6.0
Risk management and compliance

Oerlikon's Risk Management System

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

Objectives and principles

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

Organization

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

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

- As process owner, Group Risk Management is tasked with operation and further development of the Risk Management System. The Head of Group Risk Management assumes technical responsibility for risk management. Group Risk Management provides, among other things, methods and tools, supports the assessment units in conducting risk assessments and developing mitigation actions, and oversees the implementation of risk mitigation actions. Other responsibilities include calculating the total risk exposure and the risk-adjusted key performance indicators (KPI), monitoring risk-bearing capacity, internal reporting, conducting internal audits and providing training with respect to the Risk Management System. Group Risk Management also coordinates risk-related activities of other units as and when necessary.
- Central units and decentralized departments carry out certain risk-related activities. For example: Group Treasury (liquidity, foreign exchange and interest rate risks); Group Tax (tax risks); Group Legal Services (legal risks, compliance risks, including trade control); IT Security (IT risks); Security (security risks) and Insurance Management (insurable risks) etc.

Culture

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

Current situation

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

Market risks

- Economic slowdown and business cycles: As a result, order intake, sales and profitability could decrease.
- Competition: Competition and overcapacity in various markets could exert pressure on prices or trigger a decline in orders. As a result, order intake, sales and profitability could decrease.
- Foreign currency effects (transaction and translation risk): Unfavorable currency developments, mainly with respect to the euro and US dollar, could trigger higher procurement costs and lower sales figures. In addition, profitability could decline as a result of local currencies being translated into the Group's reporting currency (Swiss franc).
- Country risks: For example, new or higher taxes and fees, currency appreciation or depreciation, higher interest rates, reduced growth, loss of proprietary information (intellectual property), etc., could cause sales to decline and costs to rise. As a result, profitability could decrease.

Credit risks

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

Operational risks

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

Compliance

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

Oerlikon has in place an Integrity Due Diligence (IDD) process with a trained, responsible person in each Business Unit accountable for the assessment of business partners by performing reviews of their reputation, length of operation and track record. The company has reduced the risk of infringements by working with our business partners and having them comply with our Code of Conduct.

The Compliance program has a three-pillar framework:

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

In 2013, a regional compliance conference took place, which met its objectives of reinforcing the program and the sharing of best practices.

The eLearning program was rolled out in 2013 and includes modules on antitrust, anticorruption and Code of Conduct. The new Export Control module will be launched in 2014.
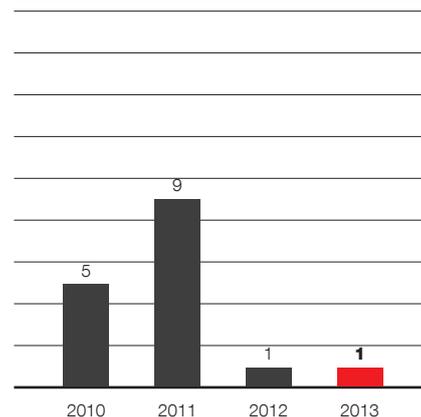
Compliance cases[1]

2010	2011	2012	2013
12	17	12	**12**
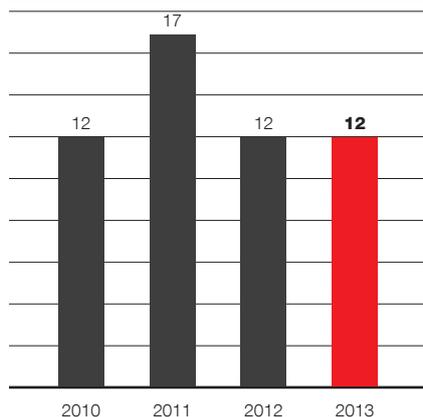
Formal compliance investigations

2010	2011	2012	2013
9	8	9	**9**
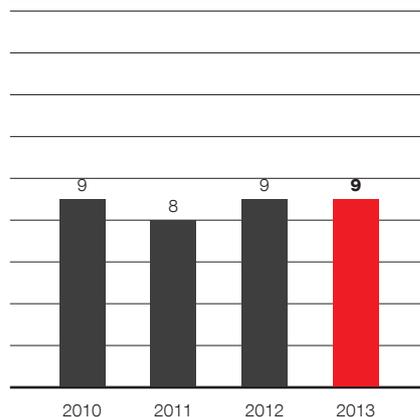
Compliance cases with dismissals

2010	2011	2012	2013
5	9	1	**1**

[1] All cases are closed; judicial proceedings may still go on.