oerlikon

Interim Report **HY2018**

Letter to Shareholders from the Chairman of the Board of Directors and the CEO

Dear Shareholders

In the first half of 2018, we delivered on our strategy and achieved a record performance. We invested in our surface solutions business through technology acquisitions and the opening of new coating centers to better serve our customers locally. We also established key partnerships with leading global players such as Boeing and Lufthansa Technik to advance the use of additive manufacturing (AM) in the aviation space. In our Manmade Fibers Segment, we strengthened our market position with an acquisition and are streamlining our portfolio. We also achieved a major milestone with the signing of the agreement to sell the Drive Systems Segment to Dana Incorporated.

The global economic upswing in the first half of the year was driven by investment recovery in developed economies, particularly the USA, continued strong growth in emerging markets in Asia and a notable upswing in European markets. This positive growth was mirrored in our end markets, including automotive, aerospace, tooling and general industries, where we successfully acquired new businesses, serving a healthy demand for technology and services.

Adjusted for the announced divestment of Drive Systems Segment and with 2017 figures restated to facilitate comparison, we increased our order intake by 35.4 % year-over-year to CHF 1 434 million, and sales came in 38.5 % higher than the previous year, reaching CHF 1 269 million. With the strong top-line increase and efficient cost management, EBITDA was CHF 208 million, which corresponds to a margin of 16.4 %. EBIT stood at CHF 128 million, or 10.1 % of sales. We also managed to significantly boost our net profit for the half-year by 136 % to CHF 111 million.

Our Surface Solutions Segment continued on its growth trajectory. We delivered around 13 % increase in both orders and sales compared to the same period in 2017. After taking increased operating expenses into account, particularly for higher investments in our additive manufacturing (AM) business, we achieved an operating profitability margin of 19.7 % for the Segment for the half-year. This reflects a favorable product mix and our ability to manage costs, as we continue to invest in growing our surface solutions business.

We saw higher demand for our surface solutions technologies across almost all our end markets, from tooling, automotive and aviation to general industries, which includes coatings for precision equipment, semiconductors and medical applications. Our Oerlikon Balzers' BALIQ® UNIQUE solution, launched in 2017, is already helping customers raise productivity through color-coded tools. And, we scored a major win with a leading market player with our SUMEBore™ product, a cylinder-coating technology that improves performance while reducing emissions in automobiles.

Complementing our organic growth, we acquired two companies to strengthen the Segment's technologies and market reach – DIARC and Sucotec. DIARC expands our foothold in Finland and its products enhance Oerlikon Balzers' thin-film coating portfolio for customers in the automotive and precision component industries. With Sucotec, Oerlikon Balzers' product offering was expanded with high-quality chemical vapor deposition systems for the tooling market.

In order to serve our customers in closer proximity, we opened three new production and service centers – one each in Germany, Malaysia and Japan. The center in Bielefeld, Germany, is the largest coating center for tools in Europe, delivering cutting-edge surface technologies for machining, forming and plastics processing to customers. The new coating center in Johor, Malaysia, will meet demand from customers in Southeast Asia in the automotive, aerospace, medical, general engineering and electronics industries. The center in Nagoya, Japan – a well-known hub for automotive component manufacturers – is an automotive competence center, offering comprehensive coating and friction system solutions for global automotive manufacturing leaders.

For our AM business, a cornerstone of Oerlikon's growth strategy, we acquired DiSanto Technology, also known as DTI, from GE Additive. DTI is registered as a contract manufacturer with the US Food and Drug Administration and has received ISO certifications for medical devices. Thus, DTI provides us with a path to expand our AM offering in the medical industry, especially for orthopedic implants and instruments.

We have also established important partnerships with key market leaders in aerospace, including Boeing, Lufthansa Technik and RUAG. These collaborations will serve to advance AM as the best solution for the consistent manufacturing of multiple components and parts in the aerospace market, and they will establish Oerlikon as a leading provider of AM services along the entire value chain in the aerospace industry. We are also working with IABG, a leading European provider of technology consulting, testing and analysis services, to accelerate the equipment testing of AM components and to process certifications. In China, we are partnering with Farsoon Technologies to provide a combined solution of qualified Oerlikon AM metal powders with Farsoon AM printers, thus accelerating the adoption of AM in China.

In our manmade fibers business, we achieved record levels in orders and sales. We increased the Segment's half-year orders by more than 75 % and doubled sales compared to the first six months of 2017. We also significantly improved our operating profitability with an EBITDA margin of 11.5 % for the Segment, as we continue to ramp up production capacity to manage the significant increase in orders and sales. Our greatest success was achieved in the filament equipment market in China, and we enhanced this with notable business wins in texturing, carpet yarn and polymer processing equipment and systems worldwide. Our half-year sales for the Manmade Fibers Segment more than doubled in China and in the USA, and tripled in India compared to the same period in 2017.

Strengthening our technology offering for customers in the Manmade Fibers Segment, we acquired AC-Automation, an engineering company based in Germany. This acquisition enables us to offer additional large-scale plant automation solutions for customers in the textile industry. We are also streamlining our product portfolio with the announced divestment of the solutions for tape and monofilament plants to the Austrian Starlinger Group. This will allow us to focus on our filament, staple fiber and nonwovens businesses. In the promising business area of nonwovens, we received further new orders and see a promising pipeline, especially in Europe and Asia.

The signing of the divestiture agreement for the sale of the Drive Systems Segment to Dana marked a strategic milestone for us. The divestiture is for CHF 600 million and expected to close in late 2018 or the first quarter of 2019, after fulfilling the regulatory approvals and closing conditions. We are convinced that the drive systems business will thrive under the new ownership of Dana, since the business and market focus, as well as technologies of both companies are a good complementary fit.

The near-term outlook for the global economy remains positive and is still supported by favorable market sentiments and accommodative financial conditions. However, growth is expected to slow down, and risks are mounting due to escalating trade tensions and geopolitical uncertainties. Nevertheless, based on our strong results in the first half of 2018, we are confident that we will be able to sustain growth, and we are therefore raising our outlook for the year. For 2018 full-year continued operations, Group order intake is expected to exceed CHF 2.6 billion, sales to be around CHF 2.6 billion, and Group EBITDA margin to exceed 15.5 %, after taking into consideration the increased operating expenses from higher investments, particularly in AM, and impacts from the divestment of the Drive Systems Segment.

We have delivered on our strategy and vision for the Drive Systems Segment and have strengthened Oerlikon's investment capabilities. Now, we can focus on growing our surface solutions and advanced materials businesses, while taking steps to ensure that our Manmade Fibers Segment is stronger and more resilient in its markets. We will continue to concentrate our resources and efforts in executing our strategy to achieve continued profitable growth in attractive markets, and we thank you for your continued trust and confidence in us.

Prof. Dr. Michael Süss
Chairman of the
Board of Directors

Dr. Roland Fischer
Chief Executive Officer

Half-year 2018 at a glance

Key figures

	Order intake	Sales	EBITDA margin	Net profit
Group	+35.4 % to CHF 1 434 million	+38.5 % to CHF 1 269 million	16.4 %	>100 % to CHF 111 million
Surface Solutions Segment	+12.7% to CHF 779 million	+12.9 % to CHF 755 million	19.7 %	
Manmade Fibers Segment	+78.0 % to CHF 655 million	>100 % to CHF 514 million	11.5 %	

Group

Strong performance
Oerlikon recorded excellent performance with strong growth in orders, sales and operating profitability for the first half 2018.

Strategy execution
Delivering on strategy, Oerlikon signed a definite agreement for the sale of its Drive Systems Segment to Dana Inc.

Surface Solutions Segment

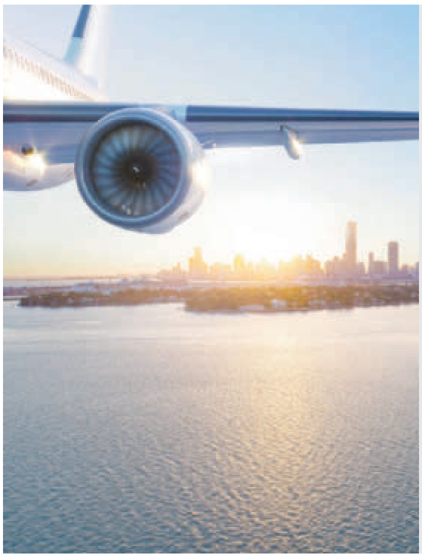
Automotive

Expanded product portfolio
Acquired DIARC Technology to expand technology portfolio and offering in the automotive and precision components industries.

Deepen market reach
Cooperating with Nanogate SE to advance ePD™ technology for metallizing plastic parts in automobiles.

Strengthen market presence
Constructing a second automotive competence center in Velka Ida, Slovakia.

Customer wins
Sold SUMEBore technology to a major global player and noted further successes in Asia for this cylinder coating solution that improves engine performance while reducing emissions.



Aerospace

Customer wins
Oerlikon’s Surface ONE™ thermal spray coating system, launched in 2017, has scored multiple customer wins in the aerospace market. Surface ONE helps customers boost process efficiency and productivity thanks to improved usability, standardized design, compact and mobile construction and excellent safety features.

AM collaboration
Collaborating with Boeing over the next five years to develop standard materials and processes for metal-based additive manufacturing.

AM partnering for space
Deepening cooperation with RUAG to achieve serial production of 3D printed components for space.

AM partnering for aerospace
Accelerating additive manufacturing processes and standards with Lufthansa Technik, particularly for maintenance, repair and operations services.

Tooling

Enhanced technology offering
Acquired Sucotec to enhance product range, adding CVD (Chemical Vapour Deposition) equipment for the tools market.

Closer to customers
Inaugurated three new coating centers: Oerlikon's largest coating center for tools in Europe in Bielefeld, Germany; a new coating center in Johor, Malaysia; and an automotive competence center in Nagoya, Japan.

Expanding to meet customer needs
Expanding production center in Brugherio, Italy, to meet local customers' demands.

Improving customers' productivity
Increased tool manufacturers' productivity in manufacturing process with Oerlikon's color coding solution: BALIQ UNIQUE.

Marking success with customer
Delivered 150th INNOVA coating system to one of the largest manufacturer of carbide cutting tools in China.

General industries

Entering new markets
To expand its business in the medical sector, Oerlikon acquired DiSanto Technology, a contract manufacturer of orthopedic implants and instruments.

Partnering for new standards
Partnering with IABG to accelerate AM equipment testing and process certification.

AM collaboration in China
Working with Farsoon Technologies to increase adoption of AM by offering certified AM powders together with AM printers.

Energy

Serving customers locally
Opened in-house thermal spray services coating center at GE Power India in Ahmedabad for cycle steam turbines.

Manmade Fibers Segment

Apparel & industrial textiles

Major customer wins
Secured two major customer contracts in China, worth a total of over half a billion Swiss francs.

Strengthen technology portfolio
Expanded product offering with large-scale automation solutions for customers in the textile industry through acquisition of Germany-based engineering company, AC-Automation.

Strengthen product focus
Announced divestment of technology solutions for tape and monofilament plants to the Austrian Starlinger Group, allowing the Segment to put greater focus on its filament, staple fiber and nonwovens businesses.

Financial report

Interim financial report 2018

Key figures Oerlikon Group

in CHF million	**January 1 to June 30, 2018, unaudited**	January 1 to June 30, 2017, unaudited
Order intake[1]	1 434	1 059
Order backlog[1]	672	475
Sales[1]	1 269	916
EBITDA[1]	208	137
– as % of sales[1]	16.4 %	14.9 %
EBIT[1]	128	64
– as % of sales[1]	10.1 %	7.0 %
Result from continuing operations	91	31
Result from discontinued operations, net of income taxes	20	16
Net income[2]	111	47
– as % of equity attributable to shareholders of the parent[2]	6 %	3 %
Cash flow from operating activities[2, 4]	194	111
Capital expenditure for property, plant and equipment and intangible assets[1]	79	61
Total assets (June 30, 2018/December 31, 2017)[2]	4 498	4 363
Equity attributable to shareholders of the parent (June 30, 2018/December 31, 2017)[2]	1 945	1 971
– as % of total assets[2]	43 %	45 %
Net cash (June 30, 2018/December 31, 2017)[3, 5]	363	499
Net operating assets (June 30, 2018/December 31, 2017)[1, 6]	1 543	1 949
Number of employees (full-time equivalents) (June 30, 2018/December 31, 2017)[1]	10 306	9 798
Research and development expenditure[1, 7]	55	46

[1] 2018 continuing operations, 2017 restated.

[2] 2017 restated.

[3] 2018 continuing operations, 2017 as reported.

[4] Cash flow from operating activities before changes in net current assets amounts to CHF 244 million (previous year, restated: CHF 165 million).

[5] Net cash includes cash and cash equivalents, deposits 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 financial liabilities, non-current loans and borrowings, current income tax payables and deferred tax liabilities). Net operating assets from continuing operations as per December 31, 2017 amounted to CHF 1 566 million.

[7] Research and development expenditure includes expenses recognized as intangible assets in the amount of CHF 10 million (previous year: CHF 11 million).

Consolidated income statement

in CHF million	**January 1 to June 30, 2018, unaudited**	January 1 to June 30, 2017, restated[1], unaudited
Sales of goods	774	469
Services rendered	495	447
Total sales	**1 269**	**916**
Cost of sales	–869	–618
Gross profit	**400**	**298**
Marketing and selling	–92	–78
Research and development	–61	–50
Administration	–120	–108
Other income	12	14
Other expense	–11	–12
Result before interest and taxes (EBIT)	**128**	**64**
Financial income	8	3
Financial expense	–9	–10
Result before taxes (EBT)	**127**	**57**
Income taxes	–36	–26
Result from continuing operations	**91**	**31**
Result from discontinued operations, net of income taxes	20	16
Net income	**111**	**47**
Attributable to:		
Shareholders of the parent	110	47
Non-controlling interests	1	–
Earnings per share in CHF	**0.32**	0.14
Diluted earnings per share in CHF	**0.32**	0.14
Earnings per registered share continuing operations in CHF	**0.26**	0.09
Diluted earnings per registered share continuing operations in CHF	**0.26**	0.09
Earnings per registered share discontinued operations in CHF	**0.06**	0.05
Diluted earnings per registered share discontinued operations in CHF	**0.06**	0.05

[1] With the adoption of the new accounting standard IFRS 15, prior-year figures have been restated. In addition, following the announcement of the divestment of the Drive Systems Segment, the respective figures are presented as discontinued operations and 2017 figures have been restated. Refer to section “Adjustments” of the “Significant accounting principles”.

Consolidated statement of comprehensive income

in CHF million	**January 1 to June 30, 2018, unaudited**	January 1 to June 30, 2017, restated[1], unaudited
Net income	111	47
Other comprehensive income		
Items that will never be reclassified to the income statement		
Remeasurement of defined benefit plans	10	22
Income taxes on items that will never be reclassified to the income statement	–2	–5
	8	**17**
Items that are or may be reclassified subsequently to the income statement		
Changes in fair value of hedges	–6	4
Conversion differences	–19	–18
Income taxes on items that are or may be reclassified subsequently to the income statement	1	–1
	–24	**–15**
Other comprehensive income for the period, net of taxes	**–16**	**2**
Total comprehensive income for the period	**95**	**49**
Attributable to:		
Shareholders of the parent	95	49
Non-controlling interests	–	–

[1] With the adoption of the new accounting standard IFRS 15, the prior-year figures have been restated. Refer to section “Adjustments” of the “Significant accounting principles”.

Consolidated balance sheet

Assets

in CHF million	June 30, 2018, unaudited	December 31, 2017, restated[1]
Cash and cash equivalents	778	871
Current financial investments and derivatives	70	101
Trade and trade note receivables	345	447
Current contract assets	32	40
Other receivables	94	113
Current income tax receivables	19	28
Inventories	345	461
Prepaid expenses and accrued income	23	15
Assets classified as held for sale	849	–
Current assets	**2 555**	**2 076**
Loans and other non-current financial receivables	23	23
Non-current financial investments	11	18
Property, plant and equipment	606	845
Goodwill and intangible assets	1 164	1 229
Post-employment benefit assets	20	20
Deferred tax assets	118	151
Non-current contract assets	1	1
Non-current assets	**1 943**	**2 287**
Total assets	**4 498**	**4 363**

Liabilities and equity

in CHF million	June 30, 2018, unaudited	December 31, 2017, restated[1]
Trade payables	236	366
Current contract liabilities	489	375
Current financial liabilities and derivatives	9	5
Other current payables	50	57
Accrued liabilities	163	203
Current income taxes payable	59	65
Current post-employment benefit liabilities	15	17
Other current provisions	40	76
Liabilities classified as held for sale	390	–
Current liabilities	**1 451**	**1 164**
Non-current loans and borrowings	477	463
Other non-current liabilities	40	37
Non-current post-employment benefit liabilities	343	419
Deferred tax liabilities	148	165
Other non-current provisions	76	126
Non-current liabilities	**1 084**	**1 210**
Total liabilities	**2 535**	**2 374**
Share capital	340	340
Treasury shares	–5	–4
Retained earnings and reserves	1 610	1 635
Equity attributable to shareholders of the parent	**1 945**	**1 971**
Non-controlling interests	18	18
Total equity	**1 963**	**1 989**
Total liabilities and equity	**4 498**	**4 363**

[1] With the adoption of the new accounting standard IFRS 15, prior-year figures have been restated. Refer to section “Adjustments” of the “Significant accounting principles”.

Consolidated cash flow statement[1]

in CHF million	**January 1 to June 30, 2018, unaudited**	January 1 to June 30, 2017, restated[2], unaudited
Net income	111	47
Income taxes	44	28
Interest expense (net)	3	5
Depreciation of property, plant and equipment	71	65
Amortization of intangible assets	33	29
Addition to other provisions (net)	27	6
Decrease in post-employment benefit liabilities	–14	–3
Gain from sale of non-current assets	–1	–
Income taxes paid	–37	–15
Other non-cash items	7	3
Cash flow from operating activities before changes in net current assets	244	165
Increase in receivables, contract assets, prepaid expenses and accrued income	–95	–109
Increase in inventories	–71	–68
Increase in payables, accrued liabilities and use of other provisions	6	20
Increase in contract liabilities	109	103
Non-cash impact on net current assets due to hedge accounting	1	–
Cash flow from changes in net current assets	–50	–54
Cash flow from operating activities	**194**	**111**
Purchase of property, plant and equipment	–94	–63
Purchase of intangible assets	–17	–16
Acquisition of subsidiaries, net of cash acquired	–12	–10
Acquisition of associates	–	–8
Purchase of financial investments	–	–8
Proceeds from sale of financial investments	30	42
Proceeds from sale of property, plant and equipment	–	2
Interest received	3	3
Cash flow from investing activities	**–90**	**–58**
Dividends paid	–117	–103
Purchase of treasury shares	–6	–
Repayment of financial debt	–3	–2
Proceeds from foundation of subsidiaries with non-controlling interests	–	5
Interest paid	–9	–10
Cash flow from financing activities	**–135**	**–110**
Conversion adjustments to cash and cash equivalents	–2	–3
Decrease in cash and cash equivalents	**–33**	**–60**
Cash and cash equivalents at the beginning of the period	871	751
Cash and cash equivalents at the end of the period[3]	838	691
Decrease in cash and cash equivalents	**–33**	**–60**

[1] The consolidated cash flow statement includes cash flow from continuing and discontinued operations. Refer to “Acquistions and divestments” for cash flow from discontinued operations.

[2] With the adoption of the new accounting standard IFRS 15, prior-year figures have been restated. Refer to section “Adjustments” of the “Significant accounting principles”.

[3] 2018: Includes CHF 60 million, which are included in “Assets classified as held for sale” in the balance sheet as of June 30, 2018.

Consolidated statement of changes in equity

in CHF million	Share capital[1]	Additional paid-in capital	Treasury shares	Conversion differences	Retained earnings	Hedge accounting	Income taxes	**Total equity attributable to shareholders**	Non-controlling interests	**Total share-holders' equity**
Balance at January 1, 2017, as reported	**340**	**1 115**	**–5**	**–431**	**696**	**–1**	**112**	**1 826**	**14**	**1 840**
Impact of change in accounting policy	–	–	–	–1	2	–	–	1	–	1
Balance at January 1, 2017, restated	**340**	**1 115**	**–5**	**–432**	**698**	**–1**	**112**	**1 827**	**14**	**1 841**
Net income, restated	–	–	–	–	47	–	–	47	–	47
Changes in fair value of hedges	–	–	–	–	–	4	–1	3	–	3
Remeasurement of defined benefit plans	–	–	–	–	22	–	–5	17	–	17
Conversion differences	–	–	–	–18	–	–	–	–18	–	–18
Other comprehensive income for the period	**–**	**–**	**–**	**–18**	**22**	**4**	**–6**	**2**	**–**	**2**
Total comprehensive income for the period, restated	**–**	**–**	**–**	**–18**	**69**	**4**	**–6**	**49**	**–**	**49**
Dividend distributions	–	–102	–	–	–	–	–	–102	–1	–103
Share-based payments	–	–	1	–	1	–	–	2	–	2
Contributions and distributions	**–**	**–102**	**1**	**–**	**1**	**–**	**–**	**–100**	**–1**	**–101**
Foundation of subsidiaries with non-controlling interests	–	–	–	–	–	–	–	–	5	5
Changes in ownership interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**5**	**5**
Total transactions with owners of the company	**–**	**–102**	**1**	**–**	**1**	**–**	**–**	**–100**	**4**	**–96**
Balance at June 30, 2017, restated	**340**	**1 013**	**–4**	**–450**	**768**	**3**	**106**	**1 776**	**18**	**1 794**
Balance at January 1, 2018, as reported	**340**	**1 013**	**–4**	**–362**	**883**	**5**	**95**	**1 970**	**18**	**1 988**
Impact of change in accounting policy	–	–	–	–1	2	–	–	1	–	1
Balance at January 1, 2018, restated	**340**	**1 013**	**–4**	**–363**	**885**	**5**	**95**	**1 971**	**18**	**1 989**
Net income	–	–	–	–	110	–	–	110	1	111
Changes in fair value of hedges	–	–	–	–	–	–6	1	–5	–	–5
Remeasurement of defined benefit plans	–	–	–	–	10	–	–2	8	–	8
Conversion differences	–	–	–	–18	–	–	–	–18	–1	–19
Other comprehensive income for the period	**–**	**–**	**–**	**–18**	**10**	**–6**	**–1**	**–15**	**–1**	**–16**
Total comprehensive income for the period	**–**	**–**	**–**	**–18**	**120**	**–6**	**–1**	**95**	**–**	**95**
Dividend distributions	–	–119	–	–	–	–	–	–119	–	–119
Share-based payments	–	–	5	–	–1	–	–	4	–	4
Purchase of treasury shares	–	–	–6	–	–	–	–	–6	–	–6
Contributions and distributions	**–**	**–119**	**–1**	**–**	**–1**	**–**	**–**	**–121**	**–**	**–121**
Total transactions with owners of the company	**–**	**–119**	**–1**	**–**	**–1**	**–**	**–**	**–121**	**–**	**–121**
Balance at June 30, 2018	**340**	**894**	**–5**	**–381**	**1 004**	**–1**	**94**	**1 945**	**18**	**1 963**

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

Significant accounting principles

Company operations
OC Oerlikon Corporation AG, 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 which provides innovative industrial solutions and cutting-edge technologies for surface solutions and manmade fibers manufacturing.

Basis of preparation
The unaudited consolidated interim financial statements of OC Oerlikon Corporation AG, Pfäffikon, for the first half-year of 2018 are presented in a condensed form and have been prepared in accordance with IAS 34 Interim Financial Reporting and Swiss company law. These accounting standards have been applied consistently in all periods presented in this report. The reporting period is six months. The consolidated income statement shows operating costs grouped by function. Assets and liabilities in the consolidated balance sheet are classified as current or non-current. The consolidated interim financial statements do not include all the details contained in the consolidated annual financial statements and should therefore be read in conjunction with the annual consolidated financial statements as of December 31, 2017. The consolidated interim financial statements were approved by the Board of Directors on August 6, 2018. All amounts in the consolidated interim financial statements are presented in millions of Swiss francs (CHF million) and all amounts (including totals and subtotals) have been rounded according to normal commercial practice. Thus, an addition of the figures presented can result in rounding differences.

Judgments, estimates and assumptions
Preparation of the consolidated interim financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the values of reported revenues, expenses, assets, liabilities and contingent liabilities at the reporting date. These estimates and assumptions are constantly being revised. Depending on the issues involved, revision of such assumptions can have an effect on the current period, as well as potentially on future periods. These estimates, judgments and assumptions are based on historical experience and other factors that are believed to be reasonable and justified as expectations of future events. However, actual results can differ from these estimates. The same significant assumptions and estimates were made by management for these consolidated interim financial statements as for the annual consolidated financial statements as of December 31, 2017.

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

Significant accounting principles
The accounting policies in this interim financial report match those applied in the audited annual consolidated financial statements as of December 31, 2017, with exception of the changes shown under “Adoption of new and revised accounting standards”.

Adoption of new and revised accounting standards
The adoption of new or amended standards and interpretations which are effective for the financial year beginning on January 1, 2018, had the following impacts on the Group’s consolidated financial statements.

IFRS 9 – Financial instruments had no material impact on the Group’s consolidated financial statements and has been implemented through the modified retrospective method, which requires the recognition of the cumulative effect of initially applying IFRS 9, as at January 1, 2018, to retained earnings, without restatement of prior years. The application of the new Expected Credit Loss (ECL) model, which consists in assessing the impairment of financial assets based on a forward-looking model, increased allowance for doubtful debt by about CHF 0.2 million as of January 1, 2018. Based on the new standard, an allowance on not yet due trade receivables needs to be made as well. There are no other significant recognition or measurement impacts from the new IFRS 9 standard.

IFRS 15 – Revenue from Contracts with Customers replaced the existing standards IAS 11, IAS 18 and their associated interpretations. The application of the new revenue recognition standard requires an extensive analysis of contracts with customers according to a single five-step model framework. The implementation of the new standard mostly impacts the Manmade Fibers Segment, where for certain construction projects, the Percentage-Of-Completion (POC) method was previously applied. For the respective projects, as replacement for the POC method, the Oerlikon Group applied revenue recognition over time in order to recognize revenue in a pattern that reflects the transfer of control of the promised goods or services to the customer. Progress of the “Manmade Fibers construction projects” is measured toward satisfaction of the performance obligation and revenue is recognized accordingly. For other revenue streams, revenue is commonly recognized at a point of time. The application of the new guidance results in a slightly deferred commencement when revenue is recorded. Besides of that, there is no other significant impact from the new standard.

To conform to the first-year application of IFRS 15, the structure of the Oerlikon Group financial statements has been amended and additional qualitative and quantitative information has been integrated into the financial report. According to the full retrospective approach, certain comparative figures for 2017 have been restated, with an adjustment to equity as at January 1, 2017. The effects of the adjustments to the 2017 consolidated income statement, balance sheet and cash flow statement can be found in section “Adjustments” at the end of the “Significant Accounting Principles”.

Newly published accounting standards not early adopted

The IASB has published a new and revised standard and interpretation that will come into force later and has not been implemented ahead of its effective date. Its effects on the Oerlikon Group's financial statements have not yet been fully analyzed, but an initial review has been conducted, and the expected effect of the new standard is presented in the following table:

Standard / interpretation	Impact level	Effective date	Planned application by Oerlikon
IFRS 16 – Leases	*	1.1.2019	Reporting year 2019

* Due to the new standard, the Group will have to recognize an asset for most of its operating lease contracts. This will increase the assets and liabilities as well as the EBIT and EBITDA. The specific impact on the consolidated financial statements is currently being assessed.

There are no other IFRS standards or interpretations which are not yet effective which would be expected to have a material impact on the Group's financial statements.

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 CODM receives information on Business Unit level for the Surface Solutions Segment. In accordance with the aggregation criteria of IFRS 8, these Business Units have been aggregated to one reportable Segment. 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.

The Group consists of the following reportable Segments:

- Surface Solutions Segment supplies solutions that increase the performance, efficiency and reliability of tools and precision components (PVD coatings) and offers specialized products and services for innovative surface engineering (thermal spray solutions) and 3D printing (additive manufacturing).
- Manmade Fibers Segment develops and manufactures textile machinery.

Discontinued operations

Following the announcement of the divestment of the Drive System Segment, the respective prior-year figures are shown as discontinued operations and therefore, certain 2017 figures have been restated in accordance with IFRS 5. Effects of the adjustments to the 2017 consolidated income statement are shown in section "Adjustments" below.

Adjustments

Adjustments have been made to the prior-year figures due to the implementation of the new accounting standard IFRS 15 and the announcement of the divestment of the Drive Systems Segment. The effects of the adjustments to the 2017 consolidated income statement, balance sheet and cash flow statement can be found below:

Effects on consolidated income statement

in CHF million	January 1 to June 30, 2017, as reported	Effects from the adoption of IFRS 15	**January 1 to June 30, 2017, restated for IFRS 15**	Effects from discontinued operations – Drive Systems Segment	**January 1 to June 30, 2017, restated**
Sales of goods	834	–36	798	–329	469
Services rendered	463	–	463	–16	447
Total sales	**1 297**	**–36**	**1 261**	**–345**	**916**
Cost of sales	–949	35	–914	296	–618
Gross profit	**348**	**–1**	**347**	**–49**	**298**
Marketing and selling	–85	–	–85	7	–78
Research and development	–57	–	–57	7	–50
Administration	–124	–	–124	16	–108
Other income	15	–	15	–1	14
Other expense	–13	–	–13	1	–12
Result before interest and taxes (EBIT)	**84**	**–1**	**83**	**–19**	**64**
Financial income	4	–	4	–1	3
Financial expense	–12	–	–12	2	–10
Result before taxes (EBT)	**76**	**–1**	**75**	**–18**	**57**
Income taxes	–28	–	–28	2	–26
Result from continuing operations	**48**	**–1**	**47**	**–16**	**31**
Result from discontinued operations, net of income taxes	–	–	–	16	16
Net income	**48**	**–1**	**47**	**–**	**47**
Attributable to:					
Shareholders of the parent	48	–1	47	–	47
Non-controlling interests	–	–	–	–	–

Effects on consolidated balance sheet

in CHF million	December 31, 2017, as reported	Effects from the adoption of IFRS 15	**December 31, 2017, restated**
Cash and cash equivalents	871	–	871
Current financial investments and derivatives	101	–	101
Trade and trade notes receivable	447	–	447
Current contract assets	–	40	40
Other receivables	172	–59	113
Current tax receivables	28	–	28
Inventories	431	30	461
Prepaid expenses and accrued income	16	–1	15
Current assets	**2066**	**10**	**2076**
Loans and other non-current financial receivables	23	–	23
Non-current financial investments	18	–	18
Property, plant and equipment	845	–	845
Goodwill and intangible assets	1229	–	1229
Post-employment benefit assets	20	–	20
Deferred tax assets	151	–	151
Non-current contract assets	–	1	1
Non-current assets	**2286**	**1**	**2287**
Total assets	**4352**	**11**	**4363**
Trade payables	365	1	366
Current contract liabilities	–	375	375
Current financial liabilities and derivatives	5	–	5
Other current payables	57	–	57
Accrued liabilities	203	–	203
Current customer advances	366	–366	–
Current income taxes payable	65	–	65
Current post-employment benefit liabilities	17	–	17
Other current provisions	76	–	76
Current liabilities	**1154**	**10**	**1164**
Non-current loans and borrowings	463	–	463
Other non-current liabilities	37	–	37
Non-current post-employment benefit liabilities	419	–	419
Deferred tax liabilities	165	–	165
Other non-current provisions	126	–	126
Non-current liabilities	**1210**	**–**	**1210**
Total liabilities	**2364**	**10**	**2374**
Share capital	340	–	340
Treasury shares	–4	–	–4
Retained earnings and reserves	1634	1	1635
Equity attributable to shareholders of the parent	**1970**	**1**	**1971**
Non-controlling interests	18	–	18
Total equity	**1988**	**1**	**1989**
Total liabilities and equity	**4352**	**11**	**4363**

Effects on consolidated cash flow statement

in CHF million	January 1 to June 30, 2017, as reported	Effects from the adoption of IFRS 15	**January 1 to June 30, 2017, restated**
Net income	48	–1	47
Income taxes	28	–	28
Interest expense (net)	5	–	5
Depreciation of property, plant and equipment	65	–	65
Amortization of intangible assets	29	–	29
Addition to other provisions (net)	6	–	6
Decrease in post-employment benefit liabilities	–3	–	–3
Income taxes paid	–15	–	–15
Other non-cash items	3	–	3
Cash flow from operating activities before changes in net current assets	166	–1	165
Increase in receivables, contract assets, prepaid expenses and accrued income	–129	20	–109
Increase in inventories	–41	–27	–68
Increase in payables, accrued liabilities and use of other provisions	20	–	20
Increase in customer advances / contract liabilities	95	8	103
Cash flow from changes in net current assets	–55	1	–54
Cash flow from operating activities	**111**	**–**	**111**
Purchase of property, plant and equipment	–63	–	–63
Purchase of intangible assets	–16	–	–16
Acquisition of subsidiaries, net of cash acquired	–10	–	–10
Acquisition of associates	–8	–	–8
Purchase of financial investments	–8	–	–8
Proceeds from sale of financial investments	42	–	42
Proceeds from sale of property, plant and equipment	2	–	2
Interest received	3	–	3
Cash flow from investing activities	**–58**	**–**	**–58**
Dividends paid	–103	–	–103
Repayment of financial debt	–2	–	–2
Proceeds from foundation of subsidiaries with non-controlling interests	5	–	5
Interest paid	–10	–	–10
Cash flow from financing activities	**–110**	**–**	**–110**
Conversion adjustments to cash and cash equivalents	–3	–	–3
Decrease in cash and cash equivalents	**–60**	**–**	**–60**
Cash and cash equivalents at the beginning of the period	751	–	751
Cash and cash equivalents at the end of the period	691	–	691
Decrease in cash and cash equivalents	**–60**	**–**	**–60**

Segment information

		Surface Solutions Segment		Manmade Fibers Segment		Total Segments	
in CHF million		2018	2017	2018	2017	2018	2017[7]
Order intake[1]		**779**	**691**	**655**	**368**	**1 434**	**1 059**
Order backlog[1]		**154**	**102**	**518**	**373**	**672**	**475**
Sales[1]							
Sales to third parties		755	669	514	247	1 269	916
Sales to other segments		4	3	–	–	4	3
Eliminations		–4	–3	–	–	–4	–3
		755	**669**	**514**	**247**	**1 269**	**916**
Sales by market region to third parties[1]							
Asia/Pacific		217	207	354	138	571	345
Europe		352	307	75	73	427	380
North America		151	125	43	21	194	146
Other regions		35	30	42	15	77	45
		755	**669**	**514**	**247**	**1 269**	**916**
Sales by location to third parties[1]							
Asia/Pacific		200	185	163	70	363	255
thereof	China	70	66	158	66	228	132
Europe		373	326	341	166	714	492
thereof	Switzerland	60	47	–	–	60	47
	Germany	179	163	341	166	520	329
	Italy	21	20	–	–	21	20
North America		160	136	10	11	170	147
thereof	USA	140	122	10	11	150	133
Other regions		22	22	–	–	22	22
		755	**669**	**514**	**247**	**1 269**	**916**
Timing of revenue recognition							
At a point in time		755	669	175	125	930	794
Transferred over time		–	–	339	122	339	122
		755	**669**	**514**	**247**	**1 269**	**916**
Capital expenditure for property, plant and equipment and intangible assets[2]							
Asia/Pacific		13	11	–	–	13	11
Europe		33	28	9	6	42	34
North America		19	14	–	–	19	14
Other regions		1	1	–	–	1	1
		66	**54**	**9**	**6**	**75**	**60**
EBITDA[1]		**149**	**141**	**59**	**3**	**208**	**144**
EBIT[1]		**81**	**80**	**48**	**–7**	**129**	**73**
Other material items							
Research and development expense		–46	–39	–15	–11	–61	–50
Depreciation and amortization		–68	–61	–11	–10	–79	–71
Restructuring income		–	–	–	–	–	–
Net operating assets[1, 3]		**30.06.18**	31.12.17	**30.06.18**	31.12.17	**30.06.18**	31.12.17
Operating assets[4]		1 927	1 829	692	669	2 619	2 498
Operating liabilities[5]		–314	–310	–746	–600	–1 060	–910
		1 613	**1 519**	**–54**	**69**	**1 559**	**1 588**
Number of employees (full-time equivalents)		**30.06.18**	31.12.17	**30.06.18**	31.12.17	**30.06.18**	31.12.17
Asia/Pacific		1 802	1 787	1 002	956	2 804	2 743
Europe		3 914	3 740	1 676	1 481	5 590	5 221
North America		1 269	1 226	59	59	1 328	1 285
Other regions		352	326	–	–	352	326
		7 337	**7 079**	**2 737**	**2 496**	**10 074**	**9 575**

[1] With the adoption of the new accounting standard IFRS 15 the prior-year figures have been restated. Refer to section "Adjustments" of the "Significant accounting principles".

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

[3] For 2017 the Drive Systems Segment is shown under discontinued operations.

[4] 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[6]		Total incl. discontinued operations	
	2018	2017[7]	2018	2017[7]	2018	2017	2018	2017
	–	–	1 434	1 059	438	365	1 872	1 424
	–	–	672	475	183	110	855	585
	–	–	1 269	916	435	345	1 704	1 261
	–4	–3	–	–	–	–	–	–
	4	3	–	–	–	–	–	–
	–	–	1 269	916	435	345	1 704	1 261
	–	–	571	345	89	51	660	396
	–	–	427	380	179	164	606	544
	–	–	194	146	142	119	336	265
	–	–	77	45	25	11	102	56
	–	–	1 269	916	435	345	1 704	1 261
	–	–	363	255	115	72	478	327
	–	–	228	132	34	15	262	147
	–	–	714	492	202	173	916	665
	–	–	60	47	–	–	60	47
	–	–	520	329	–	–	520	329
	–	–	21	20	199	170	220	190
	–	–	170	147	118	100	288	247
	–	–	150	133	118	100	268	233
	–	–	22	22	–	–	22	22
	–	–	1 269	916	435	345	1 704	1 261
	–	–	930	794	435	345	1 365	1 139
	–	–	339	122	–	–	339	122
	–	–	1 269	916	435	345	1 704	1 261
	–	–	13	11	14	10	27	21
	4	1	46	35	14	6	60	41
	–	–	19	14	4	2	23	16
	–	–	1	1	–	–	1	1
	4	1	79	61	32	18	111	79
			–	–				
	–	–7	208	137	52	40	260	177
	–1	–9	128	64	28	19	156	83
	–	–	–61	–50	–8	–7	–69	–57
	–1	–2	–80	–73	–24	–21	–104	–94
	–	–	–	–	1	–	1	–
	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17
	48	34	2 667	2 532	732	683	3 399	3 215
	–64	–56	–1 124	–966	–298	–300	–1 422	–1 266
	–16	–22	1 543	1 566	434	383	1 977	1 949
	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17	30.06.18	31.12.17
	–	–	2 804	2 743	2 983	2 730	5 787	5 473
	221	214	5 811	5 435	1 753	1 745	7 564	7 180
	–	–	1 328	1 285	777	689	2 105	1 974
	11	9	363	335	–	–	363	335
	232	223	10 306	9 798	5 513	5 164	15 819	14 962

[5] 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.

[6] Discontinued operations include the Drive Systems Segment.

[7] With the reclassification of the Drive Systems Segment to discontinued operations the prior-year figures have been restated.

Acquisitions and Divestments

Acquisitions in the first half year of 2018

On February 19, 2018, Oerlikon acquired **DIARC Technology** Oy, a provider of surface engineering technologies and services in Finland. The acquisition will enhance the range of technologies provided by the Surface Solutions Segment in the automotive and precision components industries and expand its portfolio of surface treatments.

On March 1, 2018, Oerlikon acquired **Sucotec** AG, a Swiss manufacturer specializing in CVD (Chemical Vapour Deposition) equipment for the tools market. The acquisition enhances the range of products and services provided by the Surface Solutions Segment.

On April 25, 2018, Oerlikon acquired Germany-based **AC-Automation** GmbH & Co. KG, an engineering company specializing in large-scale plant automation solutions for the textile and packaging industries. The integration of AC-Automation in Oerlikon expands the market-leading technology portfolio of the Manmade Fibers Segment.

On May 31, 2018, Oerlikon acquired **DiSanto Technology** Inc. The company is based in Shelton, Connecticut, USA, and offers manufacturing and engineering services for surgical implant and instrument systems, specializing in the orthopedic and spine markets. The acquisition allows Oerlikon's Additive Manufacturing Business Unit, part of the Surface Solutions Segment, to further expand into the medical market.

The total purchase consideration for the acquisitions mentioned above amounts to CHF 30 million and it includes CHF 27 million paid in cash in the reporting period and contingent consideration of CHF 3 million. The contingent consideration relates to earnout arrangements that are based on financial metrics (achievement of certain predefined sales targets) as well as non-financial metrics (operational targets and employee retention targets). The potential undiscounted amount payable under the agreements is between CHF 0 million and CHF 3 million. The fair value of the contingent consideration was estimated by calculating the present value of the future expected cash flows. The calculations are based on the current estimates of the fulfillment of the conditions on which the payment of the earnouts depends and a discount rate of 2.7 %.

The goodwill of CHF 12 million arising from the acquisitions is mainly attributable to the strengthening of the market position, the expertise of the workforce and the expected synergies from combining the operations of the acquired businesses with the Oerlikon Group. None of the goodwill is expected to be deductible for income tax purposes.

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

Consideration at the date of acquisition

in CHF million	**2018**
Cash	27
Contingent consideration	3
Total consideration	**30**

Recognized amounts of identifiable assets acquired and liabilities assumed

in CHF million	**2018**
Cash and cash equivalents	14
Trade receivables	3
Other receivables, prepaid expenses and accrued income	8
Inventories	5
Property, plant and equipment	4
Intangible assets	16
Trade payables	–2
Current contract liabilities	–20
Other current payables and accrued liabilities	–6
Deferred tax liabilities	–4
Total identifiable net assets	**18**
Goodwill	12
Total	**30**

The amounts recognized for the acquisitions are preliminary. Due to the timing of the acquisitions, certain information required to complete the recognition of the acquisitions remains outstanding.

Acquisition-related costs of CHF 1 million have been recognized under other expenses in the consolidated income statement for the period ended June 30, 2018.

Since their acquisition, the acquired businesses have contributed CHF 5 million to total sales and CHF –1 million to the net income of the Oerlikon Group. Had the transactions taken place at January 1, 2018, the Group's total sales and net income for the period ended June 30, 2018 would have amounted to approximately CHF 1 286 million and CHF 111 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, 2018.

Acquisitions and Divestments

Divestment of the Drive Systems Segment

On July 29, 2018, the Oerlikon Group signed an agreement to divest its Drive Systems Segment to Dana Incorporated. Consequently, the Drive Systems Segment is presented as a disposal group held for sale and as discontinued operations. As per June 30, 2018, the disposal group held for sale comprised assets of CHF 824 million and liabilities of CHF 381 million. The disposal group was not a discontinued operation or classified as held for sale as of June 30, 2017. The comparative consolidated income statement has been restated to show the discontinued operation separately from the continuing operations.

Cumulative exchange differences relating to foreign operations to be disposed of previously recognized in other comprehensive income will be reclassified to the income statement on disposal of the Segment, i.e. when control of the subsidiaries is lost. As at June 30, 2018, the cumulative exchange differences concerned were negative (CHF –285 million) and therefore management assumes that a loss will be reclassified from other comprehensive income to the income statement on disposal.

The transaction is expected to close in late 2018 or the first quarter 2019, subject to customary approvals and closing conditions.

Divestment of the tape and monofilament technologies (Barmag Spinnzwirn)

On May 22, 2018, the Oerlikon Group signed an agreement with the Austrian Starlinger Group to divest its tape and monofilament technologies. Consequently, the German Barmag Spinnzwirn Business Unit of the Manmade Fibers Segment is presented as a disposal group held for sale. As per June 30, 2018, the disposal group held for sale comprised assets of CHF 25 million and liabilities of CHF 9 million.

The transaction is expected to close in the fourth quarter of 2018.

Result from discontinued operations

	January 1 to June 30, 2018	January 1 to June 30, 2017, restated
in CHF million	**Drive Systems Segment**	Drive Systems Segment
Sales	435	345
Total expenses	–397	–327
Result before taxes (EBT) from operating activities	**38**	**18**
Income taxes	–9	–2
Result from operating activities	**29**	**16**
Costs related to divestment (net of tax)	–9	–
Net result from discontinued operations	**20**	**16**
Attributable to:		
Shareholders of the parent	20	16
Non-controlling interests	–	–
Earnings per share in CHF	0.06	0.05
Diluted earnings per share in CHF	0.06	0.05

Cash flow from discontinued operations

	January 1 to June 30, 2018	January 1 to June 30, 2017, restated
in CHF million	**Drive Systems Segment**	Drive Systems Segment
Cash flow from operating activities	13	34
Cash flow from investing activities	–33	–21
Cash flow from financing activities	–	5
Net cash flows from discontinued operations	**–20**	**18**

Acquisitions and Divestments

Disposal group classified as held for sale

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

As of June 30, 2018, the following assets and liabilities have been classified as held for sale:

Assets classified as held for sale

			2018
in CHF million	Drive Systems Segment	Barmag Spinnzwirn	**Total**
Cash and cash equivalents	60	–	60
Trade and trade notes receivable	164	–	164
Other receivables, prepaid expenses and accrued income	40	1	41
Inventories	190	15	205
Non-current financial investments	7	–	7
Property, plant and equipment	265	9	274
Intangible assets	75	–	75
Deferred tax assets	23	–	23
Total assets classified as held for sale	**824**	**25**	**849**

Liabilities classified as held for sale

			2018
in CHF million	Drive Systems Segment	Barmag Spinnzwirn	**Total**
Trade payables	157	3	160
Current contract liabilities	12	5	17
Current financial liabilities and derivatives	3	–	3
Accrued liabilities	41	1	42
Other current liabilities	20	–	20
Current post-employment benefit liabilities	1	–	1
Other current provisions	30	–	30
Non-current loans and borrowings	4	–	4
Non-current post-employment benefit liabilities	49	–	49
Deferred tax liabilities	17	–	17
Other non-current provisions	47	–	47
Total liabilities classified as held for sale	**381**	**9**	**390**

Revenue

Disaggregation of revenue from contracts with customers by Segment and market:

in CHF million	Surface Solutions Segment		Manmade Fibers Segment		Total from continuing operations		Discontinued operations		Total incl. discontinued operations	
	January 1 to June 30, 2018	January 1 to June 30, 2017, restated	**January 1 to June 30, 2018**	January 1 to June 30, 2017, restated	**January 1 to June 30, 2018**	January 1 to June 30, 2017, restated	**January 1 to June 30, 2018**	January 1 to June 30, 2017, restated	**January 1 to June 30, 2018**	January 1 to June 30, 2017, restated
Agriculture	–	–	–	–	–	–	142	120	142	120
Automotive	173	162	–	–	173	162	89	68	262	230
Aviation	103	90	–	–	103	90	–	–	103	90
BCF Carpet Yarn/Polymer Processing	–	–	97	54	97	54	–	–	97	54
Construction	–	–	–	–	–	–	103	93	103	93
Energy/Mining	–	–	–	–	–	–	22	13	22	13
Filament Spinning/Texturing	–	–	365	153	365	153	–	–	365	153
General Industry	221	167	–	–	221	167	–	–	221	167
Power Generation	36	43	–	–	36	43	–	–	36	43
Staple fiber/Nonwoven	–	–	52	40	52	40	–	–	52	40
Tooling	222	207	–	–	222	207	–	–	222	207
Transportation	–	–	–	–	–	–	79	51	79	51
Total revenue from contracts with customers	**755**	**669**	**514**	**247**	**1 269**	**916**	**435**	**345**	**1 704**	**1 261**

Financial instruments

The carrying amounts and fair values of financial assets and liabilities as of June 30, 2018, 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	Fair value – through profit & loss	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value										
Foreign exchange contracts	–	8	–	–	–	**8**	–	8	–	**8**
Debt and equity securities	25	–	–	–	–	**25**	25	–	–	**25**
Total	**25**	**8**	**–**	**–**	**–**	**33**	**25**	**8**	**–**	**33**
Financial assets at amortized costs[1]										
Cash and cash equivalents	–	–	–	778	–	**778**				
Deposits	–	–	–	37	–	**37**				
Trade and other financial receivables	–	–	–	375	–	**375**				
Loans and other non-current financial receivables	–	–	–	23	–	**23**				
Total	**–**	**–**	**–**	**1 213**	**–**	**1 213**				
Financial liabilities measured at fair value										
Foreign exchange contracts	–	8	–	–	–	**8**	–	8	–	**8**
Other non-current liabilities	–	–	37	–	–	**37**	–	–	37	**37**
Total	**–**	**8**	**37**	**–**	**–**	**45**	**–**	**8**	**37**	**45**
Financial liabilities at amortized costs[1]										
Bonds	–	–	–	–	450	**450**	470	–	–	**470**
Finance lease liabilities	–	–	–	–	22	**22**				
Trade payables	–	–	–	–	236	**236**				
Accrued financial liabilities	–	–	–	–	95	**95**				
Other loans and borrowings	–	–	–	–	6	**6**				
Other non-current liabilities	–	–	–	–	3	**3**				
Total	**–**	**–**	**–**	**–**	**812**	**812**				

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

Financial instruments

The carrying amounts and fair values of financial assets and liabilities as of December 31, 2017, 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	Fair value – through profit & loss	Loans and receivables	Other financial liabilities	**Total**	Level 1	Level 2	Level 3	**Total**
Financial assets measured at fair value										
Foreign exchange contracts	–	7	–	–	–	**7**	–	7	–	**7**
Debt and equity securities	25	–	–	–	–	**25**	25	–	–	**25**
Total	**25**	**7**	**–**	**–**	**–**	**32**	**25**	**7**	**–**	**32**
Financial assets at amortized costs[1]										
Cash and cash equivalents	–	–	–	871	–	**871**				
Deposits	–	–	–	69	–	**69**				
Trade and other financial receivables	–	–	–	486	–	**486**				
Loans and other non-current financial receivables	–	–	–	23	–	**23**				
Total	**–**	**–**	**–**	**1 449**	**–**	**1 449**				
Financial liabilities measured at fair value										
Foreign exchange contracts	–	2	–	–	–	**2**	–	2	–	**2**
Other non-current liabilities	–	–	34	–	–	**34**	–	–	34	**34**
Total	**–**	**2**	**34**	**–**	**–**	**36**	**–**	**2**	**34**	**36**
Financial liabilities at amortized costs[1]										
Bonds	–	–	–	–	450	**450**	476	–	–	**476**
Finance lease liabilities	–	–	–	–	10	**10**				
Trade payables	–	–	–	–	366	**366**				
Accrued financial liabilities	–	–	–	–	88	**88**				
Other loans and borrowings	–	–	–	–	6	**6**				
Other non-current liabilities	–	–	–	–	3	**3**				
Total	**–**	**–**	**–**	**–**	**923**	**923**				

With the adoption of the new accounting standard IFRS 15 the prior-year figures have been restated. Refer to section "Adjustments" of the "Significant accounting principles".

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

Provisions

in CHF million	Product warranties	Acquiree's contingent liabilities[1]	Restructuring[2]	Other provisions[3]	**Total**
Balance at January 1, 2018	37	60	71	34	**202**
Additions[4]	19	1	1	13	**34**
Amounts used	–11	–2	–18	–4	**–35**
Amounts reversed	–3	–	–1	–4	**–8**
Reclassifications to liabilities held for sale	–14	–	–41	–22	**–77**
Balance at June 30, 2018	**28**	**59**	**12**	**17**	**116**
of which:					
Due within 1 year	23	–	5	12	**40**
Due beyond 1 year	5	59	7	5	**76**

[1] Acquiree's contingent liabilities pertain to the Surface Solutions Segment. Contingent liabilities have been recognized primarily due to environmental liabilities as well as certain litigation and potential tax risks. Any potential cash outflow is estimated to occur during the next 10–15 years. The selling shareholders have contractually agreed to indemnify Oerlikon for an amount up to CHF 20 million related to certain of these environmental liabilities.

[2] The restructuring provision pertains to the Manmade Fibers Segment (CHF 8 million) and the Surface Solutions Segment (CHF 4 million). The restructuring of the Manmade Fibers Segment is due to a need to adapt the Segment's structure and lower its cost base measurably. The restructuring provison relates mostly to personnel expenses.

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

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

Post-employment benefits

As per January 31, 2018, Fairfield Manufacturing Company Inc. (company of the Drive Systems Segment) made a change to its Postretirement Medical Plan. This had a positive impact of CHF 9 million on the result from discontinued operations, net of income taxes.

Subsequent events

On July 29, 2018, the Oerlikon Group signed an agreement to divest its Drive Systems Segment. Refer to "Acquisitions and divestments" for further information.

No other events occurred between the balance sheet date and the date on which this report was approved by the Board of Directors that could have a significant impact on the consolidated financial statements as of June 30, 2018.

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

Disclaimer and cautionary statements

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