

oerlikon

Interim Report **HY2019**

FROM THE CHAIRMAN OF THE BOARD OF
DIRECTORS AND THE CEO

Letter to Shareholders

Dear Shareholders

In the first six months of 2019, we further executed our strategy and delivered a good overall performance in an increasingly challenging market environment. Our results underscore the resilience of our business and confirm that we have a sound strategy and business model.

Supported by the strong half-year results from the man-made fibers business, we increased Group sales by 4.3% year-over-year to CHF 1 324 million and achieved an EBITDA margin of 16.2%, which is around the same level as last year. Group order intake, however, came in 5.7% lower year-over-year at CHF 1 352 million, mainly due to the record level of orders received by the Manmade Fibers Segment in the first half of 2018.

The results from continuing operations for the half year stood at CHF 80 million – a 12.1% decrease year-over-year primarily due to an increase in the cost of sales. The net result for the six months was CHF –99 million, mainly attributed to the reclassification of CHF 284 million non-cash cumulative translation differences following the divestment of the drive systems business.

Global economic growth is dipping due to geopolitical instabilities, China's economic slowdown and the ongoing trade feuds. The prolonged tariff disputes are hampering trade and investments in production capacity, which is leading to lower production volumes. These developments have affected Oerlikon's end markets, most noticeably in automotive, tooling and general industries. Sales in U.S. aerospace have waned, but pockets of growth were seen in Asia and Europe. While the aerospace sector faces industry-specific challenges, this market still has attractive opportunities. The oil & gas industry noted stable growth.

The automotive sector remained downbeat in the second quarter. Our structural growth initiatives have been compensating for the market downturn. However, the drop in global car production and volumes has started to take its toll on our surface solutions business – a case in point is the 5.7% decrease in our second-quarter automotive

sales compared to the 6.1% decline in global car production. To mitigate the impact of further market deterioration, we have actively taken stringent cost-saving measures. Moreover, our resilient business model, innovative spirit and technology leadership in long-term attractive markets put us in a strong position to take advantage of opportunities when markets recover.

Additive manufacturing will play a key role in next-generation industrial applications, and we remain committed to further advancing the industrialization of additive manufacturing. However, the adoption of additive manufacturing in industries has progressed at a slower-than-anticipated pace and is further impaired by the deterioration of industrial activity and declining capital investments in production capacity. Consequently, the additive manufacturing business' top line has developed less dynamically than expected and the built-up capacity is currently underutilized – both are negatively impacting the Surface Solutions Segment's top line and EBITDA margin.

Segment sales for the half year decreased slightly by 0.7% and order intake lowered by 2.6%. In addition to the aforementioned additive manufacturing impacts, the weakening of margin quality from the higher proportion of lower-margin businesses and the higher operating expenses for investments in future growth, such as competence centers and digitalization initiatives, also contributed to the dilution of the segment's EBITDA margin, which was at 16.6% (HY2018: 19.7%).

For our surface solutions business, we acquired TeroLab Surface GmbH in Langenfeld, Germany, to expand our thermal spray coating services for industries such as agriculture, steel and automotive, and machine OEMs. We also strengthened our footprint in attractive markets with the opening of seven new or expanded customer and production centers. In China, we increased the size of a coating center in Dongguan to meet the growing demand for coatings services for forming tools and precision components. In Sweden, two customer centers were added to shorten delivery times and reduce carbon

footprints. In Hungary, a customer center was enlarged to cater to customers in the automotive, mold-making and precision component industries.

For U.S. customers, we opened a new center in St. Louis to provide coating services for tools used in aerospace, automotive and general industries. In Mexico, a new customer center started operations to serve OEMs and tier-one suppliers from the automotive industry and mold makers in the metal forming and plastics processing industries. In addition, we inaugurated our state-of-the-art R&D and production facility in Huntersville, U.S., for our additive manufacturing business.

In the first half of 2019, we added products and solutions to our technology portfolio. A new BALIMED portfolio of coatings for medical and surgical tools and equipment was launched to enable properties such as low friction, wear-resistance, anti-glare, biocompatibility and antimicrobial resistance. Furthermore, BALINIT MILUBIA and BALINIT NALUBIA – specialized coatings for seals, pneumatic valves, pumps and compressors – were brought to the market. For aeroengine OEMs, we developed an improved corrosion-resistant abrasion-resistant alloy for compressor seals to withstand harsh environmental conditions. We also brought out new titanium sponge powders for cold spray and medical applications.

Oerlikon is partnering with Safran, the French National Centre for Scientific Research and the University of Limoges to create a joint research laboratory, PROTHEIS, and a technology platform, SAFIR, in Limoges. The focus is on developing enhanced European REACH-compliant surface treatment solutions to make lighter, longer-lasting products capable of reducing noise and nitrogen oxide emissions in aerospace applications. We are also collaborating with MT Aerospace to bring efficient and cost-saving end-to-end additive manufacturing solutions for customers in the aerospace and defense sectors.

In our manmade fibers business, we delivered a strong performance for the half year. In fact, we achieved the highest level of sales in this business since 2013 in the second quarter. Cumulated with the first-quarter results, sales were up by more than 11 % for the first six months compared to the same period in 2018. Order intake for the half year was sustained at a high level, but came in 9.5% lower year-over-year due to the record level of orders in the first quarter of 2018. The half-year EBITDA margin improved to 15.8%, due to efficient cost management, a larger ratio of higher-margin projects in the mix and one-time customer effects.

To strengthen our position in nonwovens, we launched the Oerlikon Nonwoven brand and signed a contract with a European company specialized in manufacturing nonwovens for filtration. At ITMA Barcelona, we presented four world premieres in new and innovative industrial designs, partly combined with digital solutions. The eAFK Evo texturing system offers significantly higher production speeds, greater productivity and consistently high product quality, along with lower energy consumption and simpler operation. We introduced FDY PA6 winders to smoothly handle fully drawn yarn in the challenging polyamide 6 process. We also debuted our Oerlikon Neumag BCF S8 Tricolor that allows the production of more than 200 000 different color shades, superior spinning speed, 99 % system efficiency and potential energy savings of up to 5 % per kilogram of yarn. Last but not least, we presented a clean technology solution VacuFul. This a vacuum filter that removes volatile contamination in spinning post-production.

The global economic downturn is expected to persist in the second half of 2019. The U.S. economy is anticipated to slow down while China's economic growth further declines. In Europe, political leadership changes are raising the level of uncertainty. These geopolitical dilemmas, combined with mounting risks from trade tensions, will continue to negatively influence international trade, investments, production and consumption. Against this difficult backdrop, the recovery that we were anticipating in our surface solutions markets is unfortunately no longer visible. Thus, we are adjusting our outlook for the year. Based on our reassessment, we expect to deliver around the same level of performance as in 2018, despite the tough markets. Specifically, order intake is anticipated to reach up to CHF 2.7 billion, sales are to exceed CHF 2.6 billion and the EBITDA margin is to be around 15.5%.

We will continue to drive growth through innovation, relentlessly work on strengthening our structural growth and exercise stringent cost discipline. We thank our employees for their hard work and commitment, and remain intently focused on delivering value to our customers and to you, our shareholders. 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 2019 at a glance

Order intake

1 352 million

EBITDA margin

16.2 %

Sales

1 324 million

Net result*

-99 million

Good performance in difficult markets

Oerlikon delivered a good performance overall for the first half 2019 in a challenging environment, with sales growth and sustained operating profitability, confirming the resilience of Oerlikon's business.

Strategy execution

The divestment of the Drive Systems Segment to Dana Inc. was completed and closed on February 28, 2019.

Key Figures

	Order intake	Sales	EBITDA margin	Net result*
Group	-5.7 % to CHF 1 352 million	+4.3 % to CHF 1 324 million	16.2 %	> -100 % to CHF -99 million
Surface Solutions Segment	-2.6 % to CHF 759 million	-0.7 % to CHF 750 million	16.6 %	
Manmade Fibers Segment	-9.5 % to CHF 593 million	+11.7 % to CHF 574 million	15.8 %	

* Impacted by reclassification of CHF 284 million (noncash) cumulative translation adjustments (CTA) and other items from other comprehensive income related to the divestment of the Drives Systems Segment.

All financial figures in CHF.



Aerospace

Surface Solutions Segment

New Abradable Alloy

For aero engine OEMs, Oerlikon developed an improved corrosion-resistant abradable alloy for compressor seals to withstand harsh environmental conditions.

Customized Thermal Spray Powder

A customized thermal spray powder was launched for clearance control sealing of aero engines based on tighter specifications and GE requirements.

R&D Partnership with Safran

Oerlikon is partnering with Safran, the French National Centre for Scientific Research and the University of Limoges to create a joint research lab, PROTHEIS, and a technology platform, SAFIR, in Limoges. The focus is on developing European REACH-compliant surface treatment solutions that make lighter, longer-lasting products capable of reducing noise and nitrogen oxide emissions.

Partnership with MT Aerospace for Additive Solutions

Oerlikon is partnering with MT Aerospace to develop end-to-end additive manufacturing solutions to bring efficiency and cost savings for customers in the aerospace and defense industries.

U.S. R&D and Production Facility for Additive Manufacturing

A state-of-the-art R&D and production facility in Huntersville was inaugurated to provide additive manufacturing solutions.



Tooling

Surface Solutions Segment

Strengthened Footprint in the U.S.

Oerlikon Balzers opened a new center in St. Louis, USA, equipped with the latest pre- and post-treatment systems for coating cutting and forming tools, to serve customers in the aerospace, automotive and general industries.

Serving Customers in Closer Proximity

Oerlikon Balzers inaugurated two customer centers in Sweden to shorten delivery times, improve customer service and reduce carbon footprints in this region.

Expanded Center in China to Meet Demand

In China, an Oerlikon Balzers coating center in Dongguan was expanded to meet the growing demand for coatings services for forming tools and precision components.

Obtained Excellence Certification

Oerlikon Balzers' customer center in Charentilly, France, obtained "Excellence" certification as a forming tools competence center. The certification is based on an audit covering safety procedures, quality processes, transport, handling and equipment, process technology, training level and the skill set of the employees.



General Industries

Surface Solutions Segment

Expanded Customer Center

In Hungary, a customer center was enlarged to cater to customers in the automotive, mold-making and precision component industries. With three modern Oerlikon Balzers coating systems – INGENIA, INNOVA and BAI1200 – the center is now well equipped to serve customers in Hungary and throughout the region with reduced delivery times.

Seven Advanced Coatings for Medical Applications

Oerlikon Balzers introduced to the market the new BALIMED portfolio, comprising seven highly advanced coatings that meet the demanding requirements of the medical industry. These low-friction and wear-resistant thin-film coatings offer higher cost efficiency and can enable properties such as biocompatibility and antimicrobial resistance.

New Coatings to Seal out Water

Oerlikon Balzers launched two new coatings – BALINIT MILUBIA and BALINIT NALUBIA – to increase the wear resistance of seals, pneumatic valves, pumps and compressors used in diverse applications such as water turbines and sanitary fixtures.

Titanium Sponge Powders Developed for Medical Usage

New titanium sponge powders for cold spray and medical applications were brought to market.



Automotive

Surface Solutions Segment

Establishing Competence Centers for eco-friendly ePD

Oerlikon laid the foundation stone for a new competence center in Bisingen, Germany. The competence center will focus on bringing together expertise, know-how and solutions for the eco-friendly and chrome-replacement ePD solution to meet the needs of automotive customers.

New Mexico Center to Serve OEMs and Tier-1 Suppliers

In Mexico, a new customer center started operations to serve OEMs and tier-one suppliers from the automotive industry and mold makers in the metal forming and plastics processing industries. With this center, Oerlikon Balzers can now supply its environmentally friendly and hard chrome replacement pulsed-plasma diffusion (PPD) and BALITHERM PRIMEFORM technologies to the Mexican automotive industry to ensure sustainable production of automotive components.



Apparel & industrial textiles

Manmade Fibers Segment

Oerlikon Nonwoven Brand

At IDEA, Florida, the Oerlikon Nonwoven brand was launched and a contract was signed with a renowned European company specialized in manufacturing nonwovens for filtration.

Four World Technology Premieres

At ITMA Barcelona, Oerlikon debuted four technologies in new and innovative industrial designs, partly with digital solutions:

- The eAFK Evo texturing system offers significantly higher production speeds, greater productivity and consistently high product quality, along with lower energy consumption and simpler operation.
- FDY PA6 are winders able to smoothly handle fully drawn yarn (FDY) in the challenging polyamide 6 process.
- Oerlikon Neumag BCF S8 Tricolor is a system that allows the production of more than 200 000 different color shades, superior spinning speed, 99% system efficiency and potential energy savings of up to 5% per kilogram of yarn.
- VacuFul, a clean technology solution, is a vacuum filter that removes volatile contamination in spinning post-production.

Financial report

Interim financial report 2019

Key figures Oerlikon Group

in CHF million	January 1 to June 30, 2019, unaudited	January 1 to June 30, 2018, unaudited
Order intake ¹	1 352	1 434
Order backlog ¹	619	672
Sales ¹	1 324	1 269
EBITDA ¹	214	208
- as % of sales ¹	16.2%	16.4%
EBIT ¹	115	128
- as % of sales ¹	8.7%	10.1%
Result from continuing operations	80	91
Result from discontinued operations, net of income taxes	-179	20
Net result	-99	111
- as % of equity attributable to shareholders of the parent	-6%	6%
Cash flow from operating activities ²	-11	194
Capital expenditure for property, plant and equipment and intangible assets ¹	66	79
Total assets (June 30, 2019/December 31, 2018)	3 779	4 545
Equity attributable to shareholders of the parent (June 30, 2019/December 31, 2018)	1 798	2 001
- as % of total assets	48%	44%
Net cash (June 30, 2019/December 31, 2018) ^{1, 3}	380	398
Net operating assets (June 30, 2019/December 31, 2018) ^{1, 4}	1 850	1 523
Number of employees (full-time equivalents) (June 30, 2019/December 31, 2018) ¹	11 020	10 727
Research and development expenditure ^{1, 5}	60	55

¹ Continuing operations.

² Cash flow from operating activities before changes in net current assets amounts to CHF 194 million (previous year: CHF 244 million).

³ Net cash includes cash and cash equivalents, deposits and marketable securities less current and non-current debt.

⁴ Net operating assets include current and non-current operating assets (including goodwill and brands and excluding cash and cash equivalents, current financial investments, current income tax receivables and deferred tax assets) less operating liabilities (excluding current and non-current financial and lease liabilities, current income tax payables and deferred tax liabilities).

⁵ Research and development expenditure includes expenses recognized as intangible assets in the amount of CHF 13 million (previous year: CHF 10 million).

Consolidated income statement

in CHF million	January 1 to June 30, 2019, unaudited	January 1 to June 30, 2018, unaudited
Sales of goods	817	774
Services rendered	508	495
Total sales	1 324	1 269
Cost of sales	-934	-869
Gross profit	390	400
Marketing and selling	-93	-92
Research and development	-65	-61
Administration	-129	-120
Other income	23	12
Other expense	-11	-11
Result before interest and taxes (EBIT)	115	128
Financial income	8	8
Financial expense	-15	-9
Result before taxes (EBT)	107	127
Income taxes	-28	-36
Result from continuing operations	80	91
Result from discontinued operations, net of income taxes	-179	20
Net result	-99	111
Attributable to:		
Shareholders of the parent	-101	110
Non-controlling interests	1	1
Earnings per share in CHF	-0.31	0.32
Diluted earnings per share in CHF	-0.31	0.32
Earnings per registered share continuing operations in CHF	0.24	0.26
Diluted earnings per registered share continuing operations in CHF	0.24	0.26
Earnings per registered share discontinued operations in CHF	-0.55	0.06
Diluted earnings per registered share discontinued operations in CHF	-0.55	0.06

Consolidated statement of comprehensive income

in CHF million	January 1 to June 30, 2019, unaudited	January 1 to June 30, 2018, unaudited
Net income	-99	111
Other comprehensive income		
Items that will never be reclassified to the income statement		
Remeasurement of defined benefit plans ¹	-36	10
Income taxes on items that will never be reclassified to the income statement	10	-2
	-26	8
Items that are or may be reclassified subsequently to the income statement		
Changes in fair value of hedges ²	3	-6
Conversion differences	279	-19
Income taxes on items that are or may be reclassified subsequently to the income statement	-11	1
	271	-24
Other comprehensive income for the period, net of taxes	244	-16
Total comprehensive income for the period	145	95
Attributable to:		
Shareholders of the parent	143	95
Non-controlling interests	1	-

¹ Thereof CHF 3 million relating to discontinued operations (previous year: CHF 6 million).

² Thereof CHF 0 million relating to discontinued operations (previous year: CHF -1 million).

Consolidated balance sheet

Assets

in CHF million	June 30, 2019, unaudited	December 31, 2018
Cash and cash equivalents	717	764
Current financial investments and derivatives	39	133
Trade and trade note receivables	354	305
Current contract assets	17	31
Other receivables	102	92
Current income tax receivables	17	17
Inventories	376	343
Prepaid expenses and accrued income	24	19
Assets classified as held for sale	–	866
Current assets	1 646	2 571
Loans and other non-current financial receivables	24	24
Non-current financial investments	29	29
Property, plant and equipment	610	667
Right-of-use assets	223	–
Goodwill and intangible assets	1 116	1 139
Post-employment benefit assets	–	5
Deferred tax assets	131	110
Non-current contract assets	1	1
Non-current assets	2 133	1 974
Total assets	3 779	4 545

Liabilities and equity

in CHF million	June 30, 2019, unaudited	December 31, 2018
Trade payables	234	277
Current contract liabilities	374	450
Current lease liabilities	28	1
Current financial liabilities and derivatives	8	308
Other current payables	63	63
Accrued liabilities	207	201
Current income taxes payable	71	65
Current post-employment benefit liabilities	15	15
Other current provisions	34	38
Liabilities classified as held for sale	–	363
Current liabilities	1 035	1 780
Non-current lease liabilities	191	39
Non-current loans and borrowings	154	155
Other non-current liabilities	21	24
Non-current post-employment benefit liabilities	355	329
Deferred tax liabilities	135	132
Other non-current provisions	76	65
Non-current liabilities	933	743
Total liabilities	1 967	2 524
Share capital	340	340
Treasury shares	–7	–13
Retained earnings and reserves	1 465	1 674
Equity attributable to shareholders of the parent	1 798	2 001
Non-controlling interests	14	21
Total equity	1 812	2 021
Total liabilities and equity	3 779	4 545

Consolidated cash flow statement¹

in CHF million	January 1 to June 30, 2019, unaudited	January 1 to June 30, 2018, unaudited
Net result	-99	111
Income taxes	35	44
Interest expense (net)	6	3
Depreciation of property, plant and equipment	49	71
Depreciation of right-of-use assets	18	-
Amortization of intangible assets	33	33
Addition to other provisions (net)	20	27
Decrease in post-employment benefit liabilities	-6	-14
Gain from sale of non-current assets	-	-1
Loss on sale of discontinued operations, net of income taxes	165	-
Income taxes paid	-27	-37
Other non-cash items	1	7
Cash flow from operating activities before changes in net current assets	194	244
Increase in receivables, contract assets, prepaid expenses and accrued income	-58	-95
Increase in inventories	-40	-71
Decrease/increase in payables, accrued liabilities and use of other provisions	-38	6
Decrease/increase in contract liabilities	-73	109
Non-cash impact on net current assets due to hedge accounting	3	1
Cash flow from changes in net current assets	-206	-50
Cash flow from operating activities	-11	194
Purchase of property, plant and equipment	-54	-94
Purchase of intangible assets	-17	-17
Disposal of Group companies, net of cash disposed	549	-
Acquisition of subsidiaries, net of cash acquired ²	-26	-12
Proceeds from sale of property, plant and equipment	2	-
Investments in associates	-1	-
Investments in marketable securities	-2	-
Purchase of financial investments	-9	-
Proceeds from repayment of financial investments	101	30
Interest received	4	3
Cash flow from investing activities	547	-90
Dividends paid	-341	-117
Purchase of treasury shares	-8	-6
Repayment of financial debt	-319	-3
Interest paid	-9	-9
Cash flow from financing activities	-678	-135
Conversion adjustments to cash and cash equivalents	-1	-2
Decrease in cash and cash equivalents	-142	-33
Cash and cash equivalents at the beginning of the period ³	858	871
Cash and cash equivalents at the end of the period ⁴	717	838
Decrease in cash and cash equivalents	-142	-33

¹ The cash flow statement is presented including cash effects from discontinued operations as well as assets and liabilities held for sale. Refer to Note "Acquisition and divestments" for cash flow from discontinued operations.

² 2019: Includes settlement of contingent considerations relating to acquisitions made in previous periods and the acquisition of an immaterial subsidiary in the reporting period.

³ 2019: Includes CHF 94 million, which are included in "Assets classified as held for sale" in the balance sheet as of January 1, 2019.

⁴ 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 shareholders' equity
Balance at January 1, 2018	340	1013	-4	-363	885	5	95	1971	18	1989
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	1004	-1	94	1945	18	1963
Balance at January 1, 2019, as reported	340	895	-13	-436	1117	-2	99	2001	21	2021
Adjustment on initial application of IFRS 16 (net of tax)	-	-	-	-	-6	-	-	-6	-	-6
Adjusted balance at January 1, 2019	340	895	-13	-436	1111	-2	99	1995	21	2015
Net result	-	-	-	-	-101	-	-	-101	1	-99
Changes in fair value of hedges	-	-	-	-	-	3	-1	2	-	2
Remeasurement of defined benefit plans	-	-	-	-	-36	-	10	-26	-	-26
Conversion differences	-	-	-	279	-	-	-10	268	-	268
Other comprehensive income for the period	-	-	-	279	-36	3	-1	244	-	244
Total comprehensive income for the period	-	-	-	279	-137	3	-1	143	1	145
Dividend distributions	-	-338	-	-	-	-	-	-338	-1	-339
Share-based payments	-	-	13	-	-7	-	-	6	-	6
Purchase of treasury shares	-	-	-8	-	-	-	-	-8	-	-8
Contributions and distributions	-	-338	5	-	-7	-	-	-340	-1	-341
Disposal of subsidiaries with non-controlling interests	-	-	-	-	-	-	-	-	-8	-8
Changes in ownership interests	-	-	-	-	-	-	-	-	-8	-8
Total transactions with owners of the company	-	-338	5	-	-7	-	-	-340	-8	-348
Balance at June 30, 2019	340	558	-7	-157	967	-	97	1798	14	1812

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 of 2019 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 except for IFRS 16 Leases which was newly adopted from January 1, 2019. 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, 2018. The consolidated interim financial statements were approved by the Board of Directors on August 5, 2019. 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, 2018.

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, 2018, with the exception of the changes shown under "Adoption of new and revised accounting standards".

Adoption of new and revised accounting standards

The Oerlikon Group has initially adopted IFRS 16 Leases from January 1, 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Oerlikon Group, as a lessee, has recognized right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains unchanged with respect to previous accounting policies.

The Oerlikon Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Accordingly, the comparative information presented for 2018 has not been restated, i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

Definition of a lease: Previously, the Oerlikon Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Oerlikon Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Oerlikon Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Group has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

The Oerlikon Group leases mainly properties and vehicles. As a lessee, the Oerlikon Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Oerlikon Group recognizes right-of-use assets and lease liabilities for most leases, i.e. these leases are on-balance sheet. Vehicles and other items of plant, equipment and furniture typically have a lease term between 3 and 5 years. Production and administrative buildings have an expected lease term of 5 to 20 years (including extension options where the Group is reasonably certain that they will be exercised). However, the Oerlikon Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets (e. g. IT or office equipment). The Oerlikon Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The Oerlikon Group presents right-of-use assets in a separate line on the balance sheet. The carrying amounts of right-of-use assets are as below:

in CHF million	June 30, 2019	January 1, 2019
Plant, equipment and furniture	21	15
Production and administrative buildings	202	208
Total right-of-use assets	223	223

The Oerlikon Group presents lease liabilities in separate lines on the balance sheet. In the previous years, liabilities related to finance leases have been included in current financial liabilities and derivatives and non-current loans and borrowings, respectively.

Impacts on significant accounting principles: The Oerlikon Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Oerlikon Group's incremental borrowing rate. Generally, the Oerlikon Group uses country- and duration-specific incremental borrowing rates as the discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Oerlikon Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized. Extension options and termination options are reassessed only when a significant event or change in circumstances occurs that is within the control of the Group and affects whether it is reasonably certain to exercise an option.

Transition: At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Oerlikon Group's incremental borrowing rate as at January 1, 2019. Right-of-use assets were measured at their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application.

The Oerlikon Group used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with a lease term which ends within 12 months of the initial application date.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For leases classified as finance leases under IAS 17, the carrying amount of the right-of-use asset and the lease liability at January 1, 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

Impacts on financial statements: On transition to IFRS 16, the Oerlikon Group recognized additional right-of-use assets and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

in CHF million	January 1, 2019
Increase of right-of-use assets	223
Decrease of property, plant and equipment ¹	-52
Increase of deferred tax assets	2
Increase of assets held for sale	8
Increase of lease liabilities	179
Increase of liabilities held for sale	8
Decrease of retained earnings	-6

¹ Reclassification of assets held under finance leases.

When measuring lease liabilities for leases that were classified as operating leases, the Oerlikon Group discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted average rate applied is 2.5 %.

in CHF million	January 1, 2019
Payments under non-cancellable operating leases disclosed as at December 31, 2018	138
Discounted using the lessee's incremental borrowing rate of at the date of initial application	131
Add: finance lease liabilities recognized as at December 31, 2018	48
(Less): short-term leases recognized on a straight-line basis as expense	-4
(Less): low-value leases recognized on a straight-line basis as expense	-2
Add: adjustments as a result of a different treatment of extension and termination options	63
Lease liability recognized as at January 1, 2019	236
Of which are:	
Current lease liabilities	29
Non-current lease liabilities	190
Liabilities held for sale	17

In relation to the leases that were previously classified as operating leases, the Oerlikon Group has recognized CHF 15 million of depreciation charges and CHF 2 million of interest costs from these leases. In the consolidated cash flow statement the cash flow from operating activities increased by CHF 18 million, whereas the cash flow from financing activities decreased by the same amount.

Newly published accounting standards not early adopted

There are no new IFRS standards or interpretations which are not yet effective and 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 is a world-leading supplier of advanced materials and surface technologies for components and tools used in a wide range of industrial applications where superior materials and surface performance are required
- Manmade Fibers Segment is a world market leader for solutions and systems used to manufacture manmade fibers that enable customers to produce high-quality synthetic fibers.

Segment information

in CHF million	Surface Solutions Segment		Manmade Fibers Segment		Total Segments		Group/ Eliminations	
	2019	2018	2019	2018	2019	2018	2019	2018
Order intake	759	779	593	655	1352	1434	-	-
Order backlog	200	154	419	518	619	672	-	-
Sales								
Sales to third parties	750	755	574	514	1324	1269	-	-
Sales to other segments	3	4	-	-	3	4	-3	-4
Eliminations	-3	-4	-	-	-3	-4	3	4
	750	755	574	514	1324	1269	-	-
Sales to third parties by market region								
Asia/Pacific	213	217	384	354	597	571	-	-
Europe	350	352	129	75	479	427	-	-
North America	153	151	42	43	195	194	-	-
Other regions	34	35	20	42	54	77	-	-
	750	755	574	514	1324	1269	-	-
Sales to third parties by location								
Asia/Pacific	188	200	169	163	357	363	-	-
thereof China	56	70	165	158	221	228	-	-
Europe	379	373	394	341	773	714	-	-
thereof Switzerland	72	60	-	-	72	60	-	-
Germany	176	179	394	341	571	520	-	-
Italy	19	21	-	-	19	21	-	-
North America	161	160	11	10	172	170	-	-
thereof USA	142	140	11	10	153	150	-	-
Other regions	22	22	-	-	22	22	-	-
	750	755	574	514	1324	1269	-	-
Timing of revenue recognition								
At a point in time	750	755	191	175	941	930	-	-
Transferred over time	-	-	383	339	383	339	-	-
	750	755	574	514	1324	1269	-	-
Capital expenditure for property, plant and equipment and intangible assets¹								
Asia/Pacific	16	13	1	-	16	13	-	-
Europe	22	33	9	9	31	42	4	4
North America	12	19	-	-	12	19	-	-
Other regions	2	1	-	-	2	1	-	-
	51	66	10	9	61	75	5	4
EBITDA	125	149	91	59	215	208	-1	-
EBIT	41	81	78	48	118	129	-4	-1
Other material items								
Research and development expense	-50	-46	-15	-15	-65	-61	-	-
Depreciation and amortization	-84	-68	-13	-11	-97	-79	-3	-1
Restructuring expense/income	-1	-	-	-	-1	-	-	-
Net operating assets	30.06.19	31.12.18	30.06.19	31.12.18	30.06.19	31.12.18	30.06.19	31.12.18
Operating assets ²	2076	1929	718	667	2794	2596	78	56
Operating liabilities ³	-294	-345	-656	-726	-950	-1071	-72	-58
	1782	1584	62	-59	1844	1525	6	-3
Number of employees (full-time equivalents)	30.06.19	31.12.18	30.06.19	31.12.18	30.06.19	31.12.18	30.06.19	31.12.18
Asia/Pacific	1883	1871	1090	1074	2973	2945	-	-
Europe	4202	4047	1737	1687	5940	5734	264	239
North America	1406	1372	62	63	1468	1435	-	-
Other regions	371	364	-	-	371	364	6	10
	7862	7654	2889	2824	10751	10478	270	249

	Total from continuing operations		Discontinued operations ¹		Total incl. discontinued operations	
	2019	2018	2019	2018	2019	2018
	1 352	1 434	142	438	1 494	1 872
	619	672	-	183	619	855
	1 324	1 269	142	435	1 467	1 704
	-	-	-	-	-	-
	-	-	-	-	-	-
	1 324	1 269	142	435	1 467	1 704
	597	571	24	89	621	660
	479	427	58	179	537	606
	195	194	52	142	246	336
	54	77	9	25	62	102
	1 324	1 269	142	435	1 467	1 704
	357	363	35	115	393	478
	221	228	8	34	229	262
	773	714	64	202	837	916
	72	60	-	-	72	60
	571	520	-	-	571	520
	19	21	63	199	82	220
	172	170	43	118	215	288
	153	150	43	118	197	268
	22	22	-	-	22	22
	1 324	1 269	142	435	1 467	1 704
	941	930	142	435	1 083	1 365
	383	339	-	-	383	339
	1 324	1 269	142	435	1 467	1 704
	17	13	4	14	21	27
	35	46	1	14	36	60
	12	19	1	4	13	23
	2	1	-	-	2	1
	66	79	5	32	71	111
	214	208	-171	52	44	260
	115	128	-172	28	-57	156
	-65	-61	-3	-8	-68	-69
	-100	-80	-1	-24	-100	-104
	-1	-	-	1	-1	1
	30.06.19	31.12.18	30.06.19	31.12.18	30.06.19	31.12.18
	2 872	2 652	-	720	2 872	3 372
	-1 022	-1 129	-	-273	-1 022	-1 402
	1 850	1 523	-	447	1 850	1 970
	30.06.19	31.12.18	30.06.19	31.12.18	30.06.19	31.12.18
	2 973	2 945	-	2 973	2 973	5 918
	6 204	5 973	-	1 757	6 204	7 729
	1 468	1 435	-	751	1 468	2 186
	376	374	-	-	376	374
	11 020	10 727	-	5 480	11 020	16 207

¹ Does not include non-current assets acquired through business combinations.

² Operating assets include current and non-current operating assets (including goodwill and brands), whereas cash and cash equivalents, current financial investments, current income tax receivables as well as deferred tax assets are not included. Due to the first time application of IFRS 16 operating assets increased per January 1, 2019 by CHF 171 million (Surface Solutions Segment CHF 135 million, Manmade Fibers Segment CHF 19 million and Group/Eliminations CHF 17 million).

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

⁴ Discontinued operations in 2019 and 2018 include the Drive Systems Segment.

Acquisitions and Divestments

Acquisitions

On March 29, 2019, Oerlikon acquired TeroLab Surface GmbH, a German provider of thermal spray coating services. The acquisition will expand the Surface Solutions Segment's portfolio of thermal spray coating services for industries like agriculture, steel and automotive as well as to machine OEMs.

The effects of the acquisition on the financial statements of the Oerlikon Group are not significant.

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 was presented as a disposal group held for sale and as discontinued operations per December 31, 2018, comprising assets of CHF 866 million and liabilities of CHF 363 million. The transaction closed on February 28, 2019, resulting in the derecognition of assets of CHF 881 million and liabilities of CHF 503 million.

The total consideration amounts to CHF 625 million (including CHF 133 million for the settlement of pre-existing intragroup financing), all of which has been received as cash and cash equivalents in the reporting period.

The Oerlikon Group incurred a loss on disposal from this transaction in the amount of CHF –187 million in the first half of 2019, which is included in the result from discontinued operations, net of income taxes. This amount includes a loss from the reclassification of cumulative exchange differences and other items of other comprehensive income that were previously recognized in the equity of CHF –284 million. The loss is fully attributable to the shareholders of the parent.

In connection with this divestment, Oerlikon has assumed certain customary obligations such as representations and warranties as well as certain indemnities. The indemnities cover in particular tax and environment-related topics. The limitations applicable to these indemnities vary, but are customary for a transaction of this nature.

Result from discontinued operations

in CHF million	January 1 to June 30, 2019	January 1 to June 30, 2018
	Drive Systems Segment	Drive Systems Segment
Sales	142	435
Total expenses	–126	–397
Result before taxes (EBT) from operating activities	16	38
Income taxes	–8	–9
Result from operating activities	8	29
Gain on sale of discontinued operations before reclassification of translation differences and other items of other comprehensive income	96	–
Reclassification of translation differences and other items of other comprehensive income ¹	–284	–
Costs related to divestment	–	–10
Income tax on sale of discontinued operations	1	1
Loss on sale of discontinued operations, net of income taxes	–187	–9
Result from discontinued operations, net of income taxes	–179	20
Attributable to:		
Shareholders of the parent	–179	20
Non-controlling interests	–	–
Earnings per share in CHF	–0.55	0.06
Diluted earnings per share in CHF	–0.55	0.06

¹ In the year that a foreign entity is divested, the cumulative translation differences and certain other items of other comprehensive income 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

in CHF million	January 1 to June 30, 2019	January 1 to June 30, 2018
	Drive Systems Segment	Drive Systems Segment
Cash flow from operating activities	-12	13
Cash flow from investing activities ¹	-5	-33
Cash flow from financing activities	-1	-
Net cash flows from discontinued operations	-19	-20

¹ Excludes proceeds from sale of discontinued operations, net of cash disposed of.

Effect of the disposal of the Drive Segment on the balance sheet

in CHF million	February 28, 2019
Cash and cash equivalents	-76
Current financial investments and derivatives	-4
Trade and trade notes receivable	-152
Other receivables, prepaid expenses and accrued income	-21
Current income tax receivables	-7
Inventories	-199
Loans and other non-current financial receivables	-1
Non-current financial investments	-7
Property, plant and equipment	-298
Right-of-use assets	-18
Goodwill and intangible assets	-78
Deferred tax assets	-19
Trade payables	144
Current contract liabilities	11
Current lease liabilities	5
Current financial liabilities and derivatives	22
Other current payables	13
Accrued liabilities	38
Current income taxes payable	6
Current post-employment benefit liabilities	1
Other current provisions	22
Non-current lease liabilities	13
Non-current loans and borrowings	110
Other non-current liabilities	2
Non-current post-employment benefit liabilities	56
Deferred tax liabilities	26
Other non-current provisions	34
Net assets	-378
Consideration received (cash and cash equivalents)	492
Settlement of pre-existing intragroup financing	133
Cash and cash equivalents disposed of	-76
Net cash inflow	549

Revenue

Disaggregation of revenue from contracts with customers by Segment and market¹:

	Surface Solutions Segment		Manmade Fibers Segment		Total	
	January 1 to June 30, 2019	January 1 to June 30, 2018	January 1 to June 30, 2019	January 1 to June 30, 2018	January 1 to June 30, 2019	January 1 to June 30, 2018
in CHF million						
Automotive	194	203	-	-	194	203
Aviation	113	103	-	-	113	103
Special Filament	-	-	81	80	81	80
Textile Applications	-	-	399	372	399	372
General Industry	191	191	-	-	191	191
Power Generation	35	36	-	-	35	36
Plant Engineering	-	-	95	63	95	63
Tooling	218	222	-	-	218	222
Total revenue from contracts with customers	750	755	574	514	1324	1269

¹ Following the new market definition the disaggregation of revenue has been aligned for 2018.

Financial instruments

The carrying amounts and fair values of financial assets and liabilities as of June 30, 2019, including their levels in the fair value hierarchy, are as follows:

in CHF million	Carrying amount			Fair value				Total
	Fair value – through other comprehensive income	Fair value – through profit & loss	Amortized Cost ¹	Total	Level 1	Level 2	Level 3	
Financial assets								
Foreign exchange contracts	2	-	-	3	-	3	-	3
Debt and equity securities	-	30	-	30	30	-	-	30
Other investments	19	-	-	19	-	-	19	19
Cash and cash equivalents	-	-	717	717	-	-	-	717
Deposits	-	-	7	7	-	-	-	7
Trade and trade notes receivables	-	-	354	354	-	-	-	354
Contract assets	-	-	18	18	-	-	-	18
Loans and other non-current financial receivables	-	-	24	24	-	-	-	24
Total	21	30	1 120	1 172				1 172
Financial liabilities								
Foreign exchange contracts	2	5	-	7	-	7	-	7
Other liabilities	-	20	3	23	-	-	20	20
Bonds	-	-	150	150	170	-	-	170
Lease liabilities	-	-	219	219	-	-	-	219
Trade payables	-	-	234	234	-	-	-	234
Accrued liabilities	-	-	135	135	-	-	-	135
Other loans and borrowings	-	-	5	5	-	-	-	5
Total	2	25	746	773				773

¹ With the exception of the bond, the Group has not disclosed the fair values for financial assets and liabilities measured at amortized cost 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, 2018, including their levels in the fair value hierarchy, are as follows:

in CHF million	Carrying amount			Fair value				
	Fair value – through other comprehensive income	Fair value – through profit & loss	Amortized Cost ¹	Total	Level 1	Level 2	Level 3	Total
Financial assets								
Foreign exchange contracts	1	2	–	3	–	3	–	3
Debt and equity securities	–	27	–	27	27	–	–	27
Other investments	19	–	–	19	–	–	19	19
Cash and cash equivalents	–	–	764	764				
Deposits	–	–	102	102				
Trade and trade notes receivables	–	–	305	305				
Current contract assets	–	–	31	31				
Loans and other non-current financial receivables	–	–	24	24				
Total	20	29	1226	1275				
Financial liabilities								
Foreign exchange contracts	5	2	–	7	–	7	–	7
Other liabilities	–	37	3	40	–	–	37	37
Bonds	–	–	450	450	468	–	–	468
Lease liabilities	–	–	40	40				
Trade payables	–	–	277	277				
Accrued liabilities	–	–	105	105				
Other loans and borrowings	–	–	6	6				
Total	5	39	881	925				

¹ With the exception of the bonds, the Group has not disclosed the fair values for financial assets and liabilities measured at amortized cost 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, 2019	25	48	11	19	103
Conversion differences	–	–1	–	–	–1
Additions ⁴	5	–	1	21	27
Amounts used	–4	–	–4	–1	–9
Amounts reversed	–4	–3	–	–3	–10
Balance at June 30, 2019	22	45	8	35	110
of which:					
Due within 1 year	19	–	3	12	34
Due beyond 1 year	3	45	5	23	76

¹ Acquiree's contingent liabilities pertain to the Surface Solutions Segment. Contingent liabilities have been recognized primarily due to environmental liabilities and potential tax risks. Any potential cash outflow is estimated to occur during the next 10–15 years. The selling shareholder (Sulzer AG) has 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 4 million) and Surface Solutions Segment (CHF 4 million), and relates mostly to personnel expenses.

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

⁴ Includes unwinding of discount for non-current provisions.

Subsequent events

No events occurred between the balance sheet date and the date on which this report was approved by the Board of Directors that could have a significant impact on the consolidated financial statements as of June 30, 2019.

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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