

Remuneration report

Shareholder letter

Dear Shareholders

It is my pleasure as Chairman of the Human Resources Committee (HRC) to present to you the 2016 remuneration report of OC Oerlikon Corporation AG, Pfäffikon.

The strategy to become a powerhouse in surface solutions and advanced materials was communicated in November 2015. In 2016, the work of the HRC was mainly characterized by aligning the Executive Committee and compensation plans to support the implementation of this strategy.

The Executive Committee was adjusted in three steps. Firstly, in March 2016, Dr. Roland Fischer replaced Dr. Brice Koch as Chief Executive Officer (CEO) to accelerate the implementation of the strategy. Secondly, the Oerlikon Group headquarters' functions were merged with the Surface Solutions Segment to create a more responsive and market-oriented organization, and Dr. Roland Fischer took on the added role as CEO of the Surface Solutions Segment, replacing Dr. Roland Herb in August 2016. Thirdly, Anna Ryzhova joined the Executive Committee as Chief Human Resources Officer (CHRO) in October 2016 to ensure that Oerlikon retains the competitive and capable human capital required to execute the strategy.

While the compensation strategy was confirmed, the design of compensation plans was adjusted in two steps. A cash target was added to the growth, profitability and capital efficiency targets in the annual Short-Term Incentive (STI) plan. In the Long-Term Incentive (LTI) plan, an absolute Total Shareholder Return (TSR) target was added to the relative TSR, which will be measured against a smaller and more relevant group of peers. The group of peers was adjusted following the divestment of the vacuum business as many of the companies in the previously defined peer group were no longer of comparative relevance. The new STI design was implemented at the beginning of 2016, while the new LTI design was introduced upon the divestment of the vacuum business in the third quarter of 2016. The LTI grants made in May 2016 under the previous performance share plan were substituted for grants under the new performance share plan. LTI grants made in 2015 and 2014 were converted into restricted stock units in proportion to the remaining vesting period.

In 2016, the HRC selected and proposed three new members to the Board of Directors to replace Dr. Mary Gresens, Johan van de Steen and Mikhail Lifshitz, who did not stand for re-election. David Metzger, Alexey V. Moskov and Dr. Jean Botti were elected at the 2016 Annual General Meeting of Shareholders (AGM). Alexey V. Moskov was also elected as a member of the HRC. In November 2016, Hans Ziegler resigned from the Board of Directors and will not be replaced on the HRC until a successor is proposed for election at the 2017 AGM.

The remuneration report for 2016 does not differ in structure and continues to provide a high level of transparency. We continue to show the compensation of the Executive Committee from three perspectives, namely the effective compensation amounts that have been paid in 2016, the forward-looking target value amounts that have been granted in 2016 and their market value at year-end. These perspectives enable shareholders to better interpret the amounts on which they are voting, that is, the target value amounts granted, and to monitor the relationship between the company's performance and management's remuneration.

The proposals of the Board of Directors for the binding votes on remuneration will be published with the invitation to the 2017 AGM.

Sincerely



Prof. Dr. Michael Süss

Chairman of the Human Resources Committee

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

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

Compensation for the Board of Directors and the Executive Committee is made up of various components, which are described in detail in this report. This section discloses a summary of the following aspects for 2016:

- General principles of the compensation policy
- Setting and approving compensation
- Compensation system and compensation paid or granted to the Board of Directors in 2016
- Compensation systems and compensation paid or granted to the Executive Committee in 2016

Compensation policy

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

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

Determining compensation

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

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

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

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

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

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

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

Approval process

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

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

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

Board of directors

Compensation system

The compensation system applicable to the members of the Board of Directors consists of a fixed cash component and a fixed value of restricted stock units (RSU). The cash component depends on the responsibility, complexity and requirements of the tasks assumed. Each task is remunerated differently and the compensation components are cumulated, depending on the number of tasks assumed by each member, as per the chart below. The level of compensation for each of the components is set by the HRC, taking into account the expenditure of work required from Board and Committee members, and approved by the Board of Directors. The members of the Board of Directors are remunerated for their service from the date of their election and for the duration of their term of office.

Cash compensation

in CHF 000	Compensation	Expense allowance
Member of the Board of Directors	75	5
Chairman of the Board of Directors	275	10
Chairman of a Committee	50	
Member of a Committee	30	

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

To align the relative market position of the Chairman to those of other members of the Board of Directors, the Board of Directors decided to increase the Chairman's fee. No other changes were made in 2016.

The value of the RSU is fixed (CHF 125 000 per Board member and CHF 280 000 for the Chairman of the Board). The number of RSU is determined by the share price at grant date. RSU are blocked from the grant date on the day of the AGM until the following AGM, at which time they are converted into Oerlikon shares. For Directors resigning their mandate prior to the end of the term, the number of RSU converted into Oerlikon shares may be reduced at the sole discretion of the Board of Directors. The RSU program is financed with treasury shares.

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

Compensation 2016

No member of the Board of Directors served in an executive role in 2016. The Board of Directors consists of six members, of which three were replaced in 2016 and one resigned. Total compensation paid to the nine non-executive members of the Board of Directors in 2016 was CHF 1.9 million. Since all components are fixed, no ratio between fixed and variable compensation is presented.

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

in CHF 000	Board of Directors	Strategy Committee	Audit Committee	HR Committee	Cash	RSU ¹	Other ²	Total compensation 2016	Market value per Dec 31, 2016 ³	Total compensation 2015
Prof. Dr. Michael Süss	C	C		C	325	280	10	615	629	418
Gerhard Pegam		M	C ⁴		129	125	20	274	280	249
David Metzger			M ⁵		78	125	10	213	220	–
Alexey V. Moskov			M ⁴	M ⁵	80	125	11	216	222	–
Dr. Jean Botti		M ⁵			78	125	10	213	220	–
Hans Ziegler ⁶		M	C	M	137	125	15	277	283	280
Dr. Mary Gresens ⁷			C	M	41	–	–	41	41	243
Mikhail Lifshitz ⁷			M		28	–	–	28	28	249
Johan van de Steen ⁷			M		28	–	–	28	28	212
Total⁸					924	905	76	1 905	1 951	1 803
Mandatory Employer Contributions ⁹								101	103	96

C(hairperson), M(ember)

¹ A total of 95 163 RSU were granted on April 6, 2016 with a fair value at grant date of CHF 9.5.

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

³ The value per year-end is based on a share price of CHF 10.0.

⁴ As of December 1, 2016.

⁵ As of April 5, 2016.

⁶ Until November 29, 2016. All payments were pro-rated.

⁷ Until April 5, 2016.

⁸ The total compensation of 2015 includes also the fees for Directors whose term ended in April 2015 in the amount of CHF 152 000.

⁹ The Compensation Ordinance requires the disclosure of employer contributions to social security.

Members of the Board of Directors did not receive any fees or other remuneration for additional services to OC Oerlikon or its subsidiaries in the 2016 business year. Neither OC Oerlikon nor its subsidiaries granted any guarantees, loans, advances or credit facilities to members of the Board of Directors or related parties in 2016 or 2015.

No compensation was paid to any former members of the Board of Directors of OC Oerlikon Corporation AG, Pfäffikon, or a Group company, or related parties in 2016 or 2015.

Management

Compensation system

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

In 2016, the proportion of variable compensation of members of the Executive Committee was between 59 % and 108 % of base salary for the target STI and between 59 % and 175 % of base salary for the target LTI.

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

Base salary

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

Short-Term Incentive (STI) program

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

The STI program for the Executive Committee consists of financial as well as strategic and individual objectives. Financial objectives include sales growth, EBITDA margin, operating free cash flow and return on net assets (RONA) and account for 85 %, and strategic and individual objectives for 15 % of the target bonus.

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

Strategic and individual objectives focus on the improvement of health, safety and environment throughout the Group as well as medium- and longer-term business objectives.

The Board of Directors approves the financial objectives of members of the Executive Committee at their meeting at year-end for the following year. Strategic and individual objectives are approved at the meeting in February.

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

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

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

For the Executive Committee, the average payout for the STI 2016 is 85 %. The average payout of the STI 2015 reached 67 %.

Long-Term Incentive (LTI) program

OC Oerlikon is a leading global technology Group, with a clear strategy of becoming a global powerhouse in surface solutions, advanced materials and materials processing. To implement this strategy successfully, it is vital for the OC Oerlikon Group to attract, motivate and retain key executives. Therefore, the Board of Directors has decided to implement this long-term performance share plan, which is specifically designed to reward the increase in shareholder value.

To better align the LTI program with the new strategy the Board of Directors decided to replace the previous LTI program which had aimed at rewarding the successful management of a portfolio of businesses. The new program continues to be a performance share plan containing three performance dimensions:

- Absolute Total Shareholder Return measures the value created for shareholders and represents 80 % of a grant.
- Relative Total Shareholder Return measures the performance of the Oerlikon share against a group of peer companies and represents 20 % of a grant.
- Dividends reflect the ability to distribute profits or funds to shareholders. Dividend equivalents will be added to the effective payout of a grant.

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

TSR is measured with a starting value of the volume-weighted average share price (VWAP) over the first 30 trading days of the year and an ending value of the VWAP over the last 30 trading days of the year. Absolute TSR results from the cumulated TSR for each of the three years. Relative TSR results from the average percentile amongst a comparator group for each of the three years. The peer group is reviewed every year by the HRC and includes Aalberts, American Axle, Bodycote, BorgWarner, Carraro, Dana, GKN, Kennametal, Praxair, Sandvik and Tocalo.

At the start of the program, the Board of Directors sets target and cap for absolute TSR. A result at or above the cap corresponds to a payout factor of 200 %, a result at target corresponds to 100 % and a result of 0 corresponds to 0 %.

For relative TSR, a result at or above the 90th percentile corresponds to a payout factor of 200 %, at the 50th percentile the payout is 100 %, at the 20th percentile the payout factor is 50 % and below it is 0 %.

The number of PSA granted, multiplied by the weighted payout factors of absolute and relative TSR results in the final payout. For each PSA granted, the equivalent of dividends paid per share to shareholders during the vesting period is added to the final payout.

Participants can elect at the beginning of the plan whether the effective number of PSA is fully converted into shares or whether 70 % are received in shares and 30 % are sold upon vesting to receive the corresponding value in cash. For the shares re-

ceived a two year blocking period applies which is waived if the employment ends earlier.

Since the grants issued under the LTI programs for 2014 and 2015 were still aligned with the objectives of the previous program, they were converted into a pro-rated number of restricted stock units (RSU) for the remaining vesting period.

In 2016, members of the Executive Committee received a portion of their compensation in the form of awards of OC Oerlikon Corporation AG, Pfäffikon, stock. Grants were made to all members of the Executive Committee to the new LTI program 2016 as well as the pro-rated conversion of grants made under the previous program. Both LTI programs are financed with treasury shares.

Shareholding requirement

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

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

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

Employment agreements

The employment contracts of Executive Committee members are of unlimited duration and end automatically when the member reaches retirement age. The contracts provide for a notice period of 12 months. The contracts of Executive Committee members contain a non-competition clause for the duration of 12 months following termination of employment which is compensated with up to one year's remuneration.

Compensation 2016

Effective compensation

The following section discloses the pay components actually received in 2016, including salary and bonus payments, contributions to pension plans, fringe benefits as well as the actual value of equity plans at vesting date. This perspective reflects the income received by members of the Executive Committee in 2016 which amounted to CHF 7.0 million. The highest compensation effectively received by an individual member of the Executive Committee in 2016 was CHF 2.1 million.

Effective Compensation of members of the Executive Committee

in CHF 000	Fixed compensation			Variable compensation		LTI 2013-16 (effective value at vesting date) ³	Total effective compensation 2016	Total effective compensation 2015
	Base salary	Pension	Other ¹	Bonus ²				
Total compensation to members of the Executive Committee ⁴	3 377	863	158	2 595	0	6 993	12 261	
Thereof highest paid to one individual: Jürg Fedier (CFO) ⁵ Dr. Brice Koch (former CEO)	1 000	223	13	861	0	2 097	4 040	

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

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

³ The LTI plan 2013 vested in 2016 with an effective performance upon vesting of 0%.

⁴ The Executive Committee changed during the year with Dr. Roland Fischer replacing Dr. Brice Koch in March 2016, Dr. Roland Herb taking another role outside the Executive Committee in August 2016, Dr. Martin Füllenbach leaving the Oerlikon Group with the divestment of the vacuum business in August 2016 and Anna Ryzhova joining in October 2016.

⁵ Dr. Roland Fischer joined in March 2016. Consequently, his compensation is reflected on a pro-rated basis.

Granted compensation

The following section discloses the granted pay components in 2016, including salary and bonus payments, contributions to pension plans, fringe benefits as well as the target value of equity programs at grant date. This perspective reflects the compensation potential provided to members of the Executive Committee in 2016 which amounted to CHF 11.0 million. The highest compensation granted to an individual member of the Executive Committee in 2016 was CHF 3.3 million.

Granted Compensation of members of the Executive Committee (audited)

in CHF 000	Fixed compensation				Variable compensation			Total granted compensation 2016 (market value per Dec 31, 2016) ⁵	Total granted compensation 2015
	Base salary	Pension	Other ¹	RSU ²	Bonus ³	LTI 2016-19 (target value at grant date) ⁴	Total granted compensation 2016		
Total compensation to members of the Executive Committee ⁶	3 377	863	158	199	2 595	3 764	10 956	11 058	11 820
Thereof highest paid to one individual: Jürg Fedier (CFO) ⁷ Dr. Brice Koch (former CEO)	1 000	223	13	113	861	1 066	3 276	3 462	4 415
Estimated Mandatory Employer Contributions ⁸							581	586	627

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

² The modification of the LTI plans for 2014 and 2015 from performance share into restricted stock units for the remaining vesting period resulted in additional fair value of CHF 7.7 for the LTI 2014 and 0.0 for the LTI 2015 plan.

³ The bonus is determined on Group, Segment and individual level and depends on business and individual performance.

⁴ The share price at grant date in 2016 was CHF 9.6. The performance of the LTI plan per December 31, 2016 is 73.6%. The effective performance of the plan will be determined per December 31, 2018, and the effective value at the time of vesting on April 30, 2019, and disclosed as effective compensation in the remuneration report the following year.

⁵ The market value per year-end is based on a share price on December 31, 2016, of CHF 10.0 and a performance of 73.6%.

⁶ The Executive Committee changed during the year with Dr. Roland Fischer replacing Dr. Brice Koch in March 2016, Dr. Roland Herb taking another role in the organization in August 2016, Dr. Martin Füllenbach leaving the Oerlikon Group with the divestment of the vacuum business in August 2016 and Anna Ryzhova joining in October 2016.

⁷ Dr. Roland Fischer joined in March 2016. Consequently, his compensation is reflected pro-rated.

⁸ The Compensation Ordinance requires the disclosure of estimated employer contributions to social security.

In 2016, former members of the Executive Committee received CHF 4.5 million.

Granted Compensation of former members of the Executive Committee (audited)

in CHF 000	Fixed compensation ¹	Variable compensation ²	Total granted compensation 2016	Total granted compensation 2015
Total compensation to former members of the Executive Committee	1 394	3 113	4 508	-

¹ Fixed compensation includes base salary, pension contributions and allowances payable under the respective employment contract.

² Variable compensation includes a bonus subject to the rules of the STI regulations as well as compensation for contractually agreed non-competition agreements for the duration of one year.

The variable compensation of former members of the Executive Committee will be included in the aggregate amount of variable compensation submitted for approval at the AGM 2017. In 2015, no compensation was paid to former members of the Executive Committee.

Current or former members of the Executive Committee did not receive any fees or other remuneration for additional services to OC Oerlikon or its subsidiaries in the 2016 business year. Neither OC Oerlikon nor its subsidiaries granted any guarantees, loans, advances or credit facilities to members of the Executive Committee or related parties in 2016 or 2015.

During 2016, no compensation was paid to related parties, either by OC Oerlikon Corporation AG, Pfäffikon, or by any other company of the Oerlikon Group.

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

We have audited the remuneration report of OC Oerlikon Corporation AG, Pfäffikon for the year ended 31 December 2016. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the section “Compensation 2016” of the board of directors on page 58 and sections “Granted compensation of members” and “Granted compensation of former members” of the executive committee labeled ‘audited’ on pages 61 to 62 of the remuneration report.

Board of Directors’ responsibility

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

Auditor’s responsibility

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

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

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

Opinion

In our opinion, the remuneration report of OC Oerlikon Corporation AG, Pfäffikon for the year ended 31 December 2016 complies with Swiss law and articles 14–16 of the Ordinance.

Other matter

The remuneration report of OC Oerlikon Corporation AG, Pfäffikon for the year ended 31 December 2015 was audited by another firm of auditors who expressed an unmodified opinion on that report on 26 February 2016.

PricewaterhouseCoopers AG



Stefan Räbsamen
Audit Expert
Auditor in charge



Blaženka Kovács-Vujević
Audit Expert

Zurich, 24 February, 2017

Risk management and compliance

Oerlikon's Risk Management System

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

Objectives and principles

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

Organization

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

- In accordance with Swiss stock corporation law, the Board of Directors has overall responsibility for supervising and monitoring risk management. Supported by the Audit Committee, it monitors the Group's risk profile on the basis of internal reporting. In addition, it reviews the Risk Management System's performance and effectiveness. The Board of Directors also uses internal auditing to fulfill and document its supervisory and monitoring duties.
- Pursuant to Oerlikon's Organizational and Governance Rules, the Chief Executive Officer (CEO), with the support of the Executive Committee, bears overall responsibility for structuring and implementing risk management (delegated management responsibility for risk management). He approves the risk management directive and is responsible for revising it, and also monitors the Group's risk profile and the implementation of risk mitigation actions.
- In accordance with the principle of risk ownership, the Segments and Group Departments (assessment units) bear responsibility for risks and damage/losses in their respective areas. Each is responsible for the implementation of the risk management process. Each assessment unit has a risk management coordinator who coordinates the unit's activities with Group Risk Management. The assessment units conduct risk assessments, establish risk mitigation actions and report the results to Group Risk Management. They continuously monitor their risk profiles and report damage/losses to Group Risk Management.
- As process owner, Group Risk Management is tasked with operation and further development of the Risk Management System. The Head of Group Risk Management assumes technical responsibility for risk management. Group Risk Management provides, among other things, methods and tools, supports the assessment

units in conducting risk assessments and developing mitigation actions, and oversees the implementation of risk mitigation actions. Other responsibilities include calculating the total risk exposure and the risk-adjusted key performance indicators (KPI), monitoring risk-bearing capacity, internal reporting, conducting internal audits and providing training with respect to the Risk Management System. Group Risk Management also coordinates risk-related activities of other units as and when necessary.

- Central units and decentralized departments carry out certain risk-related activities. For example: Group Treasury (liquidity, foreign exchange and interest rate risks); Group Tax (tax risks); Group Legal Services (legal risks, compliance risks, including trade control); IT Security (IT risks); Security (security risks); and Insurance Management (insurable risks); etc.

Process and reporting

The assessment units conduct risk assessments semi-annually and prepare their risk profiles and mitigation action plans. The risk management process is coordinated with the budgeting/planning process and the forecasting process. From a methodological perspective, risk assessments are conducted according to a standard procedure comprising the following steps: preparation of the risk assessment, identification of risks, risk evaluation and planning of risk mitigation actions. The process is Group-wide supported by a risk management software. Internal risk reporting is done semi-annually to the Executive Committee, the Audit Committee and the Board of Directors based on consolidated risk reports.

Culture

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

Current situation

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

Market risks

- Economic slowdown and business cycles: as a result, order intake, sales and profitability could decrease.
- Competition: Competition and overcapacity in various markets could exert pressure on prices or trigger a decline in orders. As a result, order intake, sales and profitability could decrease.
- Foreign currency effects (transaction and translation risk): Unfavorable currency developments, mainly with respect to the euro and US dollar, could trigger higher procurement costs and lower sales figures. In addition, profitability could decline as a result of local currencies being translated into the Group's reporting currency (Swiss franc).

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

Credit risks

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

Operational risks

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

- **Early detection:** the “whistleblowing” hotline, continuous compliance reviews, controls and internal audits, allegation management process.
- **Response:** disciplinary action on compliance breaches, process adaptation, resolution plans, remediation of internal control systems, fine-tune policies.

Following the integration of the Surface Solutions Segment with Group Headquarters, the compliance organization within the Surface Solutions Segment was strengthened. Every legal entity has now a compliance responsible person with defined roles and responsibilities, enabling a stronger local lead across the large number of legal entities and a better cascading of communication and information into the local entities.

Compliance and ethics

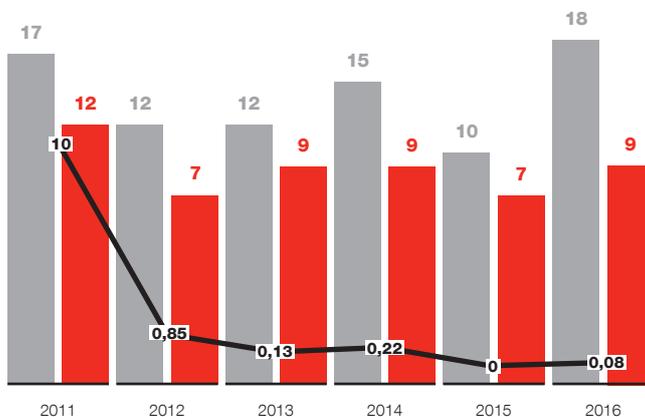
There is a Group-wide compliance and ethics function to ensure compliance with legal, regulatory and internal regulations as well as the Group’s ethical standards, in particular by preventive measures, training, information and consulting.

In 2016, an external review took place, confirming that Oerlikon has a state-of-the-art compliance program. The external assessor attested that Oerlikon has an excellent and robust compliance organization, processes and culture in place. Furthermore, Oerlikon reviewed and streamlined its house of policies, which forms the regulatory backbone of the compliance function. The policies were consolidated and simplified where relevant, enabling employees to better understand the policies, directives and guidelines, and the new structure makes it easier for employees to find the documents of relevance.

The data compliance and data privacy program has been further strengthened through establishing a dedicated organization in each Segment and conducting trainings across all segments.

The Compliance program has a three-pillar framework:

- **Prevention:** through policies, directives, training, the Code of Conduct, risk assessment, maturity assessment, compliance councils, internal controls and metrics, examples and Q&A in all employee meetings.



Compliance cases 2011 – 2016 ytd

■ Total number of cases
 ■ Number of substantiated cases
 ■ Financial Impact (in CHF million)