–46**	**34**	**6**	**40**
Loss (-)/gain (+) on sale of discontinued operations before reclassification of translation differences	–4	–	**–4**	4	–	**4**
Reclassification of translation differences[1]	–	–	**–**	–114	–	**–114**
Income tax on sale of discontinued operations	5	–	**5**	18	–	**18**
Net result from discontinued operations	**1**	**–46**	**–45**	**–58**	**6**	**–52**
Attributable to:						
Shareholders of the parent	1	–46	**–45**	–58	6	**–52**
Earnings per share in CHF	0.00	–0.14	**–0.13**	–0.18	0.02	**–0.16**
Diluted earnings per share in CHF	0.00	–0.14	**–0.13**	–0.17	0.02	**–0.16**

[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.

Cash flow from discontinued operations

	January 1 to December 31, 2014			January 1 to December 31, 2013, restated		
in CHF million	Natural Fibers and Textile Components	Advanced Technologies Segment	**Total**	Natural Fibers and Textile Components	Advanced Technologies Segment	**Total**
Cash flow from operating activities	–	–5	**–5**	–8	1	**–7**
Cash flow from investing activities	–12	–1	**–13**	–7	–3	**–10**
Cash flow from financing activities	–	–	**–**	–	–	**–**
Net cash flow from discontinued operations	–12	–6	**–18**	–15	–2	**–17**

Acquisitions and divestments

Note 2 (cont.)

Disposal group and assets classified as held for sale as at December 31, 2014
The assets and liabilities of the disposal group classified as held for sale and the assets classified as held for sale are measured at the lower of their carrying amount and fair value less cost to sell and presented separately in the balance sheet. Based on the decision to sell the disposal group an impairment review was performed and a loss of CHF –32 million was recognized on goodwill (included in Result from discontinued operations). Fair value less cost to sell has been determined based on the expected sales proceeds as contractually agreed with the third party buyer of the Advanced Technologies segment. This is a level 3 fair value measurement.

At December 31, 2014, the following assets and liabilities have been classified as held for sale:

Assets classified as held for sale

in CHF million	**2014**
Cash and cash equivalents	1
Trade receivables	24
Other receivables	2
Inventories	32
Property, plant and equipment[1]	5
Goodwill and intangible assets	12
Deferred tax assets	2
Total assets classified as held for sale	**78**

[1] Includes CHF 2 million related to the properties in Germany – refer to “Divestment of properties in Germany”.

Liabilities classified as held for sale

in CHF million	**2014**
Trade payables	9
Other current liabilities	3
Accrued liabilities	7
Other current provisions	4
Non-current post-employment benefit provisions	1
Total liabilities classified as held for sale	**24**

Effect of disposal of the Natural Fibers and Textile Components Business Units on the financial position

in CHF million	July 3, 2013
Cash and cash equivalents	–59
Trade and other receivables	–169
Inventories	–175
Prepaid expenses and accrued income	–2
Non-current financial investments	–3
Property, plant and equipment	–124
Goodwill and intangible assets	–289
Post-employment benefit assets	–8
Deferred tax assets	–3
Trade and other payables	116
Accrued liabilities	40
Current customer advances	51
Current income taxes payable	5
Other current provisions	15
Non-current post-employment benefit provisions	33
Deferred tax liabilities	7
Other non-current provisions	1
Net assets	**–564**
Consideration received (cash and cash equivalents)	586
Cash and cash equivalents disposed of	–59
Net cash inflow	**527**

Other income and expense

Note 3

in CHF million	2014	2013, restated
Licensing, patent and know-how income	1	2
Other income[1]	33	34
Other income	**34**	**36**
Taxes not based on income	–7	–4
Impairment of property, plant and equipment and intangible assets	–1	–
Restructuring costs	–2	–3
Other expense[2]	–32	–16
Other expense	**–42**	**–23**
Other income and expense, net	**–8**	**13**

[1] The presentation of other income has been changed in the current year and 2013 figures have been reclassified to conform to the current year presentation.

[2] Includes CHF 13 million acquisition related costs. Refer to Note 2.

Expenses included in EBIT

Note 4

in CHF million	2014	2013, restated
Personnel expense		
Salaries and wages	713	569
Social security and other employee benefits[1]	196	168
Total	**909**	**737**
Depreciation and amortization		
– Property, plant and equipment	125	106
of which in:		
Cost of sales	105	85
Marketing and selling	1	1
Research and development	5	5
Administration	14	15
– Intangible assets	39	17
of which in:		
Cost of sales	4	–
Marketing and selling	11	2
Research and development	21	12
Administration	3	3
Total	**164**	**123**

[1] Included in the CHF 196 million expense for social security and other employee benefits is CHF 36 million (previous year, restated: CHF 26 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.

Financial income and expense

Note 5

in CHF million	2014	2013, restated
Interest income	8	7
Other financial income	5	5
Foreign currency gain, net	2	4
Financial income	**15**	**16**
Interest on financial debt[1]	–24	–17
Interest on defined benefit plans, net	–16	–20
Other financial expense	–5	–4
Net loss on hedging transactions recognized in the income statement	–	–6
Financial expense	**–45**	**–47**
Financial expense, net	**–30**	**–31**

[1] The total interest expense amounted to CHF 24 million (previous year: CHF 19 million), which is included in interest on financial debt and other financial expense.

Income taxes

Note 6

in CHF million	**Continuing operations**	**Discontinued operations**	**2014 Total**	Continuing operations	Discontinued operations	2013, restated Total
Current income tax expense (-)/income (+)	–92	5	–87	–89	–16	–105
Deferred tax expense (-)/income (+)	9	2	11	14	23	37
Total	**–83**	**7**	**–76**	**–75**	**7**	**–68**

Analysis of tax expense

in CHF million	**2014**	2013, restated
Result before taxes from continuing operations	330	328
Result before taxes from discontinued operations	–52	–59
Total	**278**	**269**
Tax expense (-)/income (+) from continuing operations	–83	–75
Tax expense (-)/income (+) from discontinued operations	7	7
Total	**–76**	**–68**
Expected tax expense[1]	–85	–57
Difference between actual and expected tax expense	**9**	**–11**

The effective tax rate from continuing operations amounts to 25.2 % (previous year: 22.5 %). The difference of the effective tax rate from continuing operations compared to the previous year is mainly due to the purchase of the Business Unit Metco.

The difference between the tax expense calculated using the weighted average tax rate of the Oerlikon Group (expected tax expense) of 30.7 % (previous year expected tax expense: 21.4 %) and the effective tax expense arises from the factors mentioned below. The expected tax rate from continuing operations amounts to 27.5 %.

Non-taxable income and non-deductible expenses	–9	–43
Not recognized deferred taxes on current-year losses	–3	–4
Non-refundable withholding tax	–7	–10
Utilization of not recognized tax loss carry forwards from previous periods	1	24
Income tax for prior years	1	–1
Recognition of previously not recognized tax losses	24	20
Other effects	2	3
Difference between actual and expected tax expense	**9**	**–11**

[1] The expected tax expense is calculated from the various profits and losses of the individual Group companies, using local tax rates. From these a composite tax rate is developed, averaged over the whole Group. This composite tax rate is influenced by the negative income of discontinued operations.

Deferred taxes

Note 6 (cont.)

Composition of deferred taxes

in CHF million	2014 Deferred tax balances Assets	2014 Deferred tax balances Liabilities	2013 Deferred tax balances Assets	2013 Deferred tax balances Liabilities
Trade receivables	2	1	2	1
Other receivables and accruals	–	19	–	15
Inventories	37	1	38	–
Post-employment benefit assets	–	–	–	1
Financial assets	–	7	1	3
Property, plant and equipment	23	44	25	39
Assets classified as held for sale	–2	–	–	–
Intangible assets	12	211	3	74
Assets	**72**	**283**	**69**	**133**
Trade payables	2	–	–	–
Other current and non-current liabilities	16	8	12	18
Financial liabilities	4	–	1	–
Provisions	166	7	109	2
Liabilities	**188**	**15**	**122**	**20**
Deferred tax asset from recognized tax loss carry forwards[1]	43	–	38	–
Offsetting	–113	–113	–105	–105
Total	**190**	**185**	**124**	**48**

[1] As per end of 2014 tax loss carry forwards of CHF 261 million for federal taxes and CHF 38 million for state/local taxes were recognized (previous year: CHF 141 million for federal taxes and CHF 98 million for state/local taxes).

Movement in deferred tax balances during the year

in CHF million	Balance January 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Acquired in acquisitions (see Note 2)	Other[1]	Balance December 31, 2014
Total	**76**	**11**	**37**	**–120**	**1**	**5**

[1] Effect of disposal of the Advanced Technologies Segment.

in CHF million	Balance January 1, 2013	Recognized in profit or loss	Recognized in other comprehensive income	Other[2]	Balance December 31, 2013
Total	**39**	**37**	**2**	**–2**	**76**

[2] Effect of disposal of the Natural Fibers and Textile Components Business Units.

Unrecognized deferred tax liabilities:

At December 31, 2014, there are temporary differences of CHF 423 million (previous year: CHF 314 million) with regard to investments in subsidaries for which no deferred tax liabilities were recognised since the Group controls the timing of the reversal of the related taxable temporary differences and management is convinced that they will not reverse in the foreseeable future.

Deferred taxes

Note 6 (cont.)

Utilization of tax loss carry forwards is limited as follows:

in CHF million	2014 Tax losses not recognized as deferred tax assets federal tax	2014 Tax losses not recognized as deferred tax assets state/local tax	2013 Tax losses not recognized as deferred tax assets federal tax	2013 Tax losses not recognized as deferred tax assets state/local tax	2014 Total tax loss carry forwards federal tax	2014 Total tax loss carry forwards state/local tax	2013 Total tax loss carry forwards federal tax	2013 Total tax loss carry forwards state/local tax
1 year	–	1	–	3	1	1	–	3
2 years	–	15	5	9	13	15	9	9
3 years	2	22	10	15	23	22	13	15
4 years	10	30	19	22	18	30	23	22
5 years	10	25	13	32	28	53	16	32
over 5 years	63	140	230	171	263	150	357	269
Total	**85**	**233**	**277**	**252**	**346**	**271**	**418**	**350**

Compared to previous year tax loss carry forwards not recognized decreased (decrease of CHF 192 million for federal taxes and CHF 19 million for state/local taxes). This is mainly due to utilisation of not recognized losses and, based on positive business outlook, not recognized losses were reclassified.

The deferred tax on not recognized tax loss carry forwards would amount to CHF 30 million in 2014 (previous year: CHF 62 million).

Earnings per share

Note 7

Earnings per share of CHF 0.59 (previous year: CHF 0.60) have been calculated on the basis of a net profit of CHF 198 million (previous year: CHF 198 million), attributable to shareholders of the parent, and the average weighted number of outstanding shares (issued shares less treasury shares). In 2014, the average weighted number of shares entitled to vote and receive dividends amounted to 336 683 696 (previous year: 330 564 091). Diluted earnings per share amounted to CHF 0.59 (previous year: CHF 0.59). The average weighted number of shares used in the calculation of diluted earnings per share amounted to 338 065 341 (previous year: 335 018 675).

Number of outstanding shares	**2014**	2013
Total shares issued at year-end	339 758 576	334 633 258
Weighted average number of shares outstanding for the year	336 683 696	330 564 091
Effect of potential exercise of option rights	1 381 645	4 454 584
Weighted average number of shares diluted for the year	338 065 341	335 018 675

Cash and cash equivalents

Note 8

in CHF million	**2014**	2013
Cash, postal and bank current accounts	406	461
Time deposits	379	819
Money market funds[1]	40	–
Total	**825**	**1 280**

[1] AAA rated money market funds available on a daily basis.

CHF 185 million (previous year: CHF 232 million) of total cash and cash equivalents are held in countries in which local exchange control regulations provide for restrictions on exporting capital from the country, other than through normal dividends. Nevertheless, if the Group complies with these requirements, such liquid funds are at its disposition within a reasonable period of time.

Cash and cash equivalents are held in the following currencies:

Currency

in CHF million	**2014**	2013
CHF	383	460
EUR	187	485
USD	55	86
CNY	98	157
Other	102	92
Total	**825**	**1 280**

Financial investments

Note 9

in CHF million	**2014**	2013
Deposits	52	2
Debt and equity securities	3	3
Derivatives used for hedging	4	6
Current financial investments and derivatives	**59**	**11**
Investments in associates and joint arrangements	5	3
Other investments	1	1
Non-current financial investments	**6**	**4**
Total	**65**	**15**

Loans and receivables

Note 10

in CHF million	2014	2013
Current		
Trade receivables	423	382
Trade notes receivable	50	43
Other receivables[1]	94	88
Non-current		
Loans and other non-current financial receivables	25	25
Total	**592**	**538**

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

Inventories

Note 11

	2014			2013		
in CHF million	Gross value	Value adjustment	Net value	Gross value	Value adjustment	Net value
Raw material and components	179	–24	**155**	178	–30	**148**
Work in progress	185	–8	**177**	147	–7	**140**
Finished goods and trade merchandise	211	–32	**179**	137	–21	**116**
Total	575	–64	**511**	462	–58	**404**

Amounts charged to the income statement for write-downs of inventories in the reporting year were CHF 7 million (previous year, restated: CHF 8 million). In 2014, inventories of CHF 1 452 million (previous year: CHF 1 215 million) were recognized as an expense during the period and included in cost of sales.

Construction contracts according to the percentage of completion method (POC)
The accrued sales under the POC method pertain to customer orders in the Manmade Fibers Segment, summarized as follows:

in CHF million	2014	2013
POC sales recognized as revenue in the period	635	623
Aggregate contract costs incurred and recognized contract profits to date	72	94
Gross amount due from customers for contract work as an asset	20	15
Net amount of customer advances for POC projects[1]	52	84

[1] This amount is included in the current customer advances totaling CHF 294 million (previous year: CHF 407 million).

Property, plant and equipment

Note 12

in CHF million	Plant, equipment and furniture	Production and administration buildings	Developed land	Facilities under construction	**2014 Total**
Cost					
Balance at January 1, 2014	1 253	455	71	32	1 811
Conversion differences	34	5	–	1	40
Changes in the scope of consolidated companies	92	46	11	8	157
Additions	82	5	2	54	143
Disposals	–18	–6	–9	–	–33
Reclassifications to assets held for sale	–28	–1	–	–	–29
Transfers	53	12	–	–65	–
Balance at December 31, 2014	1 468	516	75	30	2 089
Accumulated depreciation and impairment losses					
Balance at January 1, 2014	–841	–228	–	–	–1 069
Conversion differences	–15	–	–	–	–15
Depreciation	–109	–18	–	–	–127
Impairment losses	–1	–	–	–	–1
Disposals	16	1	–	–	17
Reclassifications to assets held for sale	24	–	–	–	24
Balance at December 31, 2014	–926	–245	–	–	–1 171
Net Group values at December 31, 2013	412	227	71	32	742
Net Group values at December 31, 2014	**542**	**271**	**75**	**30**	**918**
Of which assets held under finance leases	1	1	7	–	9
Insured values in event of fire	2 408	915	–	8	3 331

Open purchase commitments for property, plant and equipment at the end of 2014 amounted to CHF 8 million (previous year: CHF 6 million).

Property plant and equipment

in CHF million	Plant equipment and furniture	Production and administration buildings	Developed land	Facilities under construction	**2013 Total**
Cost					
Balance at January 1, 2013	1 175	425	75	42	1 717
Conversion differences	–30	–	–2	–2	–34
Additions	80	7	–	73	160
Disposals	–22	–5	–1	–4	–32
Transfers	50	28	–1	–77	–
Balance at December 31, 2013	1 253	455	71	32	1 811
Accumulated depreciation and impairment losses					
Balance at January 1, 2013	–787	–212	–	–	–999
Conversion differences	16	–	–	–	16
Depreciation	–93	–15	–	–	–108
Disposals	18	4	–	–	22
Transfers	5	–5	–	–	–
Balance at December 31, 2013	–841	–228	–	–	–1 069
Net Group values at December 31, 2012	388	213	75	42	718
Net Group values at December 31, 2013	**412**	**227**	**71**	**32**	**742**
Of which assets held under finance leases	1	1	–	–	2
Insured values in event of fire	1 919	797	–	6	2 722

Goodwill and intangible assets

Note 13

in CHF million	Goodwill	Brands	Technology and development costs	Other intangible assets	**2014 Total**
Cost					
Balance at January 1, 2014	926	208	97	121	1 352
Conversion differences	20	–2	–1	8	25
Changes in the scope of consolidated companies	357	23	–	434	814
Additions	–	–	16	9	25
Disposals	–	–	–	–6	–6
Reclassifications to assets held for sale	–89	–	–10	–	–99
Balance at December 31, 2014	1 214	229	102	566	2 111
Accumulated amortization and impairment losses					
Balance at January 1, 2014	–264	–	–47	–98	–409
Conversion differences	4	–	–	–	4
Amortization	–	–	–12	–29	–41
Impairment losses[1]	–32	–	–	–	–32
Disposals	–	–	–	7	7
Reclassifications to assets held for sale	82	–	5	–	87
Balance at December 31, 2014	–210	–	–54	–120	–384
Net Group values at January 1, 2014	662	208	50	23	943
Net Group values at December 31, 2014	**1 004**	**229**	**48**	**446**	**1 727**

[1] Relating to the divestment of the Advanced Technologies Segment.

The capitalized development costs pertain to the Segments as follows:

Capitalized development costs for the period

in CHF million	**2014**	2013
Surface Solutions Segment	11	6
Manmade Fibers Segment	1	1
Drive Systems Segment	–	2
Vacuum Segment	2	4
Advanced Technologies Segment (discontinued operations)	2	1
Total	**16**	**14**

Goodwill and intangible assets

Note 13 (cont.)

Goodwill and brands are attributed to the Segments as follows:

Goodwill and brands	2014	2013	2014	2013
in CHF million		Goodwill		Brands
Surface Solutions Segment	387	26	22	–
Manmade Fibers Segment	113	116	135	137
Drive Systems Segment	504	482	72	71
Advanced Technologies Segment (discontinued operations)[1]	–	38	–	–
Total	**1 004**	**662**	**229**	**208**

[1] On December 22, 2014, the Oerlikon Group signed an agreement with Evatec AG to divest the Advanced Technologies Segment. Consequently, the Advanced Technologies Segment is presented as a disposal group held for sale and as discontinued operations. The Goodwill has been reclassified to assets classified as held for sale, following the announcement of the planned divestment (refer to Note 2 for details). Based on the decision to sell the disposal group an impairment review was performed and a loss of CHF –32 million was recognized on goodwill (included in Result from discontinued operations).

Goodwill and other intangible assets with indefinite useful life are allocated to those cash–generating units (CGUs) that are expected to benefit from the relevant business combination. The Segments 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 impairment testing are based on fair value less costs of disposal and on the latest forecasts approved by management. The forecast period used for future cash flows covers the years 2015 to 2019. 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 Segment level supported the carrying amounts and therefore, no need for impairment was identified.

Detailed results of the impairment testing are presented below for goodwill allocated to Manmade Fibers, Drive Systems and Surface Solutions, representing 100 % of the net book value at December 31.

The following growth and pre-tax discount rates were used:

Growth and discount rates per Segment	2014	2013	2014	2013
		Growth rates[1]		Discount rates
Surface Solutions Segment	2.0 %	2.0 %	10.4 %	10.2 %
Manmade Fibers Segment	2.0 %	2.0 %	9.2 %	8.7 %
Drive Systems Segment	2.5 %	2.5 %	10.5 %	11.6 %
Advanced Technologies Segment (discontinued operations)	–	2.0 %	–	7.8 %

[1] For periods following the five-year plan period 2015 to 2019 (previous year: 2014 to 2018).

For the Manmade Fibers as well as the Surface Solutions Segment, neither a reduction of the growth rate of the terminal value to 0.5 % (previous year: 0.5 %), nor an increase in the discount rate by 1.5 % (previous year: 1.5 %) would give rise to an impairment of goodwill.

For the Drive Systems Segment, the recoverable amount exceeded the carrying amount by CHF 219 million. A reduction of the growth rate to 1.0 % or an increase in the discount rate by 1.3 % would result in the recoverable amount to be equal to its carrying amount.

Goodwill and intangible assets

Note 13 (cont.)

Previous year

in CHF million	Goodwill	Brands	Technology and development costs	Other intangible assets	**2013 Total**
Cost					
Balance at January 1, 2013	925	207	96	116	1 344
Conversion differences	1	1	1	3	6
Additions	–	–	14	6	20
Disposals	–	–	–14	–4	–18
Balance at December 31, 2013	926	208	97	121	1 352
Accumulated amortization and impairment losses					
Balance at January 1, 2013	–262	–	–51	–93	–406
Conversion differences	–2	–	–	–1	–3
Amortization	–	–	–10	–8	–18
Disposals	–	–	14	4	18
Balance at December 31, 2013	–264	–	–47	–98	–409
Net Group values at January 1, 2013	663	207	45	23	938
Net Group values at December 31, 2013	**662**	**208**	**50**	**23**	**943**

Post-employment benefits

Note 14

in CHF million	2014 Total	2014 due within 1 year	2014 due beyond 1 year	2013 Total	2013 due within 1 year	2013 due beyond 1 year
Net defined benefit liability[1]	666	23	643	554	21	533
Other employee benefit liabilities	21	2	19	9	1	8
Subtotal	**687**	**25**	**662**	**563**	**22**	**541**
Net defined benefit liability classified as held for sale	1	–	1	–	–	–
Total on the balance sheet	**686**	**25**	**661**	**563**	**22**	**541**
Post-employment benefit assets	**–**	–	–	**–5**	–	–5
Post-employment benefit provisions	**686**	25	661	**568**	22	546

[1] In 2014, net defined benefit liability related to funded plans was CHF 213 million, including CHF 1 million classified as held for sale and unfunded plans CHF 453 million (previous year: funded CHF 137 million and unfunded CHF 417 million).

Post-employment benefit expense

in CHF million	2014 Total	2014 Defined benefit	2014 Defined contribution	2013 Total	2013 Defined benefit	2013 Defined contribution
Pension cost (operating)	**37**	18	19	**27**	17	10
Pension cost (financial)	**16**	16	–	**20**	20	–
Total post-employment benefit plan cost in the income statement[1]	**53**	34	19	**47**	37	10

[1] Pension cost (operating) of CHF 1 million is included in result of discontinued operations (previous year: CHF 1 million).

Post-employment benefits

Note 14 (cont.)

Defined benefit plans
The Group's material defined benefit pension plans are located in Germany, USA, and Switzerland and account for 95 % of the Group's net defined benefit liability (previous year: 95 %). Usually, the plans are established as trusts independent of the Group and are funded by payments from Group companies and by employees. The cash funding of these plans is designed to ensure that present and future contributions should be sufficient to meet future liabilities. The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan. Most of the major plans in Germany are unfunded and as the result the Group pays pensions to retired employees directly from its own financial resources.

Pension plans in Germany
18 unfunded and 6 funded defined benefit plans existed in 2014 (previous year: 22 and 7 respectively). These pension arrangements are governed by the German Occupational Pensions Act (BetrAVG). The employer is required by German law to increase pension payments all three years according to price inflation, as measured by the Consumer Price Index ("Verbraucherpreisindex – VPI") or according to comparable pay grades. In case of unfunded pension plans, the Group pays pensions to retired employees directly from its own financial resources. Funded pension plans are administered through a Contractual Trust Agreement (CTA). In a CTA arrangement, the assets are outsourced to an independent entity (e.g. a trust), which has the sole purpose of financing, paying out and ensuring benefits. The transferred assets are completely segregated from the employer's assets to protect these assets against the risk of the employer's insolvency. The employer is free to determine the scope and the kinds of assets that are to be transferred to the Trust and used for funding the pension liabilities. No minimum funding requirements or regular funding obligations apply to CTAs. Based on a special trust agreement between the employer and the Trust, the Trust acquires legal title in the transferred assets while the economic ownership rests with the employer. By creating the CTA, the employer creates additional insolvency protection for the beneficiaries.

Pension plans in USA
2 funded and 2 unfunded defined benefit plans existed in 2014 (previous year: 4 and 2 respectively). The pension plan for members of Fairfield Manufacturing Company hired prior to March 2004 is non-contributory for the employees. The plan is a final-average pay design defined benefit plan. A member's benefit is based on a percentage of their final average pay multiplied by service and payable as a monthly life annuity. A lump sum payment is generally not available. The plan does not provide for automatic pension increases. This plan has been closed to new members since 2004. The Oerlikon USA Holding, Inc. Pension Plan is non-contributory for the employees. The plan uses a final-average-pay-based formula, with benefits based on members' years of service and final average pay earned while in the employ of a participating company. This plan has been closed to new members since 2006 and benefit accruals under the plan ceased in January 2010. Participants receive their benefits in the form of monthly annuities, which are actuarially reduced for early retirement and/or election of a form of payment providing for continued payments after the participant's death to a surviving beneficiary. Some participants have the option of receiving their benefits in a single lump-sum payment in lieu of an annuity. The plan does not provide for automatic pension increases. The companies' contributions to the defined benefit plan are made based on US pension funding regulations, in the form of cash. Employees joining Fairfield Manufacturing Company and Oerlikon USA Holding after specified dates participate in a defined contribution pension plan.

Pension plans in Switzerland
8 funded defined benefit plans existed in 2014 (previous year: 6 plans). These plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG), which stipulates that pension plans are to be managed by independent, legally autonomous units. The pension plan assets are held within a separate foundation and cannot revert to employer. The Board of Trustees, the most senior governing body of the collective foundation, is ultimately responsible for investment strategy and policy. This Board is composed of equal numbers of employees and employer representatives. The plans provide old age, disability and death-in-service (survivors') benefits to plan participants, their spouses and children, as defined in pension plan rules compliant with the BVG, which specifies the minimum benefits to be provided. Pension funds are financed according to a level premium system, which means that every insured person directly finances his/her own retirement benefits and saves up for his/her retirement. The insured and the employer usually pay equal contributions to the pension fund in case of retirement benefits. The employer must contribute an amount that equals at least the contributions of all employees together. Disability and survivors' benefits are funded via risk contributions; the corresponding benefits are defined based on the current salary.

The following risks arise from the 8 funded defined benefit plans (5 autonomous, 2 part-autonomous and 1 fully insured):

The autonomous pension institutions bear the risks from the savings process, the asset management and the demographic risks (longevity, death, disability). The respective pension institution may change the funding system (contributions and future benefits) at any time. In case of a deficit according to BVG and if there are no other measures, the pension institution may require contributions for financial recovery by the employer.

The part-autonomous pension institutions insure the demographic risks with a life insurance company, but bear the risks from the savings process and asset management. The respective pension institution may change the funding system (contributions and future benefits) at any time. In case of a deficit according to BVG and if there are no other measures, the pension institution may require contributions for financial recovery by the employer. With respect to the insured demographic risks, there are further risks, being that the insurance coverage is only of a temporary nature (cancellation by the life insurance company) and that the inherent risks of the plan result in variable insurance premiums over time.

The fully insured pension institutions insure all investment and demographic risks with a life insurance company. The coverage ratio of the plan according to BVG is always 100 %. However, there are risks that the insurance coverage is only of a temporary nature (cancellation by the life insurance company) and that the inherent risks of the plan result in variable insurance premiums over time.

Post-employment benefits

Note 14 (cont.)

Movement in net defined benefit liability (asset):
The following table shows a reconciliation from the opening balances to the closing balances for net defined benefit liability (asset) and its components:

	Defined benefit obligation		Fair value of plan assets		Adjustment to asset ceiling		Net defined benefit liability (asset)	
in CHF million	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Balance at January 1	1 098	1 175	–562	–632	18	24	554	567
Included in the income statement								
Current service cost (employer)	20	20	–	–	–	–	**20**	**20**
Past service cost	–2	–2	–	–	–	–	**–2**	**–2**
Gains (–) and losses (+) on settlement	–	–1	–	–	–	–	**–**	**–1**
Interest expense on defined benefit obligation	34	36	–	–	–	–	**34**	**36**
Interest income on plan assets	–	–	–18	–16	–	–	**–18**	**–16**
Administration cost (excl. cost for managing plan assets)[1]	–	–	–	–	–	–	**–**	–
Total in the income statement[2]	**52**	**53**	**–18**	**–16**	**–**	**–**	**34**	**37**
Included in other comprehensive income								
Remeasurements (gain)/loss arising from:	144	30	–24	–13	–7	–6	**113**	**11**
- Actuarial gain (–)/loss (+) arising from:								
– demographic assumptions	24	–	–	–	–	–	24	–
– financial assumptions	120	24	–	–	–	–	120	24
– experience adjustments	–	6	–	–	–	–	–	6
- Return on plan assets excluding interest income	–	–	–24	–13	–	–	–24	–13
- Change in effect of asset ceiling excluding interest expense/income	–	–	–	–	–7	–6	–7	–6
Effect of movements in exchange rates	17	2	–19	2	–	–	**–2**	**4**
Total in other comprehensive income	**161**	**32**	**–43**	**–11**	**–7**	**–6**	**111**	**15**
Other								
Employer contributions[3]	–	–	–33	–21	–	–	**–33**	**–21**
Employee contributions[4]	8	8	–7	–6	–	–	**1**	**2**
Benefits paid/deposited	–65	–75	39	49	–	–	**–26**	**–26**
Effect of business combination and disposal	117	–95	–92	75	–	–	**25**	**–20**
Total in other	**60**	**–162**	**–93**	**97**	**–**	**–**	**–33**	**–65**
Balance at December 31	**1 371**	**1 098**	**–716**	**–562**	**11**	**18**	**666**	**554**

of which:

in CHF million								
– Germany	594	538	–71	–67	–	–	523	471
– USA	286	218	–202	–162	–	–	84	56
– Switzerland	456	313	–440	–331	11	18	27	–

[1] Administration costs are less than CHF 1 million (previous year: less than CHF 1 million).
[2] Pension costs of CHF 1 million are included in result of discontinued operations (previous year: CHF 1 million).
[3] Employer contributions for 2015 are expected to be approximately CHF 47 million (previous year: CHF 33 million).
[4] Including employee contributions in unfunded plans in the USA.

Post-employment benefits

Note 14 (cont.)

The plan assets consist of the following:

in CHF million	**2014** Total	Quoted	Unquoted	%	2013 Total	Quoted	Unquoted	%
Equity instruments, of which in:	**145**	145	–	20 %	**124**	124	–	22 %
– Consumer markets	35	35	–	5 %	1	1	–	0 %
– Energy	11	11	–	2 %	10	10	–	2 %
– Financial services	27	27	–	4 %	35	35	–	6 %
– Industrial and manufacturing	19	19	–	3 %	11	11	–	2 %
– Information technology	5	5	–	0 %	12	12	–	2 %
– Pharmaceuticals and healthcare	43	43	–	6 %	15	15	–	3 %
– Other	5	5	–	0 %	40	40	–	7 %
Debt instruments, of which in:	**222**	222	–	31 %	**175**	175	–	31 %
– Government bonds	65	65	–	9 %	50	50	–	9 %
– Corporate bonds – investment grade	157	157	–	22 %	125	125	–	22 %
Real estate, of which in:	**106**	48	58	15 %	**81**	42	39	14 %
– Germany[1]	9	–	9	1 %	9	–	9	1 %
– Switzerland	97	48	49	14 %	72	42	30	13 %
Cash and cash equivalents	**52**	52	–	7 %	**30**	6	24	5 %
Investment funds	**147**	121	26	21 %	**114**	90	24	20 %
Other	**44**	35	9	6 %	**38**	38	–	7 %
Total plan assets	**716**	**623**	**93**	**100 %**	**562**	**475**	**87**	**100 %**

[1] Real estate in Germany with a fair value of CHF 9 million (previous year: CHF 9 million) is rented by a Group company, with an annual rent of CHF 1 million (previous year: CHF 1 million).

Plan assets
In the Group's financial statements the difference between the actual return on plan assets and interest income is a remeasurement recorded directly to other comprehensive income. During 2014 the actual return on plan assets was a gain of CHF 42 million (previous year: gain of CHF 29 million). The recognition of a net defined benefit asset is limited to the present value of any economic benefits available from refunds from the plans or reductions in future contributions to the plans.

Post-employment benefits

Note 14 (cont.)

Actuarial assumptions

The following are the principal actuarial assumptions at the reporting date for significant defined benefit plans in Germany, USA and Switzerland (expressed as weighted averages):

Assumptions used in actuarial calculations	2014			2013		
in percentage	Germany	USA	Switzerland	Germany	USA	Switzerland
Discount rate	2.2	3.9	1.2	3.0	4.5	2.1
Future salary increases	1.0	2.2	1.4	1.0	2.2	1.5
Future pension increases	1.8	–	–	1.7	–	–

The discount rate is determined by reference to market yields at the end of the reporting period on AA and AAA rated corporate bonds. The currency and term of the corporate bonds are consistent with the currency and estimated term of the obligations.

Longevities

Assumptions regarding future mortality are based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date are provided below:

Longevities	2014			2013		
in years	Germany	USA	Switzerland	Germany	USA	Switzerland
Retiring at the end of the reporting period:						
– Males	20.1	20.9	21.4	19.8	18.1	21.3
– Females	24.2	23.4	24.8	24.0	20.4	23.8
Retiring 20 years after the end of the reporting period:						
– Males	22.7	22.6	21.5	22.6	18.1	21.4
– Females	26.7	25.1	25.3	26.6	20.4	24.2

	2014			2013		
Weighted average duration of the defined benefit obligation	Germany	USA	Switzerland	Germany	USA	Switzerland
Number of years	12.9	12.3	14.3	12.2	10.9	12.4

The Group's major pension plans give members lump sum or annuity benefit payment options. The Group values its pension liabilities on the assumption that the choices made by members who will retire in the future will be consistent with choices made by members who have retired recently.

Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	Defined benefit obligation in 2014					
	Increase			Decrease		
Sensitivity analysis	Germany	USA	Switzerland	Germany	USA	Switzerland
Discount rate (0.5 % movement)	–36	–18	–31	41	20	36
Future salary increases (0.5 % movement)	4	2	4	–4	–2	–4
Future pension increases (0.5 % movement)	28	–	26	–26	–	–18
Future mortality (1 year movement)	–32	–8	–14	26	7	14

	Defined benefit obligation in 2013					
	Increase			Decrease		
Sensitivity analysis	Germany	USA	Switzerland	Germany	USA	Switzerland
Discount rate (0.5 % movement)	–32	–13	–19	33	13	21
Future salary increases (0.5 % movement)	2	1	2	–5	–2	–2
Future pension increases (0.5 % movement)	24	–	15	–23	–	–15
Future mortality (1 year movement)	–28	–8	–10	21	6	9

Current financial liabilities

Note 15

in CHF million	**2014**	2013
Bank overdrafts	1	–
Current loans and borrowings	6	1
Derivatives used for hedging	11	1
Total other current financial liabilities and derivatives	**18**	**2**
Trade payables	296	314
Other payables	72	56
Total current financial liabilities	**386**	**372**

Accrued liabilities

Note 16

in CHF million	**2014**	2013
Accrued personnel costs	105	88
Accrued material costs	49	48
Other accrued liabilities	73	59
Total accrued liabilities	**227**	**195**

Provisions

Note 17

in CHF million	Product warranties	Acquiree's contingent liabilities[1]	Restructuring[2]	Other provisions[3]	**2014 Total**
Balance at January 1, 2014	49	–	3	18	**70**
Conversion differences	1	5	–	–	**6**
Change in the scope of consolidated companies	6	64	–	–	**70**
Additions[4]	47	1	2	14	**64**
Amounts used	–35	–	–1	–6	**–42**
Amounts reversed	–11	–	–	–3	**–14**
Reclassifications to liabilities held for sale	–4	–	–	–	**–4**
Balance at December 31, 2014	**53**	**70**	**4**	**23**	**150**
of which:					
Due within 1 year	52	–	4	13	**69**
Due beyond 1 year	1	70	–	10	**81**

[1] Acquiree's contingent liabilities pertain to the Surface Solutions Segment. Contingent liabilities of CHF 64 million have been recognized primarily due to environmental liabilities as well as certain litigation and potential tax risks. Any potential cash outflow is estimated to occur during the next 20 years.

[2] The restructuring provisions pertain to the Manmade Fibers (CHF 3 million) and Surface Solutions Segment (CHF 1 million).

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

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

Loans and borrowings

Note 18

in CHF million	2014	2013
Current		
Loans and borrowings	6	1
Total current loans and borrowings	**6**	**1**
Non-current		
Bonds	748	299
Finance lease liabilities	7	4
Other loans and borrowings	5	–
Total non-current loans and borrowings	**760**	**303**
Total loans and borrowings	**766**	**304**

The terms and conditions of outstanding loans are as follows:

					2014
in CHF million	**Currency**	**Nominal interest rate**	**Year of maturity**	**Face value**	**Carrying amount**
Syndicated loan/Revolving Credit Facility	CHF	Libor + 2.25 %	2016	–	–
Bond[1]	CHF	4.25 %	2016	300	299
Bond[1]	CHF	1.25 %	2019	300	299
Bond[1]	CHF	2.625 %	2024	150	150
EIB loan	EUR	Libor + 1.06 %	2019–2020	–	–
Finance lease liabilities[2]	var.	var.	2015–2027	7	7
Various current and non-current liabilities[3]	var.	var.	var.	11	11
Total loans and borrowings					**766**

					2013
in CHF million	Currency	Nominal interest rate	Year of maturity	Face value	Carrying amount
Syndicated loan/Revolving Credit Facility	CHF	Libor + 2.00 %	2015	–	–
Bond[1]	CHF	4.25 %	2016	300	299
EIB loan	EUR	Libor + 1.06 %	2018–2020	–	–
Finance lease liabilities[2]	var.	var.	2014–2027	4	4
Various current and non-current liabilities[3]	var.	var.	var.	1	1
Total loans and borrowings					**304**

[1] Face value differs from book value, because CHF 2 million, originally CHF 3 million (previous year: CHF 1 million, originally CHF 2 million) of directly attributable transaction costs related to the financing of the bonds were deducted and are being expensed over the term of the bonds.

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

[3] Various currencies including: CHF, EUR, USD, RON, PLN.

Loans and borrowings

Note 18 (cont.)

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. During the year 2014, the maturity was prolonged from 2015 to 2016. As of December 31, 2014, the revolving credit facility balance was zero. The ancillary credit facility had an unused amount of CHF 139 million and CHF 111 million was used for guarantees.

As per December 31, 2014, the interest rate of the loan under the syndicated credit facility is Libor plus a margin of 2.25 % per year, subject to a margin grid based on the ratio of net debt to EBITDA (within a range of 2 % and 3 %).

As of December 31, 2014 the syndicated credit facility contains the following financial covenants, which are tested quarterly:

– Total Equity

– Total Borrowings/EBITDA

– EBITDA/Net Interest Expense

Bond
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 %).

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 %).

Loan with the European Investment Bank (EIB)
On December 13, 2013, the Oerlikon Group signed an unsecured EUR 120 million loan facility with the European Investment Bank (EIB) to finance research and development costs of selected segments in Germany and Liechtenstein. The facility has a tenor of four to five years and the interest rate is Libor plus 1.06 %. The loan has to be drawn within 24 months after contract signing. After the 24 months the undrawn amount will expire. It contains the same financial covenants as the syndicated credit facility and they are also tested quarterly. As of December 31, 2014, the loan facility balance was zero.

Financial instruments

Note 19

The carrying amounts and fair values of financial assets and liabilities as of December 31, 2014, including their levels in the fair value hierarchy, are as follows:

	Carrying amount					Fair value			
in CHF million	Fair value – held for trading	Fair value – hedging instruments	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value									
Foreign exchange contracts	–	4	–	–	**4**	–	4	–	**4**
Debt and equity securities	3	–	–	–	**3**	3	–	–	**3**
Total	**3**	**4**	**–**	**–**	**7**	**3**	**4**	**–**	**7**
Financial assets not measured at fair value[1]									
Cash and cash equivalents	–	–	825	–	**825**				
Deposits	–	–	52	–	**52**				
Trade and other financial receivables	–	–	491	–	**491**				
Loans and other non-current financial receivables	–	–	25	–	**25**				
Total	**–**	**–**	**1 393**	**–**	**1 393**				
Financial liabilities measured at fair value									
Foreign exchange contracts	–	11	–	–	**11**	–	11	–	**11**
Total	**–**	**11**	**–**	**–**	**11**	**–**	**11**	**–**	**11**
Financial liabilities not measured at fair value[1]									
Bonds	–	–	–	748	**748**	786	–	–	**786**
Finance lease liabilities	–	–	–	7	**7**				
Trade payables	–	–	–	296	**296**				
Accrued financial liabilities	–	–	–	108	**108**				
Other loans and borrowings	–	–	–	11	**11**				
Total	**–**	**–**	**–**	**1 170**	**1 170**				

[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

Note 19 (cont.)

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

in CHF million	Carrying amount: Fair value – held for trading	Fair value – hedging instruments	Loans and receivables	Other financial liabilities	Total	Fair value: 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	–	–	1 280	–	**1 280**				
Deposits	–	–	2	–	**2**				
Trade and other financial receivables	–	–	440	–	**440**				
Loans and other non-current financial receivables	–	–	25	–	**25**				
Total	**–**	**–**	**1 747**	**–**	**1 747**				
Financial liabilities measured at fair value									
Foreign exchange contracts	–	1	–	–	**1**	–	1	–	**1**
Total	**–**	**1**	**–**	**–**	**1**	**–**	**1**	**–**	**1**
Financial liabilities not measured at fair value[1]									
Bond	–	–	–	299	**299**	319	–	–	**319**
Finance lease liabilities	–	–	–	4	**4**				
Trade payables	–	–	–	314	**314**				
Accrued financial liabilities	–	–	–	99	**99**				
Other loans and borrowings	–	–	–	1	**1**				
Total	**–**	**–**	**–**	**717**	**717**				

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

Measurement of fair values

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

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

Level 1 fair values

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

Level 2 fair values

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

Type of financial instruments	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.
Other financial assets and liabilities	Discounted cash flow

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.

Financial instruments

Note 19 (cont.)

Financial risk management
The Group has exposure to the following risks arising from financial instruments:
- credit risk
- liquidity risk
- market risk

Credit risk
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. Credit risk arises principally from the Group's customer receivables, investment securities and cash placed with banks.

The credit or default risk associated with operating receivables is monitored locally by the individual Group companies. These companies follow a credit policy defined by each Segment, under which each new customer is analyzed individually for creditworthiness before payment and delivery terms and conditions are offered. Credit ratings are reviewed regularly, and limits are set and monitored on an ongoing basis.

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 and credit default swaps of these bank institutions.

The 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	**2014**	2013
Cash and cash equivalents	825	1 280
Deposit	52	2
Debt and equity securities	3	3
Derivatives used for hedging	4	6
Trade and other financial receivables	491	440
Loans and other non-current financial receivables	25	25
Total	**1 400**	**1 756**

At December 31, trade receivables are distributed geographically (by location of the Group company) as follows:

in CHF million	**2014**	2013
Asia	170	113
Europe	204	258
North America	92	50
Other	7	4
Total	**473**	**425**

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

Financial instruments

Note 19 (cont.)

At December 31, the aging of trade receivables was as follows:

in CHF million	2014 Gross amount	2014 Value adjustment	2013 Gross amount	2013 Value adjustment
Current (not due)	**393**	**–**	**367**	**–**
Total past due	**95**	**–15**	**70**	**–12**
0–30 days	52	–1	34	–2
31–60 days	15	–	13	–
61–90 days	6	–	5	–
91–120 days	3	–1	3	–
over 120 days	19	–13	15	–10
Total	**488**	**–15**	**437**	**–12**

Allowance 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 that 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	2014	2013
Balance at January 1	–12	–12
Changes in the scope of consolidated companies	–3	–
Reclassifications to assets held for sale	2	–
Additional impairment losses charged to income	–5	–2
Reversal of impairment losses	2	1
Write-off	1	1
Balance at December 31	**–15**	**–12**

Financial instruments

Note 19 (cont.)

Liquidity risk
Liquidity risk is the risk that the Oerlikon Group 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, in order to ensure that outstanding financial liabilities can at all times be met within their maturity period and at an acceptable financing cost. Group 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 forecasts, about which senior management is kept informed. On the basis of these plans, Oerlikon mobilizes the necessary liquid funds and takes any further steps necessary on a timely basis.

The remaining contractual maturities of financial liabilities as of December 31 are as follows:

						2014
in CHF million	**Carrying amount**	**Contractual cash flow**	**within 1 year**	**1 to 5 years**	**more than 5 years**	**of which secured**
Trade payables	296	296	296	–	–	–
Loans and borrowings[1]	759	854	32	643	179	–
Finance lease liabilities	7	7	–	2	5	–
Accrued financial liabilities	108	108	108	–	–	–
Non-derivative financial liabilities	**1 170**	**1 265**	**436**	**645**	**184**	**–**
Foreign exchange contracts used for hedging	7	634	632	2	–	–
– thereof: for hedging fx-outflows	3	347	347	–	–	–
– thereof: for hedging fx-inflows	4	287	285	2	–	–
Derivative financial instruments[2]	**7**	**634**	**632**	**2**	**–**	**–**
Total	**1 177**	**1 899**	**1 068**	**647**	**184**	**–**

[1] Loans and borrowings mainly include three Swiss franc bonds of CHF 750 million, maturing in July 2016, June 2019 and June 2024 with capitalized transaction costs of CHF 2 million. The contractual cash flows include mainly future interest payments of the Swiss franc bonds until maturity and commitment fees of the syndicated credit facility as well as the EIB loan.
[2] Contractual cash flows relate to underlying transactions that cover the contractual cash flows almost completely.

						2013
in CHF million	Carrying amount	Contractual cash flow	within 1 year	1 to 5 years	more than 5 years	of which secured
Trade payables	314	314	314	–	–	–
Loans and borrowings[1]	300	344	18	326	–	–
Finance lease liabilities	4	4	–	1	3	–
Accrued financial liabilities	99	99	99	–	–	–
Non-derivative financial liabilities	**717**	**761**	**431**	**327**	**3**	**–**
Foreign exchange contracts used for hedging	–5	321	317	4	–	–
– thereof: for hedging fx-outflows	–	25	25	–	–	–
– thereof: for hedging fx-inflows	–5	296	292	4	–	–
Derivative financial instruments[2]	**–5**	**321**	**317**	**4**	**–**	**–**
Total	**712**	**1 082**	**748**	**331**	**3**	**–**

[1] Loans and borrowings mainly include a CHF 300 million Swiss franc bond with a coupon rate of 4.25 %, maturing in July 2016, including capitalized transaction costs of CHF 1 million. The contractual cash flows include future interest payments of the Swiss franc bond until maturity and commitment fees of the Syndicated Credit Facility as well as the EIB loan.

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

Financial instruments

Note 19 (cont.)

Market risk
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. The Oerlikon Group 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.

Foreign exchange risk

Foreign exchange transaction risk
Due to its most significant markets, the Group is primarily exposed to exchange risks versus the USD and EUR. If costs and revenues of Group companies are incurred or earned in differing or in non-functional 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, which hedges the related exchange risks using 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. Periodically, 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 translation risk arising from foreign subsidiary balance sheets which effects the consolidated Group equity is not hedged.

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
	2014	2013	13/14	**2014**	2013	13/14
1 USD	0.915	0.927	–1.3 %	0.989	0.890	11.1 %
1 EUR	1.215	1.231	–1.3 %	1.203	1.226	–1.9 %
100 CNY	14.850	15.100	–1.7 %	15.950	14.700	8.5 %
100 HKD	11.800	11.900	–0.8 %	12.750	11.500	10.9 %
100 JPY	0.866	0.951	–9.0 %	0.827	0.847	–2.4 %
1 SGD	0.722	0.741	–2.6 %	0.748	0.704	6.3 %

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 9.99 % (USD/CHF) and 5.15 % (EUR/CHF), a corresponding change in exchange rates at December 31, 2014, would have changed the equity and the income statement by the amounts listed below.

31 December	**2014**		2013	
Effect in CHF million	**Equity**	**Income statement**	Equity	Income statement
USD	–2	5	1	2
EUR	–1	1	–	–

A 9.99 % (USD/CHF) and 5.15 % (EUR/CHF) weakening of the Swiss franc 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 8.22 % (USD/CHF) and 3.28 % (EUR/CHF).

Financial instruments

Note 19 (cont.)

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

	2014[1]			2013[2]		
in million	**EUR**	**USD**	**CHF**	EUR	USD	CHF
Trade receivables	10	39	1	7	16	2
Trade payables	6	8	2	7	9	2
Net financial position	11	35	1	15	21	–2
Gross exposure consolidated balance sheet	**27**	**82**	**4**	**29**	**46**	**2**
Foreign exchange risk in business operations	**–22**	**83**	**–16**	**32**	**150**	**–4**
Open foreign exchange forward contracts	**5**	**–105**	**13**	**–37**	**–140**	**–**
Net exposure	**10**	**60**	**1**	**24**	**56**	**–2**

[1] Continuing operations.

[2] As reported.

Interest rate risk

Oerlikon is mainly exposed to interest rate risk in relation to its liquid funds, which are placed at variable rates or held as short-term investments.

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.

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

	2014	2013
in CHF million	**Net carrying amount**	Net carrying amount
Fixed rate interest		
Financial assets	–	–
Financial liabilities	–766	–304
Total	**–766**	**–304**
Variable rate interest		
Financial assets	880	1 285
Financial liabilities	–1	–
Total	**879**	**1 285**

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points (bp) 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**
2014		
Cash flow sensitivity	7	–7
2013		
Cash flow sensitivity	10	–

For the year 2014, it has been assumed, in contrast to the year 2013, that an increase as well as a decrease by 100 bp has a full impact on interest income and expenses. Due to the overall low interest rates in 2014, a decrease by 100 bp would lead to a negative interest rate. 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.

Financial instruments

Note 19 (cont.)

Derivative assets and liabilities

in CHF million	**2014** Contract volume	**2014** Fair value positive	**2014** Fair value negative	2013 Contract volume	2013 Fair value positive	2013 Fair value negative
Foreign exchange contracts	**634**	**4**	**11**	**321**	**6**	**1**
Interest-rate derivatives	**–**	**–**	**–**	**600**	**–**	**–**
Interest-rate swaps	–	–	–	–	–	–
Interest caps[1]	–	–	–	600	–	–
Total	**634**	**4**	**11**	**921**	**6**	**1**

[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 matured in June 2014.

Based on the Group's business activities, the following main currency pairs are hedged: EUR/USD, EUR/CHF, EUR/CNY, USD/CHF, USD/INR, EUR/INR and USD/CNY. 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 synchronized 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
Foreign exchange contracts							
2014	–7	**634**	586	46	2	–	–
2013	5	**321**	280	37	4	–	–

Netting of financial assets and liabilities
No significant netting of financial assets and liabilities occured in 2014 and 2013.

Capital management

Note 20

Oerlikon Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital using the ratios shown below:

in CHF million	**2014**	2013
Total assets	4 966	4 094
Equity attributable to shareholders of the parent	2 188	2 072
Equity ratio in %	**44 %**	**51 %**
Interest-bearing debt	766	304
Total Equity	2 201	2 084
Debt-to-equity ratio	**0.3**	**0.1**
Average equity	2 143	1 985
Net result attributable to shareholders of the parent	198	198
Return on equity	**9 %**	**10 %**

With an equity ratio of 44 % (previous year: 51 %), the Oerlikon Group is within the target range of its financial policy. The current outstanding bonds have an investment grade rating.

OC Oerlikon participation plans

Note 21

On December 31, 2014, 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 fair value for the 2014 plan is based on the stock price at grant date of CHF 14.2.

Year of allocation	Outstanding on 1.1.	Granted in 2014	Forfeited in 2014	Exercised in 2014	Outstanding on 31.12.	Fair value at grant date	Expenses 2014 in CHF million	Vesting period
2013	71 654	–	–	71 654	–	10.8	0.3	01.05.13–15.04.14
2014	–	64 139	–	–	64 139	14.2	0.7	16.04.14–08.04.15
Total	**71 654**	**64 139**	**–**	**71 654**	**64 139**		**1.0**	

Performance Share Awards (PSA)
Members of the Executive Committee and senior management may receive a portion of their compensation as a long-term bonus in the form of awards for OC Oerlikon Corporation AG, Pfäffikon, shares that are based on performance conditions and a vesting period of three years. Performance conditions for the 2011 plan may consist of 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.

Performance conditions for the 2012, 2013 and 2014 plans are based on the rank of the Total Shareholder Return (TSR) of Oerlikon over a three-year period within a peer group consisting of 28 companies including OC Oerlikon. TSR is measured with a starting value of the Volume Weighted Average Share Price (VWAP) over the first 30 trading days of the first year and an ending value of the VWAP over the last 30 trading days of the third year, assuming that dividends are reinvested in the issuing entities' stock as they are paid. The rank of Oerlikon's TSR at the end of the performance period determines the effective number of total shares. At rank 3 of the peer group or above a maximum payout of 200 % of target performance share awards (PSA) are converted into shares. At rank 10 of the peer group, the payout is 100 %, at rank 15 it is 80 % and at rank 20 or below it is 0 %.

For the 2014 plan, the fair value at grant date was CHF 14.2 and was calculated using a Monte Carlo Simulation. Main assumptions include a stock price of CHF 14.0 and an average expected volatility of the peer group of 34.3 %.

Year of allocation	Outstanding on 1.1.	Granted in 2014	Forfeited in 2014	Exercised in 2014	Outstanding on 31.12.	Fair value at grant date[1]	Expenses 2014 in CHF million[2]	Vesting period
2011	258 781	28 878	–	287 659	–	14.4	1.3	01.05.11–30.04.14
2012	545 073	126 884	21 806	–	650 151	24.9	4.8	01.05.12–30.04.15
2013	408 174	158 417	45 640	–	520 951	14.7	2.5	01.05.13–30.04.16
2014	–	568 324	7 616	–	560 708	14.2	2.2	01.05.14–30.04.17
Total	**1 212 028**	**882 503**	**75 062**	**287 659**	**1 731 810**		**10.8**	

[1] The fair values relate to the awards granted in 2014.

[2] The total expense of CHF 10.8 million (previous year: CHF 2.1 million) includes expenses of discontinued operations in the amount of CHF 0.3 million (previous year, restated: CHF –0.2 million).

Related party transactions

Note 22

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

Primary shareholder
The share capital of CHF 339758576 consists of 339758576 registered shares, each with a par value of CHF 1.00. On December 31, 2014, conditional capital amounted to CHF 47540353.

The shareholders registered as holding more than 5% of the shares as at December 31, 2014, were:

	Share ownership[1]	
Shareholder	No. of shares	in %
Renova Group[2]	144 764 860[3]	42.61%

[1] Sources: disclosure notification pursuant to Art. 20 of the Swiss Stock Exchange Law by Renova Group (published on January 9, 2015).

[2] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow. Renova Group is composed of Liwet Holding AG, Zurich, Switzerland, Renova Oil & Gas Ltd., Nassau, Bahamas, Renova Innovation Technologies Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama.

[3] At the end of 2013, the Renova Group held (as per disclosure notification) 149435408 shares (44.66% of the issued Oerlikon shares).

Share ownership, options and related instruments
The disclosure below follows Art. 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)
Tim Summers	77 844	19 844
Kurt J. Hausheer	194 508	8 859
Mikhail Lifshitz	7 917	8 859
Hans Ziegler	185 246	8 859
Carl Stadelhofer	143 705	8 859
Gerhard Pegam	7 917	8 859
Total	**617 137**	**64 139**

Tim Summers (Chairman), Mikhail Lifshitz (Board Member) and Carl Stadelhofer (Board Member) are also in senior positions at Renova Group. Mr. Summers is Managing Director of Renova Management AG. Mr. Lifshitz is Director High-tech Assets Business Development of the Renova Group, CEO of ROTEC and Chairman of the Board of Ural Turbine Works. Mr. Stadelhofer is Chairman of Renova Holding Ltd. and other Renova Group companies, Vice Chairman of Renova Management AG and Chief Legal Counsel of Renova Group. 200 of his shares are held by a related party.

Members of the Executive Committee	Number of shares	Number of Performance Share Awards (PSA)
Dr. Brice Koch	31 851	326 947
Jürg Fedier	350 849	232 487
Dr. Hans Brändle	40 000	81 692
Dr. Roland Herb	3 656	35 708
Stefan Kross	39 561	55 864
Andreas Dill	8 541	25 597
Dr. Martin Füllenbach	none	30 538
Dr. Bernd Matthes	none	43 016
Total	**474 458**	**831 849**

Related party transactions

Note 22 (cont.)

Overview on the compensation of the Board of Directors and the Executive Committee

	2014	2013	**2014**	2013
	Executive Committee		**Board of Directors**	
Short-term employee benefits	8 448	1 580	926	931
Post-employment benefits	894	274	–	–
Termination benefits	–	6 690	–	–
Share-based payments	5 603	884	961	878
Total	**14 945**	**9 428**	**1 887**	**1 809**

The Executive Committee was enlarged from 2 to 7 members on February 11, 2014 leading to higher short-term, post-employment and share-based expenses compared to the prior year.

In 2013, forfeitures of equity awards in the amount of CHF 1.7 million decreased the annual expenses of share-based payments.

Disclosures required by the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies on Board and Executive compensation are shown in the Remuneration Report.

Group and associated companies
An overview of the Group subsidiary companies can be found on pages 120 and 121. 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 Note 21.

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

Contingent liabilities

Note 23

Contingent liabilities as of December 31, 2014, amount to CHF 6 million (previous year: CHF 2 million) mostly for excise and custom duties (previous year: for debt guarantees to banks).

Payments under non-cancellable operating leases

Note 24

in CHF million	**2014**	2013
Due in 1st year	31	22
Due in 2nd year	18	12
Due in 3rd year	13	8
Due in 4th year	9	5
Due in or beyond 5th year	35	18
Total	**106**	**65**

The expenses of operating leases charged to the income statement amount to CHF 24 million (previous year: CHF 23 million).

Pledged assets

Note 25

As of December 31, 2014, no assets (as last year) were pledged as a security.

Subsequent events

Note 26

On January 15, 2015 the Swiss National Bank announced that it was discontinuing the CHF/EUR minimum exchange rates. The amounts reported in these consolidated financial statements do not reflect changes in foreign exchange rates after December 31, 2014. At future reporting dates, when translating financial statement amounts of subsidiaries with a different functional currency than the group reporting currency, the appreciation of the Swiss Franc will reduce consolidated financial statement amounts. However, we do not expect a material effect on the net operating result of the Group. The magnitude of the translation effects will depend on the further development of the exchange rates.

On December 22, 2014, the Oerlikon Group signed an agreement with Evatec AG to divest the Advanced Technologies Segment (see Note 2). The transaction closed on February 2, 2015. The total expected consideration amounts to CHF 60 million (including CHF 3 million for the settlement of pre-existing intragroup financing). CHF 55 million of the total consideration have been received as cash and cash equivalents, CHF 5 million are included in an escrow account. The Oerlikon Group anticipates to report a loss on disposal of CHF –20 million in 2015 and the loss will be 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 (equity) of CHF 21 million. The loss is fully attributable to the shareholders of the parent.

The effect of the disposal of the Advanced Technologies Segment on the balance sheet can be summarized as follows:

in CHF million	
Cash and cash equivalents	–11
Trade receivables	–19
Other receivables	–2
Inventories	–34
Property, plant and equipment	–3
Goodwill and intangible assets	–11
Deferred tax assets	–2
Trade payables	9
Other current liabilities	3
Accrued liabilities	6
Other current provisions	4
Non-current post-employment benefit provisions	1
Net assets	**–59**
Consideration received (cash and cash equivalents)	52
Settlement of pre-existing intragroup financing	3
Cash and cash equivalents disposed of	–11
Net cash inflow	44

No other events occured between the balance sheet date and the date on which this report was approved by the Board of Directors which could have a significant impact on the consolidated financial statements as of December 31, 2014 or have to be disclosed.

Segment information

in million CHF	Surface Solutions Segment 2014[5]	Surface Solutions Segment 2013	Manmade Fibers Segment 2014	Manmade Fibers Segment 2013	Drive Systems Segment 2014	Drive Systems Segment 2013	Vacuum Segment 2014	Vacuum Segment 2013	Total Segments 2014	Total Segments 2013
Order intake	**965**	**510**	**901**	**1 073**	**781**	**792**	**381**	**404**	**3 028**	**2 779**
Order backlog	**79**	**–**	**365**	**541**	**199**	**180**	**72**	**79**	**715**	**800**
Sales										
Sales to third parties	973	510	1 073	1 130	779	734	390	396	3 215	2 770
Sales to other segments	3	1	–	–	–	–	3	4	6	5
Eliminations	–3	–1	–	–	–	–	–3	–4	–6	–5
	973	**510**	**1 073**	**1 130**	**779**	**734**	**390**	**396**	**3 215**	**2 770**
Sales by market region to third parties										
Asia/Pacific	270	152	778	840	80	78	138	151	1 266	1 221
Europe	482	252	107	137	410	380	162	170	1 161	939
North America	166	68	135	110	251	234	80	69	632	481
Other regions	55	38	53	43	38	42	10	6	156	129
	973	**510**	**1 073**	**1 130**	**779**	**734**	**390**	**396**	**3 215**	**2 770**
Sales by location to third parties										
Asia/Pacific	232	149	279	306	110	109	118	126	739	690
thereof China	64	36	274	301	28	22	64	65	430	424
Europe	522	260	776	806	373	403	186	200	1 857	1 669
thereof Switzerland	94	55	–	–	–	–	–	–	94	55
Germany	266	101	776	806	–	–	186	200	1 228	1 107
Italy	28	13	–	–	368	397	–	–	396	410
North America	179	66	18	17	296	222	86	70	579	375
Other regions	40	35	–	1	–	–	–	–	40	36
	973	**510**	**1 073**	**1 130**	**779**	**734**	**390**	**396**	**3 215**	**2 770**
Capital expenditure for property, plant and equipment and intangible assets[6]										
Asia/Pacific	16	33	4	4	17	17	4	1	41	55
Europe	43	31	18	19	20	26	10	19	91	95
North America	16	7	–	–	11	12	–	–	27	19
Other regions	4	3	–	–	–	–	1	–	5	3
	79	**74**	**22**	**23**	**48**	**55**	**15**	**20**	**164**	**172**
EBITDA	**183**	**149**	**217**	**207**	**82**	**67**	**41**	**54**	**523**	**477**
EBIT	**98**	**105**	**197**	**188**	**41**	**26**	**27**	**41**	**363**	**360**
Other material items										
Research and development expense	–56	–34	–33	–31	–14	–13	–26	–21	–129	–99
Depreciation and amortization	–85	–45	–20	–19	–41	–41	–14	–13	–160	–118
Impairment of property, plant and equipment	–1	–	–	–	–	–	–	–	–1	–
Impairment of goodwill	–	–	–	–	–	–	–	–	–	–
Restructuring costs	–	–	–2	–3	–	–	–	–	–2	–3
Net operating assets[2]	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.
Operating assets[3]	1 684	417	615	676	1 149	1 115	274	269	3 722	2 477
Operating liabilities[4]	–263	–67	–487	–662	–204	–190	–75	–74	–1 029	–993
	1 421	**350**	**128**	**14**	**945**	**925**	**199**	**195**	**2 693**	**1 484**
Number of employees (full-time equivalents)	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.
Asia/Pacific	1 539	1 070	933	883	2 232	2 294	399	370	5 103	4 617
Europe	3 214	1 635	1 576	1 559	1 949	1 951	1 120	1 056	7 859	6 201
North America	1 019	335	43	38	1 013	912	90	86	2 165	1 371
Other regions	291	238	–	–	–	–	8	–	299	238
	6 063	**3 278**	**2 552**	**2 480**	**5 194**	**5 157**	**1 617**	**1 512**	**15 426**	**12 427**

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

[2] For 2013, the Advanced Technologies Segment is shown under discontinued operations.

[3] 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.

Group / Eliminations		Total from continuing operations		Discontinued operations[1]		Total incl. discontinued operations	
2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
–	**–**	**3 028**	**2 779**	**81**	**708**	**3 109**	**3 487**
–	**–**	**715**	**800**	**20**	**25**	**735**	**825**
–	–	3 215	2 770	81	582	3 296	3 352
–6	–5	–	–	–	23	–	23
6	5	–	–	–	–23	–	–23
–	**–**	**3 215**	**2 770**	**81**	**582**	**3 296**	**3 352**
–	–	1 266	1 221	32	351	1 298	1 572
–	–	1 161	939	28	135	1 189	1 074
–	–	632	481	21	42	653	523
–	–	156	129	–	54	156	183
–	**–**	**3 215**	**2 770**	**81**	**582**	**3 296**	**3 352**
–	–	739	690	–	83	739	773
–	–	430	424	–	69	430	493
–	–	1 857	1 669	60	457	1 917	2 126
–	–	94	55	34	97	128	152
–	–	1 228	1 107	26	354	1 254	1 461
–	–	396	410	–	–	396	410
–	–	579	375	21	38	600	413
–	–	40	36	–	4	40	40
–	**–**	**3 215**	**2 770**	**81**	**582**	**3 296**	**3 352**
–	–	41	55	–	1	41	56
2	4	93	99	2	12	95	111
–	1	27	20	–	–	27	20
–	–	5	3	–	–	5	3
2	**5**	**166**	**177**	**2**	**13**	**168**	**190**
2	**6**	**525**	**483**	**–17**	**–56**	**508**	**427**
–3	**–1**	**360**	**359**	**–52**	**–58**	**308**	**301**
–	–	–129	–99	–18	–40	–147	–139
–4	–5	–164	–123	–4	–3	–168	–126
–	–	–1	–	–	–	–1	–
–	–	–	–	–32	–	–32	–
–	–	–2	–3	–	–1	–2	–4
31.12.	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.
40	47	3 762	2 524	74	124	3 836	2 648
–48	–44	–1 077	–1 037	–19	–25	–1 096	–1 062
–8	**3**	**2 685**	**1 487**	**55**	**99**	**2 740**	**1 586**
31.12.	31.12.	**31.12.**	31.12.	**31.12.**	31.12.	**31.12.**	31.12.
–	–	5 103	4 617	–	–	5 103	4 617
227	230	8 086	6 431	185	183	8 271	6 614
–	–	2 165	1 371	19	17	2 184	1 388
3	3	302	241	–	–	302	241
230	**233**	**15 656**	**12 660**	**204**	**200**	**15 860**	**12 860**

[4] 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.

[5] Includes Metco for seven months.

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

Reconciliation to the consolidated income statement and balance sheet

in CHF million	2014	2013, restated
EBIT	360	359
Financial income	15	16
Financial expense	–45	–47
EBT	**330**	**328**
Operating assets	3 762	2 524
Non-operating assets[1]	1 204	1 570
Total assets	**4 966**	**4 094**
Operating liabilities	1 077	1 037
Non-operating liabilities[2]	1 688	973
Total liabilities	**2 765**	**2 010**

[1] Including assets classified as held for sale (for 2013 including assets relating to discontinued operations).

[2] Including liabilities classified as held for sale (for 2013 including liabilities relating to discontinued operations).

Geographical information on non-current assets

in CHF million		2014	2013
Asia/Pacific		**314**	**231**
thereof	China	136	112
Europe		**2 102**	**1 381**
thereof	Switzerland	1 405	982
	Germany	449	263
	Italy	148	130
North America		**246**	**89**
thereof	USA	238	89
Other regions		**14**	**13**
Total		**2 676**	**1 714**

Non-current assets do not include post-employment benefit assets and deferred tax assets.

Information about major customers

In 2014 and 2013, no customer represented 10 % or more of the company's third-party sales.

Companies by country

Country	Name, registered office of significant companies by country	Currency	Share capital¹	Group owns %	Number of employees
Austria	Oerlikon Balzers Coating Austria GmbH, Kapfenberg/AT	EUR	350 000	100.00	119
Belgium	Oerlikon Balzers Coating Benelux N.V., St.-Truiden/BE	EUR	620 000	100.00	50
Brazil	Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR	BRL	30 662 100	99.99	118
Brazil	Oerlikon Textile do Brasil Máquinas Ltda., Porto Alegre, RS/BR	BRL	9 385 000	100.00	0
Brazil	Oerlikon Leybold Vacuo do Brasil Ltda., Jundiaí, SP/BR	BRL	800	100.00	8
Canada	Oerlikon Metco (Canada) Inc., Fort Saskatchewan, CA	CAD	100	100.00	71
China	Oerlikon Balzers Coating (Suzhou) Co. Ltd., Suzhou/CN	USD	6 150 000	100.00	399
China	Oerlikon Metco Surface Technology (Shanghai) Co. Ltd., Shanghai/CN	CHF	9 500 000	100.00	234
China	Oerlikon (China) Technology Co. Ltd., Suzhou/CN	USD	30 000 000	100.00	394
China	Oerlikon Drive Systems (Suzhou) Co. Ltd., Suzhou/CN	USD	12 000 000	100.00	125
China	Oerlikon China Equity Ltd., Hong Kong/CN	HKD	253 910 000	100.00	0
China	Oerlikon Textile China Investments Ltd., Hong Kong/CN	HKD	266 052 500	100.00	0
China	Oerlikon Textile Far East Ltd., Hong Kong/CN	HKD	100 000	100.00	11
China	Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN	USD	1 112 200	100.00	213
China	Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN	USD	7 000 000	100.00	174
China	Transmission Trading Limited, Hong Kong/CN	HKD	94 380 000	100.00	0
China	Oerlikon Textile Systems Far East Ltd., Hong Kong/CN	HKD	250 000	100.00	0
China	Oerlikon Leybold Vacuum Equipment (Tianjin) Co. Ltd., Tianjin/CN	USD	4 960 000	100.00	144
China	Oerlikon Leybold Vacuum (Tianjin) International Trade Co. Ltd., Tianjin/CN	USD	200 000	100.00	116
Finland	Oerlikon Balzers Sandvik Coating Oy, Helsinki/FI	EUR	2 500	51.00	7
France	Oerlikon France Holding SAS, Saint-Thibault-des-Vignes/FR	EUR	4 000 000	100.00	0
France	Oerlikon Balzers Coating France SAS, Saint-Thibault-des-Vignes/FR	EUR	3 150 000	100.00	106
France	Oerlikon Leybold Vacuum France SAS, Villebon-sur-Yvette/FR	EUR	3 095 800	100.00	165
Germany	Oerlikon Metco Holding GmbH, Singen/DE	EUR	17 345 000	100 00	0
Germany	Oerlikon Deutschland Vertriebs GmbH, Aschheim/DE	EUR	26 000	100.00	28
Germany	Oerlikon Balzers Coating Germany GmbH, Bingen/DE	EUR	511 300	100.00	640
Germany	Oerlikon Friction Systems (Germany) GmbH, Bremen/DE	EUR	1 000 000	100.00	122
Germany	Oerlikon Metco Europe GmbH, Kelsterbach/DE	EUR	1 000 000	100.00	111
Germany	Oerlikon Metco Coatings GmbH, Salzgitter/DE	EUR	1 000 000	100 00	73
Germany	Oerlikon Metaplas GmbH, Bergisch Gladbach/DE	EUR	1 000 000	100.00	306
Germany	Oerlikon Metco WOKA GmbH, Barchfeld/DE	EUR	1 000 000	100.00	137
Germany	AV Ausbildungsverbund Mönchengladbach GmbH, Mönchengladbach/DE	EUR	25 000	100.00	0
Germany	Dr. Schippers Unterstützungskasse GmbH, Remscheid/DE	EUR	26 000	100.00	0
Germany	Oerlikon Textile GmbH & Co. KG, Remscheid/DE	EUR	41 000 000	100.00	1 576
Germany	W. Reiners Verwaltungs-GmbH, Remscheid/DE	EUR	38 346 900	100.00	0
Germany	Oerlikon Vermögens-Verwaltungs GmbH, Köln/DE	EUR	25 000	100.00	0
Germany	Oerlikon Deutschland Holding GmbH, Köln/DE	EUR	30 680 000	100.00	0
Germany	Oerlikon Vacuum Holding GmbH, Köln/DE	EUR	25 000	100.00	0
Germany	Oerlikon Leybold Vacuum Dresden GmbH, Dresden/DE	EUR	100 000	100.00	79
Germany	Oerlikon Leybold Vacuum GmbH, Köln/DE	EUR	1 200 000	100.00	817
Germany	Oerlikon Real Estate GmbH, Köln/DE	EUR	50 000	100.00	0
Germany	Oerlikon Vermietungs- und Verwaltungsgesellschaft mbH, Köln/DE	EUR	25 000	100.00	0
Great Britain	Oerlikon Balzers Coating UK Ltd., Milton Keynes/UK	GBP	2 000 000	100.00	46
Great Britain	Graziano Trasmissioni UK Ltd., St. Neots/UK	GBP	40 000	100.00	7
Great Britain	Vocis Limited, Warwick/UK	GBP	200	51.00	24
Great Britain	Oerlikon Leybold Vacuum UK Ltd., Chessington/UK	GBP	300 000	100.00	23
India	Oerlikon Balzers Coating India Ltd., Pune/IN	INR	70 000 000	100.00	244
India	Oerlikon Textile India Pvt. Ltd., Mumbai/IN	INR	57 360 000	100.00	141
India	Graziano Trasmissioni India Pvt. Ltd., New Delhi/IN	INR	267 124 900	100.00	1 234
India	Fairfield Atlas Ltd., Kolhapur/IN	INR	273 205 400	98.19	873
India	Oerlikon Leybold Vacuum India Pvt. Ltd., Pune/IN	INR	2 000 000	100.00	21
Italy	Oerlikon Balzers Coating Italy S.p.A., Brugherio/IT	EUR	129 100	100.00	80
Italy	Oerlikon Graziano S.p.A., Cascine Vica Rivoli/IT	EUR	58 697 400	100.00	1 914
Italy	Oerlikon Leybold Vacuum Italia S.r.l., Milano/IT	EUR	110 000	100.00	13
Japan	Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP	JPY	100 000 000	100.00	144
Japan	Oerlikon Leybold Vacuum Japan Co. Ltd., Yokohama/JP	JPY	450 000 000	100.00	31
Liechtenstein	Oerlikon (Liechtenstein) Holding AG, Balzers/LI	CHF	120 000	100.00	0
Liechtenstein	Oerlikon Advanced Technologies AG, Balzers/LI	CHF	1 000 000	100.00	156
Liechtenstein	OC Oerlikon Balzers AG, Balzers/LI	CHF	1 000 000	100.00	110
Liechtenstein	Oerlikon Balzers Coating AG, Balzers/LI	CHF	1 000 000	100.00	403
Luxembourg	Oerlikon Balzers Coating Luxembourg S.à r.l., Differdange-Nierderkorn/LU	EUR	1 000 000	60.00	18
Malaysia	Oerlikon Balzers Coating Malaysia Sdn. Bhd., Kuala Lumpur/MY	MYR	2 000 000	100.00	23
Mexico	Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX	MXN	71 458 000	100.00	105

Country	Name, registered office of significant companies by country	Currency	Share Capital[1]	Group owns %	Number of employees
Netherlands	Oerlikon Eldim (NL) B.V., Lomm/NL	EUR	396 400	100.00	265
Netherlands	SAC Oerlikon Automotive Components B.V., Rotterdam/NL	EUR	11 500 000	100.00	0
Netherlands	Oerlikon Leybold Vacuum Nederland B.V., Utrecht/NL	EUR	462 900	100.00	8
Philippines	Oerlikon Balzers Coating Philippines Inc., Muntinlupa/PH	PHP	15 000 000	99.99	9
Poland	Oerlikon Balzers Coating Poland Sp. z o.o., Polkowice Dolne/PL	PLN	5 000 000	100.00	75
Russia	OOO Oerlikon Balzers Rus, Elektrostal/RU	RUB	1 000 000	100.00	12
Russia	Oerlikon Rus LLC, Moscow/RU	RUB	1 700 000	100.00	3
Singapore	Oerlikon Balzers Coating Singapore Pte. Ltd., Singapore/SG	SGD	6 000 000	100.00	27
Singapore	Oerlikon Leybold Vacuum Singapore Pte. Ltd., Singapore/SG	SGD	300 000	100.00	20
South Korea	Oerlikon Balzers Coating Korea Co. Ltd., Pyongtaek/KR	KRW	6 300 000 000	89.90	204
South Korea	Oerlikon Leybold Vacuum Korea Ltd.,Gyeonggi-do/KR	KRW	7 079 680 000	100.00	37
Spain	Oerlikon Balzers Coating Spain S.A.U., Antzuola/ES	EUR	150 300	100.00	69
Spain	Oerlikon Leybold Vacuum Spain S.A., Cornellà de Llobregat/ES	EUR	168 300	100.00	9
Sweden	Oerlikon Balzers Sandvik Coating AB, Stockholm/SE	SEK	11 600 000	51.00	53
Switzerland	Oerlikon Metco Management AG, Winterthur, Winterthur/CH	CHF	1 000 000	100.00	24
Switzerland	Oerlikon Metco AG, Wohlen, Wohlen/CH	CHF	5 000 000	100.00	206
Switzerland	Oerlikon Surface Solutions AG, Trübbach, Wartau/CH (formerly Oerlikon Trading AG, Trübbach)	CHF	8 000 000	100.00	2
Switzerland	Oerlikon Balzers Coating SA, Brügg, Brügg/CH	CHF	2 000 000	100.00	29
Switzerland	Oerlikon Drive Systems GmbH, Pfäffikon, Freienbach SZ/CH (formerly Oerlikon Licensing Arbon GmbH)	CHF	20 000	100.00	5
Switzerland	OC Oerlikon Textile Schweiz AG, Pfäffikon, Freienbach SZ/CH	CHF	14 160 000	100.00	0
Switzerland	OC Oerlikon Textile Holding AG, Pfäffikon, Freienbach SZ/CH	CHF	112 019 600	100.00	0
Switzerland	Oerlikon Leybold Vacuum Schweiz AG, Pfäffikon, Freienbach SZ/CH (formerly Oerlikon Leybold Vacuum Schweiz AG)	CHF	300 000	100.00	6
Switzerland	Oerlikon IT Solutions AG, Pfäffikon, Freienbach SZ/CH	CHF	500 000	100.00	34
Switzerland	OC Oerlikon Corporation AG, Pfäffikon, Freienbach SZ/CH	CHF	334 633 300	100.00	0
Switzerland	OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH	CHF	2 000 000	100.00	83
Switzerland	OT Textile Verwaltungs GmbH, Arbon/CH	CHF	20 000	100.00	0
Switzerland	Unaxis GmbH, Freienbach SZ/CH	CHF	20 000	100.00	0
Switzerland	InnoDisc AG, Windisch/CH	CHF	100 000	100.00	0
Taiwan	Oerlikon Leybold Vacuum Taiwan Ltd., Hsinchu/TW	TWD	20 000 000	100.00	30
Thailand	Oerlikon Balzers Coating (Thailand) Co. Ltd., Chonburi/TH	THB	80 000 000	99.99	51
Turkey	Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR	TRY	2 500 000	99.99	42
USA	Oerlikon Friction Systems (US) Inc., Dayton OH/US	USD	5 297 200	100.00	176
USA	Oerlikon USA Inc., Plantation, FL/US	USD	14 730 000	100.00	19
USA	Oerlikon Balzers Coating USA Inc., Wilmington, DE/US	USD	20 000	100.00	358
USA	Oerlikon Metco (US) Inc., Westbury NY/US	USD	1 000	100.00	415
USA	Melco Industries Inc., Denver, CO/US	USD	2 407 100	100.00	0
USA	Oerlikon Textile Inc., Charlotte, NC/US	USD	3 000 000	100.00	43
USA	TH Licensing Inc., Wilmington, DE/US	USD	10	100.00	0
USA	Fairfield Manufacturing Company Inc., Wilmington, DE/US	USD	10 000	100.00	1 013
USA	Oerlikon Leybold Vacuum USA Inc., Wilmington, DE/US	USD	1 375 000	100.00	90
USA	Oerlikon USA Holding Inc., Wilmington, DE/US	USD	40 234 000	100.00	0
USA	Oerlikon Management USA Inc., Pittsburgh, PA/US	USD	500 000	100.00	0

[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.

Report of the statutory auditor to the Annual General Meeting of Shareholders of OC Oerlikon Corporation AG, Pfäffikon, Freienbach

Report of the Statutory Auditor on the Consolidated Financial Statements
As statutory auditor, we have audited the accompanying consolidated financial statements of OC Oerlikon Corporation AG, Pfäffikon, which comprise the income statement, statement of comprehensive income, balance sheet, cash flow statement, statement of changes in equity and notes on pages 70 to 119 for the year ended December 31, 2014.

Board of Directors' Responsibility
The board of directors is responsible for the preparation 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 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 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 December 31, 2014 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

Thomas Affolter
Licensed Audit Expert
Auditor in Charge

Regula Tobler
Licensed Audit Expert

Zurich, February 20, 2015

Five-year summary of key figures

in CHF million	**2014**	2013	2012	2011	2010
Order intake[1]	3 028	2 779	2 802	2 878	4 520
Order backlog[1]	715	800	834	971	1 702
Sales[1]	3 215	2 770	2 906	2 731	3 601
EBITDA[1]	525	483	547	450	278
– as % of sales	16 %	17 %	19 %	16 %	8 %
EBIT[1]	360	359	421	318	51
– as % of sales	11 %	13 %	14 %	12 %	1 %
Net income	202	201	380	224	5
– as % of equity attributable to shareholders of the parent	9 %	10 %	20 %	14 %	0 %
Cash flow from operating activities[3]	427	435	414	544	354
Capital expenditure for property, plant and equipment and intangible assets[1]	166	177	181	167	150
Total assets	4 966	4 094	4 158	4 573	4 475
Equity attributable to shareholders of the parent	2 188	2 072	1 860	1 586	1 430
– as % of total assets	44 %	51 %	45 %	35 %	32 %
Net cash[2, 4]	114	981	339	–86	–274
Net operating assets[2, 5]	2 685	1 586	1 575	2 205	2 196
Number of employees[1]	15 656	12 660	12 708	12 726	16 657
Personnel expense[1]	909	737	765	740	1 015
Research and development expenditure[1, 6]	121	101	106	102	239

[1] 2014 continuing operations, 2013 restated, 2012, 2011 and 2010 as reported.

[2] 2014 continuing operations, 2013, 2012, 2011 and 2010 as reported.

[3] Before changes in net current assets.

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

[5] 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).

[6] Research and development expenditure includes expense recognized as intangible assets.

OC Oerlikon Corporation AG, Pfäffikon

Income statement of OC Oerlikon Corporation AG, Pfäffikon

in CHF	Notes	**2014**	2013
Income from investments	2	64 418 618	10 178 335
Financial income	3	18 517 267	39 830 120
Other income	5	46 587 550	46 816 459
		129 523 435	96 824 914
Financial expense	4	–33 756 372	–20 170 777
Other expense	6	–43 652 269	–27 754 567
		52 114 794	48 899 570
Result on disposal of investments	7	4 306 396	150 095 729
Valuation adjustments on loans and investments in subsidiaries		–8 490 496	–8 244 447
Net result		**47 930 694**	**190 750 852**

Balance sheet at December 31 of OC Oerlikon Corporation AG, Pfäffikon

Assets

in CHF	Notes	**2014**	%	2013	%
Cash and cash equivalents	8	603 671 594	15.7	955 052 699	25.9
Treasury shares	9	14 847 377	0.4	10 357 674	0.3
Receivables					
– from third parties		394 912	0.0	324 766	0.0
– from affiliated companies		750 503 383	19.5	47 954 283	1.3
Other current receivables		9 343 839	0.2	–	0.0
Prepaid expenses and accrued income		643 291	0.0	768 808	0.0
Current assets		**1 379 404 396**	**35.8**	**1 014 458 230**	**27.5**
Investments	10	1 766 789 584	45.9	1 681 148 324	45.5
Non-current loans to affiliated companies		705 214 278	18.3	977 267 768	26.5
Non-current loans to third parties		448 747	0.0	769 372	0.0
Other non-current receivables		–	0.0	20 440 106	0.5
Non-current assets		**2 472 452 609**	**64.2**	**2 679 625 570**	**72.5**
Total assets		**3 851 857 005**	**100.0**	**3 694 083 800**	**100.0**

Liabilities and equity

in CHF	Notes	**2014**	%	2013	%
Current payables					
– to third parties		244 207	0.0	452 001	0.0
– to affiliated companies		307 028 001	8.0	187 526 736	5.1
Accrued liabilities		37 003 549	1.0	38 837 221	1.0
Non-current loans due to affiliated companies		372 706 525	9.7	775 110 004	21.0
Bonds	11	750 000 000	19.4	300 000 000	8.1
Provisions	12	48 233 207	1.2	43 826 204	1.2
Total liabilities		**1 515 215 489**	**39.3**	**1 345 752 166**	**36.4**
Share capital	13	339 758 576	8.8	334 633 258	9.0
Legal reserves					
– General legal reserves		70 593 765	1.8	70 593 765	1.9
– Reserves from capital contributions	14	1 021 385 622	26.5	1 086 131 752	29.4
– Reserves for treasury shares	15	14 847 377	0.4	10 357 673	0.3
Free reserves		293 910 850	7.7	293 910 850	8.0
Retained earnings		596 145 326	15.5	552 704 336	15.0
Total equity		**2 336 641 516**	**60.7**	**2 348 331 634**	**63.6**
Total liabilities and equity		**3 851 857 005**	**100.0**	**3 694 083 800**	**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 only of dividend income from subsidiaries.

Financial income (3)

Financial income mainly includes interest incomes.

Financial expense (4)

Financial expense includes interest expenses and net exchange loss.

Other income (5)

Other income consists mainly of trademark fees.

Other expense (6)

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

Result on disposal of investments (7)

The result on disposal of investments is mainly driven by the final determination of the sales price for the Natural Fibers and Textile Components Business Units.

Balance sheet

Cash and cash equivalents (8)

This item consists of current balances denominated in Swiss francs, euros and US dollars and is held with European banks.

Treasury shares (9)

The total of 1 208 319 treasury shares (previous year: 944 902) held at December 31, 2014, represents 0.36 % of the company's share capital.

The treasury shares are carried at the lower of cost or market value (and therefore have been valued at their cost value), at close of business on December 31, 2014, giving a total value of CHF 15 million (previous year: CHF 10 million).

During the year, 1 059 364 shares (previous year: 931 925) were bought on the stock exchange, 439 996 shares (previous year: 600 026) were given to employees and a further 355 951 shares were sold to warrant holders (previous year: 289 245).

Investments (10)

The list of the Company's major investments is on page 130.

These investments are recorded at historical cost less any valuation adjustments.

Bonds (11)

OC Oerlikon Corporation AG issued the following bonds:

- On July 13, 2012 CHF 300 million, bearing interest at 4.25 % per annum and due on July 13, 2016.
- On June 17, 2014 CHF 300 million, bearing interest at 1.25 % per annum and due on June 17, 2019.
- On June 17, 2014 CHF 150 million, bearing interest at 2.625 % per annum and due on June 17, 2024.

Additional information of the bond can be found in Note 18 of the Group's consolidated financial statements on pages 103 and 104.

Provisions (12)

Provisions cover mainly risks related to investments and other risks.

Share capital (13)

The share capital of CHF 339 758 576 (previous year: 334 633 258) consists of 339 758 576 (previous year: 334 633 258) registered shares, each with a par value of CHF 1.00. On December 31, 2014, conditional capital amounted to CHF 47 540 353 (previous year: CHF 52 665 671).

In 2014, 5 125 318 new shares (previous year: 8 668 760) were issued based on exercises of warrants.

The shareholders registered as holding more than 5 % of the shares as at December 31, 2014, were:

Share ownership

	Share ownership[1]	
Shareholder	No of shares[3]	in %
Renova Group[2]	144 764 860	42.61 %

[1] Sources: Disclosure notification pursuant to Art. 20 of the Swiss Stock Exchange Law by Renova Group (published on January 9, 2015)

[2] Beneficial owner (as per disclosure notification): Viktor F. Vekselberg, Zug and Moscow. Renova Group is composed of Liwet Holding AG, Zurich, Switzerland, Renova Oil & Gas Ltd., Nassau, Bahamas, Renova Innovation Technologies Ltd., Nassau, Bahamas, and Lamesa Holding S.A., Panama, Republic of Panama.

[3] At the end of 2013, the Renova Group held (as per disclosure notification) 149 435 408 shares (44.66 % of the issued Oerlikon shares).

Reserves from capital contributions (14)

OC Oerlikon Corporation AG, Pfäffikon, shows as of December 31, 2014, reserves from capital contributions of CHF 1 021 385 622. Thereof, based on a so-called reverse, CHF 268 706 303 are not yet available for distributions due to the current practice of the Swiss Federal Tax Authorities. Dividend distributions can be done out of available reserves from capital contribution first. Available reserves from capital contributions amount to CHF 752 679 319. In 2014, the value of available reserves of capital contribution has changed due to dividend payment of CHF 90 067 501 as well as additional paid-in capital of CHF 25 321 371 (net amount), due to capital increase triggered by the exercises of warrants.

Reserves from capital contributions

in CHF	available	not available yet	Total
Balance at January 1, 2014	**817 425 449**	**268 706 303**	**1 086 131 752**
Dividend payment	–90 067 501	–	–90 067 501
Exercises of warrants	25 321 371	–	25 321 371
Balance at December 31, 2014	**752 679 319**	**268 706 303**	**1 021 385 622**

Reserves for treasury shares (15)

This reserve represents the acquisition cost of 1 208 319 treasury shares (previous year: 944 902).

Contingent liabilities (16)

Contingent liabilities relate primarily to corporate guarantees and bank guarantees in favor of subsidiaries and amount to approximately CHF 324 million (previous year: CHF 409 million).

Disclosure of share ownership (17)

The disclosure of share ownership as required by Swiss Company Law may be found in Note 22 on pages 113 and 114 of the Group's consolidated financial statements. The disclosure follows Art. 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.

Risk assessment according to the Swiss Code of Obligations (18)

Oerlikon has a risk management system in place 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 a 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 process is group-wide supported by a risk management software.

Internal risk reporting to the Executive Committee, the Audit Committee and the Board of Directors is performed semi-annually based on consolidated risk reports.

In its meeting on May 26, 2014, the Audit Committee discussed the Group Risk Report 2014–16 and informed the Board of Directors. In its meeting on December 3, 2014, the Board of Directors discussed the risk situation of the company.

For further information regarding risk management, see page 34 et seq. (Corporate Governance), page 58 et seq. (Risk management and compliance) and page 104 et seq. (Note 19 to the consolidated financial statement).

Investments

Company	Currency	Share capital	Investment in %
InnoDisc AG, Windisch/CH	CHF	100 000	100.00
OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH	CHF	2 000 000	100.00
Oerlikon Metco Management AG, Winterthur, Winterthur/CH	CHF	1 000 000	100.00
OC Oerlikon Textile Holding AG, Pfäffikon, Freienbach SZ/CH	CHF	112 019 600	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	129 100	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 Singapore Pte. Ltd., Singapore/SG	SGD	6 000 000	100.00
Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR	TRY	2 500 000	99.99
Oerlikon Balzers Sandvik Coating AB, Stockholm/SE	SEK	11 600 000	51.00
Oerlikon Deutschland Holding GmbH, Köln/DE	EUR	30 680 000	6.00
Oerlikon Drive Systems GmbH, Pfäffikon, Freienbach SZ/CH	CHF	20 000	100.00
Oerlikon France Holding SAS, Saint-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 Nihon Balzers Coating Co. Ltd., Hiratsuka/JP	JPY	100 000 000	100.00
Oerlikon Surface Solutions AG, Trübbach, Wartau/CH (formerly Oerlikon Trading AG, Trübbach)	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
OT Textile Verwaltungs GmbH, Arbon/CH	CHF	20 000	100.00
PT. Oerlikon Balzers Artoda Indonesia, Bekasi/ID	IDR	18 000 000 000	42.00
Unaxis GmbH, Freienbach SZ/CH	CHF	20 000	90.00

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 share-holders' equity**
Balance at January 1, 2012	**323.1**	**70.6**	**1 176.5**	**3.5**	**293.9**	**180.1**	**2 047.7**
Changes in capital increase	2.9	0.0	14.0	0.0	0.0	0.0	16.9
Changes in reserves for treasury shares	0.0	0.0	0.0	4.4	0.0	–4.4	0.0
Dividend payment	0.0	0.0	–64.5	0.0	0.0	0.0	–64.5
Net result 2012	0.0	0.0	0.0	0.0	0.0	188.7	188.7
Balance at December 31, 2012	**326.0**	**70.6**	**1 126.0**	**7.9**	**293.9**	**364.4**	**2 188.8**
Changes in capital increase	8.6	0.0	42.8	0.0	0.0	0.0	51.4
Changes in reserves for treasury shares	0.0	0.0	0.0	2.5	0.0	–2.5	0.0
Dividend payment	0.0	0.0	–82.7	0.0	0.0	0.0	–82.7
Net result 2013	0.0	0.0	0.0	0.0	0.0	190.8	190.8
Balance at December 31, 2013	**334.6**	**70.6**	**1 086.1**	**10.4**	**293.9**	**552.7**	**2 348.3**
Changes in capital increase	5.2	0.0	25.3	0.0	0.0	0.0	30.5
Changes in reserves for treasury shares	0.0	0.0	0.0	4.5	0.0	–4.5	0.0
Dividend payment	0.0	0.0	–90.1	0.0	0.0	0.0	–90.1
Net result 2014	0.0	0.0	0.0	0.0	0.0	47.9	47.9
Balance at December 31, 2014	**339.8**	**70.6**	**1 021.3**	**14.9**	**293.9**	**596.1**	**2 336.6**

Proposal of the Board of Directors

The available earnings amount to:

in CHF	2014
Balance brought forward from previous year	552 704 336
Net result 2014	47 930 694
Release in reserves for treasury shares	–4 489 704
Available earnings	596 145 326

The Board of Directors proposes to the Annual General Meeting of Shareholders that the available earnings are to be appropriated as follows:

Balance to be carried forward	596 145 326

The Board of Directors proposes to the Annual 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 0.30 on dividend bearing shares with a nominal value of CHF 1.00 each	103 000 000

The company will not pay dividend on treasury shares held by OC Oerlikon Corporation AG.

Pfäffikon SZ, February 20, 2015

On behalf of the Board of Directors
Chairman

Tim Summers

Report of the statutory auditor to the General Meeting of Shareholders of OC Oerlikon Corporation AG, Pfäffikon, Freienbach

Report of the Statutory Auditor on the Financial Statements

As statutory auditor, we have audited the accompanying financial statements of OC Oerlikon AG, Pfäffikon, which comprise the income statement, balance sheet and notes on pages 126 to 132 for the year ended December 31, 2014.

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 December 31, 2014 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

Thomas Affolter
Licensed Audit Expert
Auditor in Charge

Regula Tobler
Licensed Audit Expert

Zurich, February 20, 2015

Legal structure

Legal structure of significant companies as per December 31, 2014

OC Oerlikon Corporation AG, Pfäffikon, Freienbach SZ/CH

– InnoDisc AG, Windisch/CH
– OC Oerlikon Management AG, Pfäffikon, Freienbach SZ/CH
– Oerlikon Metco Management AG, Winterthur, Winterthur/CH
– Oerlikon Balzers Coating India Pvt. 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 Singapore Pte. Ltd., Singapore/SG
– Oerlikon Balzers Kaplama Sanayi ve Ticaret Limited Sirketi, Bursa/TR
– Oerlikon Balzers Sandvik Coating AB, Stockholm/SE
  · Oerlikon Balzers Sandvik Coating Oy, Helsinki/FI
– 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 Drive Systems GmbH, Pfäffikon, Freienbach SZ/CH
  · Transmission Trading Ltd., Hongkong/CN
    · Oerlikon Drive Systems (Suzhou) Co. Ltd., Suzhou/CN
– Oerlikon Nihon Balzers Coating Co. Ltd., Hiratsuka/JP
– Oerlikon Surface Solutions AG, Trübbach, Wartau/CH
  · Oerlikon (Liechtenstein) Holding AG, Balzers/LI
    · Oerlikon Advanced Technologies AG, Balzers/LI
    · Oerlikon Balzers Coating AG, Balzers/LI
    · OC Oerlikon Balzers AG, Balzers/LI
  · Oerlikon Balzers Coating Mexico S.A. de C.V., Querétaro/MX
  · Oerlikon Balzers Coating Malaysia Sdn. Bhd., Kuala Lumpur/MY
  · Oerlikon Balzers Coating Philippines, Inc., Muntinlupa/PH
  · Oerlikon Balzers Coating UK Ltd., Milton Keynes/GB
  · Oerlikon Balzers Revestimentos Metálicos Ltda., Jundiaí, SP/BR
  · Oerlikon Balzers Coating Spain S.A.U, Antzuola/ES
  · Oerlikon Metco (Canada) Inc., Fort Saskatchewan, CA
  · Oerlikon Eldim (NL) B.V., Lomm/NL
  · Oerlikon Metco AG, Wohlen, Wohlen/CH
  · Oerlikon Balzers Coating SA, Brügg, Brügg/CH
– Oerlikon USA Holding Inc., Wilmington, DE/US
  · Oerlikon Balzers Coating USA Inc., Wilmington, DE/US
  · Oerlikon Metco (US) Inc., Westbury NY/US
  · Oerlikon Friction Systems (US) Inc., Dayton OH/US
  · Oerlikon Leybold Vacuum 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
    · TH Licensing Inc., Wilmington, DE/US
      · Fairfield Atlas Ltd., Kolhapur/IN
  · Melco Industries Inc., Denver, CO/US
  · Oerlikon Textile Inc., Charlotte, NC/US
– Oerlikon Vermögens-Verwaltungs GmbH, Köln/DE
– OOO Oerlikon Balzers Rus, Elektrostal/RU
– OT Textile Verwaltungs GmbH, Arbon/CH

Legal structure of significant companies as per December 31, 2014

- OC Oerlikon Textile Holding AG, Pfäffikon, Freienbach SZ/CH
  - OC Oerlikon Textile Schweiz AG, Pfäffikon, Freienbach SZ/CH
    - Oerlikon Textile China Investments Ltd., Hongkong/CN
      - Oerlikon (China) Technology Co. Ltd., Suzhou/CN
        - Oerlikon Metco Surface Technology (Shanghai) Co. Ltd., Shanghai/CN
      - Oerlikon Textile Machinery (Wuxi) Co. Ltd., Wuxi/CN
    - Oerlikon China Equity Ltd., Hongkong/CN
  - W. Reiners Verwaltungs-GmbH, Remscheid/DE
    - Oerlikon Textile GmbH & Co. KG, Remscheid/DE
      - Oerlikon Deutschland Holding GmbH, Köln/DE
        - Oerlikon Balzers Coating Benelux N.V., St.-Truiden/BE
        - Oerlikon Balzers Coating Germany GmbH, Bingen/DE
        - Oerlikon Deutschland Vertriebs GmbH, Aschheim/DE
        - Oerlikon Metco Holding GmbH, Singen/DE
          - Oerlikon Metco Europe GmbH, Kelsterbach/DE
          - Oerlikon Metaplas GmbH, Bergisch Gladbach/DE
          - Oerlikon Metco Coatings GmbH, Salzgitter/DE
            - Oerlikon Friction Systems (Germany) GmbH, Bremen/DE
          - Oerlikon Metco WOKA GmbH, Barchfeld/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, Pfäffikon, Freienbach SZ/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/GB
          - Oerlikon Leybold Vacuo do Brasil LTDA., Jundiaí, SP/BR
        - Oerlikon Leybold Vacuum Korea Ltd., Gyeonggi-do/KR
        - Oerlikon Real Estate GmbH, Köln/DE
        - Oerlikon Vermietungs- und Verwaltungsgesellschaft mbH, Köln/DE
      - AV Ausbildungsverbund Mönchengladbach GmbH, Mönchengladbach/DE
      - Oerlikon Textile Far East Ltd., Hongkong/CN
        - Oerlikon Textile Technology (Beijing) Co. Ltd., Beijing/CN
      - Oerlikon Textile India Pvt. Ltd., Mumbai/IN
    - Dr. Schippers Unterstützungskasse GmbH, Remscheid/DE
    - Oerlikon Vacuum Holding GmbH, Köln/DE
  - Oerlikon Textile do Brasil Máquinas Ltda., Porto Alegre, RS/BR
  - Oerlikon Textile Systems Far East Ltd., Hongkong/CN
  - SAC Oerlikon Automotive Components B.V., Rotterdam/NL
    - Oerlikon Graziano S.p.A., Cascine Vica Rivoli/IT
      - Graziano Trasmissioni India Pvt. Ltd., New Delhi/IN
      - Graziano Trasmissioni UK Ltd., St. Neots/GB
      - Vocis Limited, Warwick/GB
- Unaxis GmbH, Freienbach SZ/CH
  - Oerlikon Rus LLC, Moscow/RU

Glossary

Corporate and financial terms

AGM	Annual General Meeting
CAGR	Compound Annual Growth Rate
CAPEX	Capital expenditure
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortization
EMEAR	Europe, Middle East, Africa and Russia
EPS	Earnings per share
HSE	Health, Safety and Environment
KPI	Key Performance Indicator
LTA	Lost time accidents
OOE	Oerlikon operational excellence
R&D	Research and development
ROCE	Return on capital employed
SMI	Swiss Market Index = Switzerland's blue-chip stock market index. It is made up of 20 of the largest and most liquid Swiss Performance Index (SPI) large- and mid-cap stocks.
SMIM	Swiss Market Index Mid = consists of 30 biggest mid-cap Swiss companies which are not included in the SMI
STOXX Europe 600	The Stoxx Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region

Surface Solutions Segment

BALIQ™	New generation of wear-resistant coatings with revolutionary properties for a unique spectrum of applications, based on our S3p technology.
ePD™	Embedded PVD for Design Parts
MetcoClad™	Laser Cladding System = a welding process utilizing an infinitely controllable laser beam as its heat source
PPD™ technology	Pulsed-Plasma Diffusion = Oerlikon Balzers' Pulsed-Plasma Diffusion offers a long lasting, cost-effective and environmentally friendly way to harden and protect large manufacturing production tools and dies. Using hydrogen and nitrogen in an electrical discharge, PPD™ technology uses no hazardous chemicals. PPD is an alternative to chrome-plating.
PVD	Physical vapor deposition = a variety of methods used to deposit thin films onto various workpiece surfaces through condensation of the desired thin film material vapourized in vacuum.
S3p™ technology	Scalable Pulsed Power Plasma = a coating technology that combines the advantages of arc and sputtering technologies: high ionisation with virtually no droplets. The result: extremely smooth and dense coatings for a wide variety of applications.

Manmade Fibers Segment

BCF	Bulked Continuous Filament = yarn for carpet production, usually polypropylene, polyester or nylon
HMLS	High-modulus low-shrinkage polyester
Manmade Fibers	Chemical or synthetic fibers
POY	Pre-oriented yarn = the spun yarn is not completely drawn. It is used in textiles, e.g. after being finished using Oerlikon Barmag draw-teturin machines
WINGS	Winding Integrated Godet Solution = brand name of the latest winder technology by Oerlikon Manmade Fibers
WINGS PA HOY	Latest winder technology for high-oriented polyamide yarn

Drive Systems Segment

4SED	4-Speed Electric Drive = four-speed seamless shift electric transmission
OGeco	Hybrid power-shifting automated manual transmission

Vacuum Segment

Cryo pumps	Sophisticated high-vacuum absorption pumps applied to simulate space atmosphere on earth and used in the complex field of research and testing of space components and equipments
OLED	Organic light emitting diodes
PHOENIX L500i	Leak detector
TURBOVAC i/iX	Turbomolecular pumps used for analytics that offer extremely high pumping capacity

This annual report is also available in German.
The English language version of Oerlikon's Annual Report is the binding version.

Disclaimer and cautionary statements

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